PRELIMINARY OFFICIAL STATEMENT DATED JULY 8, 2024

NEW ISSUE | **BOOK ENTRY ONLY**
BANK QUALIFIED | **S&P GLOBAL RATINGS UNDERLYING RATING "AA+"**

In the opinion of Dorsey & Whitney LLP, Bond Counsel, based on existing law and assuming the accuracy of certain representations and compliance with certain covenants, interest on the Bonds (i) is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"), (ii) is not an item of tax preference for purposes of the federal alternative minimum tax imposed on noncorporate taxpayers by Section 55 of the Code, (iii) is excluded from taxable net income of individuals, estates, and trusts for Minnesota income tax purposes, and (iv) is not an item of tax preference for Minnesota alternative minimum tax purposes. Interest on the Bonds may, however, be taken into account in determining adjusted financial statement income for purposes of the federal alternative minimum tax imposed on applicable corporations (as defined in Section 59(k) of the Code), and is included in net income for purposes of the Minnesota franchise tax imposed on corporations and financial institutions.

The City will designate the Bonds as "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Code relating to the ability of financial institutions to deduct from income for federal income tax purposes a portion of the interest expense that is allocable to carrying and acquiring tax-exempt obligations. See "Tax Considerations" herein.

CITY OF FARMINGTON, MINNESOTA
$3,360,000*
General Obligation Bonds, Series 2024A

Dated Date: Date of Delivery (Estimated to be August 15, 2024) **Interest Due: Each February 1 and August 1 Commencing August 1, 2025**

*Maturity**	*Amount**	*Rate*	*Yield*	*Price*	*Maturity**	*Amount**	*Rate*	*Yield*	*Price*
2/1/2026	$175,000	_____%	_____%	_____	2/1/2034	$300,000	_____%	_____%	_____
2/1/2027	240,000	_____	_____	_____	2/1/2035	310,000	_____	_____	_____
2/1/2028	250,000	_____	_____	_____	2/1/2036	135,000	_____	_____	_____
2/1/2029	255,000	_____	_____	_____	2/1/2037	140,000	_____	_____	_____
2/1/2030	265,000	_____	_____	_____	2/1/2038	145,000	_____	_____	_____
2/1/2031	270,000	_____	_____	_____	2/1/2039	150,000	_____	_____	_____
2/1/2032	280,000	_____	_____	_____	2/1/2040	155,000	_____	_____	_____
2/1/2033	290,000	_____	_____	_____					

The General Obligation Bonds, Series 2024A (the "Bonds" or the "Issue") are being issued by the City of Farmington, Minnesota (the "City" or the "Issuer") pursuant to Minnesota Statutes, Chapters 475 and Sections 469.1812 through 469.1815 and 475.58 subdivision 3b, as amended. Proceeds of the Bonds will be used to finance improvements to the Rambling River Center facility, the City's 2024 street reconstruction projects, and to pay costs associated with issuance of the Bonds. See *Authority and Purpose* herein for additional information.

The Bonds are valid and binding general obligations of the City and are payable from tax abatement levies and ad valorem taxes. The full faith and credit of the City is also pledged to their payment. In the event of any deficiency in the Bond Fund established for this Issue, the City has validly obligated itself to levy additional ad valorem taxes upon all of the taxable property within the City, without limitation of amount. See *Security/Sources and Uses of Funds* herein for additional information.

The Bonds maturing on February 1, 2033 and thereafter are subject to redemption, in whole or in part, on February 1, 2032 and on any date thereafter at a price of par plus accrued interest.

Principal due with respect to the Bonds is payable annually on February 1, commencing February 1, 2026. Interest due with respect to the Bonds is payable semiannually on February 1 and August 1, commencing August 1, 2025. The Bonds will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York. Individual purchases will be made in book-entry form only, in the principal amount of $5,000 or any whole multiple thereof. Purchasers will not receive physical delivery of Bonds. See "Book-Entry System" in *Description of the Bonds* herein for additional information. The Paying Agent/Registrar will be U.S. Bank Trust Company, National Association, St. Paul, Minnesota.

Proposals: Monday, July 15, 2024 10:30 A.M., Central Time
Award: Monday, July 15, 2024 7:00 P.M., Central Time

Bids may contain a maturity schedule providing for any combination of serial or term bonds. All term bonds shall be subject to mandatory sinking fund redemption and must conform to the maturity schedule set forth above at a price of par plus accrued interest. Bids must be for not less than $3,318,000 (98.75%) and accrued interest on the total principal amount of the Bonds. **Bids will not be subject to cancellation – see "Establishment of Issue Price" in the Notice of Sale herein for additional details.** *The rate for any maturity may not be more than 2.00% less than the rate for any preceding maturity.* A Good Faith Deposit (the "Deposit") in the amount of $67,200, in the form of a federal wire transfer payable to the order of the City, will only be required from the apparent winning bidder, and must be received within two hours after the receipt of bids. See Notice of Sale for additional details. Award of the Bonds will be on the basis of True Interest Cost (TIC).

* Preliminary, subject to change.

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THE BONDS ARE OFFERED, SUBJECT TO PRIOR SALE, WHEN, AS AND IF ACCEPTED BY THE UNDERWRITER(S) NAMED ON THE FRONT COVER OF THIS OFFICIAL STATEMENT AND SUBJECT TO AN OPINION AS TO VALIDITY OF THE BONDS BY BOND COUNSEL. SUBJECT TO APPLICABLE SECURITIES LAWS AND PREVAILING MARKET CONDITIONS, THE UNDERWRITER(S) INTENDS, BUT IS NOT OBLIGATED, TO EFFECT SECONDARY MARKET TRADING FOR THE BONDS. CLOSING DATE IS ESTIMATED TO BE AUGUST 15, 2024.

NO PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS OTHER THAN THOSE CONTAINED IN THIS OFFICIAL STATEMENT IN CONNECTION WITH THE OFFERS MADE HEREBY, AND IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE CITY OR THE UNDERWRITER(S). NEITHER THE DELIVERY OF THIS OFFICIAL STATEMENT NOR ANY SALE HEREUNDER SHALL UNDER ANY CIRCUMSTANCES CREATE ANY IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE CITY SINCE THE DATE HEREOF. THIS OFFICIAL STATEMENT DOES NOT CONSTITUTE AN OFFER OR SOLICITATION IN ANY JURISDICTION IN WHICH SUCH OFFER OR SOLICITATION IS NOT AUTHORIZED, OR IN WHICH THE PERSON MAKING SUCH OFFER OR SOLICITATION IS NOT QUALIFIED TO DO SO, OR TO ANY PERSON TO WHOM IT IS UNLAWFUL TO MAKE SUCH OFFER OR SOLICITATION. THE INFORMATION SET FORTH HEREIN HAS BEEN OBTAINED FROM THE CITY AND OTHER SOURCES WHICH ARE BELIEVED TO BE RELIABLE, BUT IT IS NOT GUARANTEED AS TO ACCURACY OR COMPLETENESS BY, AND IS NOT TO BE CONSTRUED AS A REPRESENTATION BY, THE UNDERWRITER(S).

WITHIN THE MEANING OF SECURITIES AND EXCHANGE COMMISSION RULE 15C2-12, THE INFORMATION INCLUDED IN THE PRELIMINARY OFFICIAL STATEMENT IS DEEMED FINAL BY THE ISSUER AS OF ITS DATE AND IS ACCURATE AND COMPLETE IN ALL MATERIAL RESPECTS, EXCEPT FOR THE OMISSION OF THE OFFERING PRICE(S), INTEREST RATE(S), SELLING COMPENSATION, AGGREGATE PRINCIPAL AMOUNT, PRINCIPAL AMOUNT PER MATURITY, DELIVERY DATE, RATING(S), OTHER TERMS OF THE ISSUE DEPENDING ON SUCH MATTERS, AND THE IDENTITY OF THE UNDERWRITER(S).

SUMMARY OF OFFERING

City of Farmington, Minnesota
$3,360,000 *
General Obligation Bonds, Series 2024A
(Book-Entry Only)

AMOUNT -	$3,360,000
ISSUER -	City of Farmington, Minnesota (the "City" or the "Issuer")
AWARD DATE -	July 15, 2024
MUNICIPAL ADVISOR -	Northland Securities, Inc. (the "Municipal Advisor"), 150 South 5th Street, Suite 3300, Minneapolis, Minnesota 55402, telephone: 612-851-5900 or 800-851-2920
TYPE OF ISSUE -	General Obligation Bonds, Series 2024A (the "Bonds" or the "Issue")
AUTHORITY, PURPOSE & SECURITY -	The General Obligation Bonds, Series 2024A (the "Bonds") are being issued by the City of Farmington, Minnesota (the "City") pursuant to Minnesota Statutes, Chapters 475 and Sections 469.1812 through 469.1815 and 475.58 subdivision 3b, as amended. Proceeds of the Bonds will be used to finance improvements to the Rambling River Center facility, the City's 2024 street reconstruction projects, and to pay costs associated with issuance of the Bonds. The Bonds are valid and binding general obligations of the City and are payable from tax abatement levies and ad valorem taxes. The full faith and credit of the City is also pledged to their payment. In the event of any deficiency in the Bond Fund established for this Issue, the City has validly obligated itself to levy additional ad valorem taxes upon all of the taxable property within the City, without limitation of amount. See *Authority and Purpose* as well as *Security/Sources and Uses of Funds* herein for additional information.
DATE OF ISSUE -	Date of Delivery (Estimated to be August 15, 2024)
INTEREST PAID -	Semiannually on each February 1 and August 1, commencing August 1, 2025, to registered owners of the Bonds appearing of record in the bond register as of the close of business on the fifteenth day (whether or not a business day) of the calendar month next preceding such interest payment date (the "Record Date").

MATURITIES* -

2/1/2026	$175,000	2/1/2030	$265,000	2/1/2034	$300,000	2/1/2038	$145,000
2/1/2027	240,000	2/1/2031	270,000	2/1/2035	310,000	2/1/2039	150,000
2/1/2028	250,000	2/1/2032	280,000	2/1/2036	135,000	2/1/2040	155,000
2/1/2029	255,000	2/1/2033	290,000	2/1/2037	140,000		

REDEMPTION -	The Bonds maturing on February 1, 2033 and thereafter are subject to redemption, in whole or in part, on February 1, 2032 and on any date thereafter at a price of par plus accrued interest. See *Description of the Bonds* herein for additional information.
BOOK-ENTRY -	The Bonds will be issued as fully registered and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York, to which principal and interest payments will be made. Individual purchases will be made in book-entry form only, in the principal amount of $5,000 or any whole multiple thereof. Purchasers will not receive physical delivery of the Bonds.
PAYING AGENT/REGISTRAR -	U.S. Bank Trust Company, National Association, St. Paul, Minnesota
TAX DESIGNATIONS -	NOT Private Activity Bonds - The Bonds are not "private activity bonds" as defined in Section 141 of the Internal Revenue Code of 1986, as amended (the "Code"). Bank Qualified Tax-Exempt Obligations - The City will designate the Bonds as "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Code.
LEGAL OPINION -	Dorsey & Whitney LLP, Minneapolis, Minnesota ("Bond Counsel")
BOND RATING -	The City received an underlying rating of "AA+" from S&P Global Ratings ("S&P"). See *Bond Rating* herein for additional information.
CLOSING -	Estimated to be August 15, 2024
PRIMARY CONTACTS -	Kim Sommerland, Finance Director, City of Farmington, Minnesota 651-280-6880 Lynn Gorski, City Administrator, City of Farmington, Minnesota 651-280-6801 Tammy Omdal, Managing Director, Northland Securities, Inc., 612-851-4964 Jessica Green, Managing Director, Northland Securities, Inc., 612-851-5930

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* Preliminary, subject to change.

CITY OF FARMINGTON, MINNESOTA

PRINCIPAL CITY OFFICIALS

Elected Officials	**City Council**	
Name	*Position*	*Term Expires*
Joshua Hoyt	Mayor	12/31/24
Holly Bernatz	Council Member	12/31/26
Katie Bernhjelm	Council Member	12/31/24
Steve Wilson	Council Member	12/31/24
Nick Lien	Council Member	12/31/26

Primary Contacts

Lynn Gorski	City Administrator
Kim Sommerland	Finance Director

BOND COUNSEL

Dorsey & Whitney LLP
Minneapolis, Minnesota

MUNICIPAL ADVISOR

Northland Securities, Inc.
Minneapolis, Minnesota

NOTICE OF SALE

$3,360,000*
GENERAL OBLIGATION BONDS, SERIES 2024A

CITY OF FARMINGTON, MINNESOTA
(Book-Entry Only)

NOTICE IS HEREBY GIVEN that these Bonds will be offered for sale according to the following terms:

TIME AND PLACE:

Proposals (also referred to herein as "bids") will be opened by the City's Finance Director, or designee, on Monday, July 15, 2024, at 10:30 A.M., CT, at the offices of Northland Securities, Inc. (the City's "Municipal Advisor"), 150 South 5th Street, Suite 3300, Minneapolis, Minnesota 55402. Consideration of the Proposals for award of the sale will be by the City Council at its meeting at the City Offices beginning Monday, July 15, 2024 at 7:00 P.M., CT.

SUBMISSION OF PROPOSALS

Proposals may be:

a) submitted to the office of Northland Securities, Inc.,
b) faxed to Northland Securities, Inc. at 612-851-5918,
c) emailed to PublicSale@northlandsecurities.com
d) for proposals submitted prior to the sale, the final price and coupon rates may be submitted to Northland Securities, Inc. by telephone at 612-851-5900 or 612-851-5918, or
e) submitted electronically.

Notice is hereby given that electronic proposals will be received via PARITY™, or its successor, in the manner described below, until 10:30 A.M., CT, on Monday, July 15, 2024. Proposals may be submitted electronically via PARITY™ or its successor, pursuant to this Notice until 10:30 A.M., CT, but no Proposal will be received after the time for receiving Proposals specified above. To the extent any instructions or directions set forth in PARITY™, or its successor, conflict with this Notice, the terms of this Notice shall control. For further information about PARITY™, or its successor, potential bidders may contact Northland Securities, Inc. or i-Deal® at 1359 Broadway, 2nd floor, New York, NY 10018, telephone 212-849-5021.

Neither the City nor Northland Securities, Inc. assumes any liability if there is a malfunction of PARITY™ or its successor. All bidders are advised that each Proposal shall be deemed to constitute a contract between the bidder and the City to purchase the Bonds regardless of the manner in which the Proposal is submitted.

BOOK-ENTRY SYSTEM

The Bonds will be issued by means of a book-entry system with no physical distribution of bond certificates made to the public. The Bonds will be issued in fully registered form and one bond certificate, representing the aggregate principal amount of the Bonds maturing in each year, will be registered in the name of Cede & Co. as nominee of Depository Trust Company ("DTC"), New York, New York, which will act as securities depository of the Bonds.

* The City reserves the right to increase or decrease the principal amount of the Bonds. Any such increase or decrease will be made in multiples of $5,000 and may be made in any maturity. If any maturity is adjusted, the purchase price will also be adjusted to maintain the same gross spread.

Individual purchases of the Bonds may be made in the principal amount of $5,000 or any multiple thereof of a single maturity through book entries made on the books and records of DTC and its participants. Principal and interest are payable by the City through U.S. Bank Trust Company, National Association, St. Paul, Minnesota (the "Paying Agent/Registrar"), to DTC, or its nominee as registered owner of the Bonds. Transfer of principal and interest payments to participants of DTC will be the responsibility of DTC; transfer of principal and interest payments to beneficial owners by participants will be the responsibility of such participants and other nominees of beneficial owners. The successful bidder, as a condition of delivery of the Bonds, will be required to deposit the bond certificates with DTC. The City will pay reasonable and customary charges for the services of the Paying Agent/Registrar.

DATE OF ORIGINAL ISSUE OF BONDS

Date of Delivery (Estimated to be August 15, 2024)

AUTHORITY/PURPOSE/SECURITY

The Bonds are being issued pursuant to Minnesota Statutes, Chapter 475 and Sections 469.1812 through 469.1815, and 475.58 subd. 3b, as amended. Proceeds will be used to finance improvements to the Rambling River Center facility, street reconstruction projects, and to pay costs associated with the issuance of the Bonds. The Bonds are payable from tax abatement levies and additionally secured by ad valorem taxes on all taxable property within the City. The full faith and credit of the City is pledged to their payment and the City has validly obligated itself to levy ad valorem taxes in the event of any deficiency in the Bond Fund established for this issue.

INTEREST PAYMENTS

Interest is due semiannually on each February 1 and August 1, commencing August 1, 2025, to registered owners of the Bonds appearing of record in the Bond Register as of the close of business on the fifteenth day (whether or not a business day) of the calendar month next preceding such interest payment date.

MATURITIES

Principal is due annually on February 1, inclusive, in each of the years and amounts as follows:

Year	Amount	Year	Amount	Year	Amount	Year	Amount
2026	$175,000	2030	$265,000	2034	$300,000	2038	$145,000
2027	240,000	2031	270,000	2035	310,000	2039	150,000
2028	250,000	2032	280,000	2036	135,000	2040	155,000
2029	255,000	2033	290,000	2037	140,000		

Proposals for the Bonds may contain a maturity schedule providing for any combination of serial bonds and term bonds, subject to mandatory redemption, so long as the amount of principal maturing or subject to mandatory redemption in each year conforms to the maturity schedule set forth above.

INTEREST RATES

All rates must be in integral multiples of 1/20th or 1/8th of 1%. *The rate for any maturity may not be more than 2.00% less than the rate for any preceding maturity.* All Bonds of the same maturity must bear a single uniform rate from date of issue to maturity.

ESTABLISHMENT OF ISSUE PRICE
(HOLD-THE-OFFERING-PRICE RULE MAY APPLY – BIDS NOT CANCELLABLE)

In order to establish the issue price of the Bonds for federal income tax purposes, the Issuer requires bidders to agree to the following, and by submitting a bid, each bidder agrees to the following.

If a bid is submitted by a potential underwriter, the bidder confirms that (i) the underwriters have offered or reasonably expect to offer the Bonds to the public on or before the date of the award at the offering price (the "initial offering price") for each maturity as set forth in the bid and (ii) the bidder, if it is the winning bidder, shall require any agreement among underwriters, selling group agreement, retail distribution agreement or other agreement relating to the initial sale of the Bonds to the public to which it is a party to include provisions requiring compliance by all parties to such agreements with the provisions contained herein. For purposes hereof, Bonds with a separate CUSIP number constitute a separate "maturity," and the public does not include underwriters of the Bonds (including members of a selling group or retail distribution group) or persons related to underwriters of the Bonds.

If, however, a bid is submitted for the bidder's own account in a capacity other than as an underwriter of the Bonds, and the bidder has no current intention to sell, reoffer, or otherwise dispose of the Bonds, the bidder shall notify the Issuer to that effect at the time it submits its bid and shall provide a certificate to that effect in place of the certificate otherwise required below.

If the winning bidder intends to act as an underwriter, the Issuer shall advise the winning bidder at or prior to the time of award whether (i) the competitive sale rule or (ii) the "hold-the-offering price" rule applies, as described in the following paragraph.

If the Issuer advises the winning bidder that the requirements for a competitive sale have not been satisfied and that the hold-the-offering price rule applies, the winning bidder shall (1) upon the request of the Issuer confirm that the underwriters did not offer or sell any maturity of the Bonds to any person at a price higher than the initial offering price of that maturity during the period starting on the award date and ending on the earlier of (a) the close of the fifth business day after the sale date or (b) the date on which the underwriters have sold at least 10% of that maturity to the public at or below the initial offering price; and (2) at or prior to closing, deliver to the Issuer a certification substantially in the form attached hereto as Exhibit A, together with a copy of the pricing wire.

If the Issuer advises the winning bidder that the requirements for a competitive sale have been satisfied and that the competitive sale rule applies, the winning bidder will be required to deliver to the Issuer at or prior to closing a certification, substantially in the form attached hereto as Exhibit B, as to the reasonably expected initial offering price as of the award date.

Any action to be taken or documentation to be received by the Issuer pursuant hereto may be taken or received on behalf of the Issuer by the Municipal Advisor.

Bidders should prepare their bids on the assumption that the Bonds will be subject to the "hold-the-offering-price" rule. Any bid submitted pursuant to the Notice of Sale shall be considered a firm offer for the purchase of the Bonds, and bids submitted will not be subject to cancellation or withdrawal.

ADJUSTMENTS TO PRINCIPAL AMOUNT AFTER PROPOSALS

The City reserves the right to increase or decrease the principal amount of the Bonds. Any such increase or decrease will be made in multiples of $5,000 and may be made in any maturity. If any maturity is adjusted, the purchase price will also be adjusted to maintain the same gross spread. Such adjustments shall be made promptly after the sale and prior to the award of Proposals by the City and shall be at the sole discretion of the City. The successful bidder may not withdraw or modify its Proposal once submitted to the City for any reason, including post-sale adjustment. Any adjustment shall be conclusive and shall be binding upon the successful bidder.

OPTIONAL REDEMPTION

Bonds maturing on February 1, 2033 through 2040 are subject to redemption and prepayment at the option of the City on February 1, 2032 and any date thereafter, at a price of par plus accrued interest. Redemption may be in whole or in part of the Bonds subject to prepayment. If redemption is in part, the maturities and principal amounts within each maturity to be redeemed shall be determined by the City and if only part of the Bonds having a common maturity date are called for prepayment, the specific Bonds to be prepaid shall be chosen by lot by the Bond Registrar.

CUSIP NUMBERS

If the Bonds qualify for assignment of CUSIP numbers such numbers will be printed on the Bonds, but neither the failure to print such numbers on any Bond nor any error with respect thereto shall constitute cause for a failure or refusal by the successful bidder thereof to accept delivery of and pay for the Bonds in accordance with terms of the purchase contract. The CUSIP Service Bureau charge for the assignment of CUSIP identification numbers shall be paid by the successful bidder.

DELIVERY

Delivery of the Bonds will be within forty days after award, subject to an approving legal opinion by Dorsey and Whitney, LLP, Bond Counsel. The legal opinion will be paid by the City and delivery will be anywhere in the continental United States without cost to the successful bidder at DTC.

TYPE OF PROPOSAL

Proposals of not less than $3,318,000 (98.75%) and accrued interest on the principal sum of $3,360,000 must be filed with the undersigned prior to the time of sale. Proposals must be unconditional except as to legality. Proposals for the Bonds should be delivered to Northland Securities, Inc. and addressed to:

Kim Sommerland, Finance Director
430 3rd St.
Farmington, MN 55024

A good faith deposit (the "Deposit") in the amount of $67,200 in the form of a federal wire transfer (payable to the order of the City) is only required from the apparent winning bidder, and must be received within two hours after the time stated for the receipt of Proposals. The apparent winning bidder will receive notification of the wire instructions from the Municipal Advisor promptly after the sale. If the Deposit is not received from the apparent winning bidder in the time allotted, the City may choose to reject their Proposal and then proceed to offer the Bonds to the next lowest bidder based on the terms of their original proposal, so long as said bidder wires funds for the Deposit amount within two hours of said offer.

The City will retain the Deposit of the successful bidder, the amount of which will be deducted at settlement and no interest will accrue to the successful bidder. In the event the successful bidder fails to comply with the accepted Proposal, said amount will be retained by the City. No Proposal can be withdrawn after the time set for receiving Proposals unless the meeting of the City scheduled for award of the Bonds is adjourned, recessed, or continued to another date without award of the Bonds having been made.

AWARD

The Bonds will be awarded on the basis of the lowest interest rate to be determined on a true interest cost (TIC) basis. The City's computation of the interest rate of each Proposal, in accordance with customary practice, will be controlling. In the event of a tie, the sale of the Bonds will be awarded by lot. The City will reserve the right to: (i) waive non-substantive informalities of any Proposal or of matters relating to the receipt of Proposals and award of the Bonds, (ii) reject all Proposals without cause, and (iii) reject any Proposal which the City determines to have failed to comply with the terms herein.

INFORMATION FROM SUCCESSFUL BIDDER

The successful bidder will be required to provide, in a timely manner, certain information relating to the initial offering price of the Bonds necessary to compute the yield on the Bonds pursuant to the provisions of the Internal Revenue Code of 1986, as amended.

OFFICIAL STATEMENT

By awarding the Bonds to any underwriter or underwriting syndicate submitting a Proposal therefor, the City agrees that, no more than seven business days after the date of such award, it shall provide to the senior managing underwriter of the syndicate to which the Bonds are awarded, the Final Official Statement in an electronic format as prescribed by the Municipal Securities Rulemaking Board (MSRB).

FULL CONTINUING DISCLOSURE UNDERTAKING

The City will covenant in the resolution awarding the sale of the Bonds to provide, or cause to be provided, annual financial information, including audited financial statements of the City, and notices of certain material events, as required by SEC Rule 15c2-12.

BANK QUALIFICATION

The City will designate the Bonds as qualified tax-exempt obligations for purposes of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended.

BOND INSURANCE AT UNDERWRITER'S OPTION

If the Bonds qualify for issuance of any policy of municipal bond insurance or commitment therefor at the option of the successful bidder, the purchase of any such insurance policy or the issuance of any such commitment shall be at the sole option and expense of the successful bidder of the Bonds. Any increase in the costs of issuance of the Bonds resulting from such purchase of insurance shall be paid by the successful bidder, except that, if the City has requested and received a rating on the Bonds from a rating agency, the City will pay that rating fee. Any other rating agency fees shall be the responsibility of the successful bidder. Failure of the municipal bond insurer to issue the policy after the Bonds have been awarded to the successful bidder shall not constitute cause for failure or refusal by the successful bidder to accept delivery on the Bonds.

The City reserves the right to reject any and all Proposals, to waive informalities and to adjourn the sale.

Dated: June 3, 2024

BY ORDER OF THE FARMINGTON CITY COUNCIL

/s/ Kim Sommerland
Finance Director

Additional information may be obtained from:
Northland Securities, Inc.
150 South 5th Street, Suite 3300
Minneapolis, Minnesota 55402
Telephone No.: 612-851-5900

EXHIBIT A

ISSUE PRICE CERTIFICATE – COMPETITIVE SALES WITH AT LEAST THREE BIDS FROM ESTABLISHED UNDERWRITERS

$[PRINCIPAL AMOUNT]
[BOND CAPTION]
ISSUE PRICE CERTIFICATE

The undersigned, on behalf of [NAME OF UNDERWRITER] ("[SHORT NAME OF UNDERWRITER]"), hereby certifies as set forth below with respect to the sale of the obligations named above (the "Bonds").

1. ***Reasonably Expected Initial Offering Price***.

(a) As of the Sale Date, the reasonably expected initial offering prices of the Bonds to the Public by [SHORT NAME OF UNDERWRITER] are the prices listed in Schedule A (the "Expected Offering Prices"). The Expected Offering Prices are the prices for the Maturities of the Bonds used by [SHORT NAME OF UNDERWRITER] in formulating its bid to purchase the Bonds. Attached as Schedule B is a true and correct copy of the bid provided by [SHORT NAME OF UNDERWRITER] to purchase the Bonds.

(b) [SHORT NAME OF UNDERWRITER] was not given the opportunity to review other bids prior to submitting its bid.

(c) The bid submitted by [SHORT NAME OF UNDERWRITER] constituted a firm offer to purchase the Bonds.

2. ***Defined Terms***. For purposes of this Issue Price Certificate:

(a) *Issuer* means [DESCRIBE ISSUER].

(b) *Maturity* means Bonds with the same credit and payment terms. Any Bonds with different maturity dates, or with the same maturity date but different stated interest rates, are treated as separate Maturities.

(c) *Member of the Distribution Group* means (i) any person that agrees pursuant to a written contract with the Issuer (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds to the Public, and (ii) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (i) of this paragraph to participate in the initial sale of the Bonds to the Public (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Bonds to the Public).

(d) *Public* means any person (*i.e.*, an individual, trust, estate, partnership, association, company, or corporation) other than a Member of the Distribution Group or a related party to a Member of the Distribution Group. A person is a "related party" to a Member of the Distribution Group if the Member of the Distribution Group and that person are subject, directly or indirectly, to (i) at least 50% common ownership of the voting power or the total value of their stock, if both entities are corporations (including direct ownership by one corporation of another), (ii) more than 50% common ownership of their capital interests or profits interests, if both entities are partnerships (including direct ownership by one partnership of another), or (iii) more than 50% common ownership of the value of the outstanding stock of the corporation or the capital interests or profit interests of the partnership, as applicable, if one entity is a corporation and the other entity is a partnership (including direct ownership of the applicable stock or interests by one entity of the other).

(e) *Sale Date* means the first day on which there is a binding contract in writing for the sale of the respective Maturity. The Sale Date of each Maturity was [DATE].

The representations set forth in this certificate are limited to factual matters only. Nothing in this certificate represents [SHORT NAME OF UNDERWRITER]'s interpretation of any laws, including specifically Sections 103 and 148 of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations thereunder. The undersigned understands that the foregoing information will be relied upon by the Issuer[and BORROWER (the "Borrower")] with respect to certain of the representations set forth in the [Tax Certificate][Tax Exemption Agreement] and with respect to compliance with the federal income tax rules affecting the Bonds, and by [BOND COUNSEL] in connection with rendering its opinion that the interest on the Bonds is excluded from gross income for federal income tax purposes, the preparation of the Internal Revenue Service Form 8038[-G][-GC][-TC], and other federal income tax advice that it may give to the Issuer[and the Borrower] from time to time relating to the Bonds.

[UNDERWRITER]

By:_______________________________________
Name:_____________________________________

Dated: [ISSUE DATE]

ISSUE PRICE CERTIFICATE – COMPETITIVE SALES WITH FEWER THAN THREE BIDS FROM ESTABLISHED UNDERWRITERS

$[PRINCIPAL AMOUNT]
[BOND CAPTION]
ISSUE PRICE CERTIFICATE

The undersigned, on behalf of [NAME OF UNDERWRITER/REPRESENTATIVE] (["[SHORT NAME OF UNDERWRITER]")][the "Representative")][, on behalf of itself and [NAMES OF OTHER UNDERWRITERS] (together, the "Underwriting Group"),] hereby certifies as set forth below with respect to the sale of the obligations named above (the "Bonds").

1. ***Initial Offering Price of the Bonds***. [SHORT NAME OF UNDERWRITER][The Underwriting Group] offered the Bonds to the Public for purchase at the specified initial offering prices listed in Schedule A (the "Initial Offering Prices") on or before the Sale Date. A copy of the pricing wire for the Bonds is attached to this certificate as Schedule B.

2. ***Hold the Offering Price Rule***. [SHORT NAME OF UNDERWRITER][Each member of the Underwriting Group] has agreed in writing that, (i) for each Maturity, it would neither offer nor sell any of the Bonds of such Maturity to any person at a price that is higher than the Initial Offering Price for such Maturity during the Holding Period for such Maturity (the "Hold-the-Offering-Price Rule"), and (ii) any agreement among underwriters, selling group agreement, or third-party distribution agreement contains the agreement of each underwriter, dealer, or broker-dealer who is a party to such agreement to comply with the Hold-the-Offering-Price Rule. Based on the [Representative][SHORT NAME OF UNDERWRITER]'s own knowledge and, in the case of sales by other Members of the Distribution Group, representations obtained from the other Members of the Distribution Group, no Member of the Distribution Group has offered or sold any such Maturity at a price that is higher than the respective Initial Offering Price during the respective Holding Period.

3. ***Defined Terms***. For purposes of this Issue Price Certificate:

(a) *Holding Period* means the period starting on the Sale Date and ending on the earlier of (i) the close of the fifth business day after the Sale Date ([DATE]), or (ii) the date on which Members of the Distribution Group have sold at least 10% of such Maturity to the Public at one or more prices, none of which is higher than the Initial Offering Price for such Maturity.

(b) *Issuer* means [DESCRIBE ISSUER].

(c) *Maturity* means Bonds with the same credit and payment terms. Any Bonds with different maturity dates, or with the same maturity date but different stated interest rates, are treated as separate Maturities.

(d) *Member of the Distribution Group* means (i) any person that agrees pursuant to a written contract with the Issuer (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds to the Public, and (ii) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (i) of this paragraph to participate in the initial sale of the Bonds to the Public (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Bonds to the Public).

(e) *Public* means any person (*i.e.*, an individual, trust, estate, partnership, association, company, or corporation) other than a Member of the Distribution Group or a related party to a Member of the Distribution Group. A person is a "related party" to a Member of the Distribution Group if the Member of the Distribution Group and that person are subject, directly or indirectly, to (i) at least 50% common ownership of the voting power or the total value of their stock, if both entities are corporations (including direct ownership by one corporation of another), (ii) more than 50% common ownership of their capital interests or profits interests, if both entities are partnerships (including direct ownership by one partnership of another), or (iii) more than 50% common ownership of the value of the outstanding stock of the corporation or the capital interests or profit interests of the partnership, as applicable, if one entity is a corporation and the other entity is a partnership (including direct ownership of the applicable stock or interests by one entity of the other).

(f) *Sale Date* means the first day on which there is a binding contract in writing for the sale of the respective Maturity. The Sale Date of each Maturity was [DATE].

The representations set forth in this certificate are limited to factual matters only. Nothing in this certificate represents [NAME OF UNDERWRITING FIRM][the Representative's] interpretation of any laws, including specifically Sections 103 and 148 of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations thereunder. The undersigned understands that the foregoing information will be relied upon by the Issuer[and BORROWER (the "Borrower")] with respect to certain of the representations set forth in the [Tax Certificate][Tax Exemption Agreement] and with respect to compliance with the federal income tax rules affecting the Bonds, and by [BOND COUNSEL] in connection with rendering its opinion that the interest on the Bonds is excluded from gross income for federal income tax purposes, the preparation of the Internal Revenue Service Form 8038[-G][-GC][-TC], and other federal income tax advice that it may give to the Issuer[and the Borrower] from time to time relating to the Bonds.

[UNDERWRITER][REPRESENTATIVE]

By:______________________________________
Name:____________________________________

Dated: [ISSUE DATE]

AUTHORITY AND PURPOSE

The General Obligation Bonds, Series 2024A (the "Bonds" or the "Issue") are being issued by the City of Farmington, Minnesota (the "City") pursuant to Minnesota Statutes, Chapters 475 and Sections 469.1812 through 469.1815 and 475.58 subdivision 3b, as amended. Proceeds from issuance of the Bonds will be used to finance improvements to the Rambling River Center facility, the City's 2024 street reconstruction projects, and to pay costs associated with issuance of the Bonds.

SECURITY/SOURCES AND USES OF FUNDS

Security

The Bonds are valid and binding general obligations of the City and are payable from tax abatement levies and ad valorem taxes. The full faith and credit of the City is also pledged to their payment. In the event of any deficiency in the Bond Fund established for this Issue, the City has validly obligated itself to levy additional ad valorem taxes upon all of the taxable property within the City, without limitation of amount.

Sources and Uses of Funds

Following are the sources and uses of funds in connection with the issuance of the Bonds.

Sources of Funds	
Par Amount of Bonds	$ 3,360,00*
Total Sources of Funds:	$ 3,360,000
Uses of Funds	
Deposit to Project Fund	$ 3,258,000
Costs of Issuance/Underwriter's Discount	101,135
Rounding Amount	865
Total Uses of Funds:	$ 3,360,000

BONDHOLDERS' RISKS

An investment in the Bonds involves an element of risk. In order to identify risk factors and make an informed investment decision, potential investors should be thoroughly familiar with this entire Official Statement (including the appendices hereto) in order to make a judgment as to whether the Bonds are an appropriate investment.

Secondary Market

There can be no guarantee that there will be a secondary market for the Bonds or, if a secondary market exists, that such Bonds can be sold for any particular price. Occasionally, because of general market conditions or because of adverse history of economic prospects connected with a particular issue, any secondary marketing practices in connection with a particular bond issue are suspended or terminated. Additionally, prices of bond issues for which a market is being made will depend upon then prevailing circumstances. Such prices could be substantially different from the original purchase price of the Bonds.

Ratings Loss

S&P Global Ratings has assigned a rating of "AA+" to the Bonds. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is

* Preliminary, subject to change.

no assurance that the rating will continue for any given period of time, or that such rating will not be revised, suspended or withdrawn, if, in the judgment of S&P, circumstances so warrant. A revision, suspension or withdrawal of a rating may have an adverse effect on the market price of the Bonds.

Additional regulation of rating agencies could materially alter the methodology, rating levels, and types of ratings available, for example, and these changes, if ever, could materially affect the market value of the Bonds.

Forward-Looking Statements

This Official Statement contains statements relating to future results that are "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. When used in this Official Statement, the words "estimate," "forecast," "intend," "expect" and similar expressions identify forward-looking statements. Any forward-looking statement is subject to uncertainty. Accordingly, such statements are subject to risks that could cause actual results to differ, possibly materially, from those contemplated in such forward-looking statements. Inevitably, some assumptions used to develop forward-looking statements will not be realized or unanticipated events and circumstances may occur. Therefore, investors should be aware that there are likely to be differences between forward-looking statements and the actual results. These differences could be material and could impact the availability of funds of the Issuer to pay debt service when due on the Bonds.

Tax Exemption, Bank Qualification and Loss of Tax Exemption

If the federal government or the State of Minnesota taxes all or a portion of the interest on municipal obligations, directly or indirectly, or if there is a change in federal or state tax policy, the value of the Bonds may fall for purposes of resale. Noncompliance following the issuance of the Bonds with certain requirements of the Internal Revenue Code of 1986, as amended (the "Code") and post-issuance tax covenants of the Issuer may result in the inclusion of interest on the Bonds in gross income of the recipient for federal income tax purposes or in taxable net income of individuals, estates or trusts for State of Minnesota income tax purposes. No provision has been made for redemption of the Bonds, or for an increase in the interest rate on the Bonds, in the event that interest on the Bonds becomes subject to federal or State of Minnesota income taxation, retroactive to the date of issuance.

The Bonds are designated as "qualified tax-exempt obligations" under the exception provided in Section 265(b)(3) of the Code, and the Issuer has further covenanted to comply with certain other requirements, which affords banks and certain other financial institutions more favorable treatment of their deduction for interest expense than would otherwise be allowed under Section 265(b)(2) of the Code. Actions, or inactions, by the Issuer in violation of its covenants could affect the designation, which could also affect the pricing and marketability of the Bonds.

It is also possible that actions of the Issuer after the closing of the Bonds will alter the tax status of the Bonds, and, in the extreme, remove the tax exempt status from the Bonds. In that instance, the Bonds are not subject to mandatory prepayment, and the interest rate on the Bonds does not increase or otherwise reset.

Pending Federal and State Tax Legislation

From time to time, there is State legislation proposed, as well as Presidential proposals, proposals of various federal committees, and legislative proposals pending in Congress that could, if enacted, alter or amend one or more of the federal or state tax matters described herein in certain respects or would adversely affect the market value of the Bonds or otherwise prevent holders of the Bonds from realizing the full benefit of the tax exemption of interest on the Bonds. Further, such proposals may impact the marketability or market value of the Bonds simply by being proposed. It cannot be predicted whether or in what forms any of such proposals, either pending or that may be introduced, may be enacted and there can be no assurance that such proposals will not apply to the Bonds. In addition, regulatory actions are from time to time announced or proposed, and litigation threatened or commenced, which if implemented or concluded in a particular manner, could adversely affect the market value, marketability or tax status of the Bonds. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the Bonds would be impacted thereby.

Tax Levy Procedures

The Bonds are general obligations of the Issuer, payable from and secured by a continuing ad valorem tax levied against all of the property valuation within the Issuer. A failure on the part of the Issuer to make a timely levy request or a levy request by the Issuer that is inaccurate or is insufficient to make full payments of the debt service of the Bonds for a particular fiscal year may cause Bondholders to experience delay in the receipt of distributions of principal of and/or interest on the Bonds. In the event of a default in the payment of principal of or interest on the Bonds, there is no provision for acceleration of maturity of the principal of the Bonds. Consequently, the remedies of the owners of the Bonds (consisting primarily of an action in the nature of mandamus requiring the Issuer and certain other public officials to perform the terms of the resolution for the Bonds) may have to be enforced from year to year.

Factors Beyond Issuer's Control

A combination of epidemic, pandemic, economic, climatic, political or civil disruptions outside of the control of the Issuer, including loss of major taxpayers or major employers, could affect the local economy and result in reduced tax collections and/or increased demands upon local governments. Real or perceived threats to the financial stability of the Issuer may have an adverse effect on the value of the Bonds in the secondary market. State of Minnesota cash flow problems could also affect local governments, including reductions in, or delayed payments of, local government state aid (LGA) and possibly increase Issuer property taxes.

Cybersecurity

The Issuer, like many other public and private entities, relies on a large and complex technology environment to conduct its operations. As such, it may face multiple cybersecurity threats including, but not limited to, hacking, viruses, malware and other attacks on computer or other sensitive digital systems and networks. There can be no assurances that any security and operational control measures implemented by the Issuer will be completely successful to guard against and prevent cyber threats and attacks. The result of any such attacks could impact business operations and/or digital networks and systems and the costs of remedying any such damage could be significant.

Suitability of Investment

The interest rate borne by the Bonds is intended to compensate the investor for assuming the risk of investing in the Bonds. Each prospective investor should carefully examine this Official Statement and its own financial condition to make a judgment as to its ability to bear the economic risk of such an investment, and whether or not the Bonds are an appropriate investment for such investor.

Summary

The foregoing is intended only as a summary of certain risk factors attendant to an investment in the Bonds. In order for potential investors to identify risk factors and make an informed investment decision, potential investors should become thoroughly familiar with this entire Official Statement and the Appendices hereto.

DESCRIPTION OF THE BONDS

Details of Certain Terms

The Bonds will be dated, as originally issued, as of the date of delivery (estimated to be August 15, 2024), and will be issued as fully registered Bonds in the denominations of $5,000 or any integral multiple thereof. Principal, including mandatory redemptions on the Bonds, if applicable, will be payable annually February 1, commencing February 1, 2026. Interest on the Bonds will be payable semiannually on each February 1 and August 1, commencing August 1, 2025. The Bonds when issued, will be registered in the name of Cede & Co. (the "Registered Holder"), as nominee of The Depository Trust Company, New York, New York ("DTC"), the initial custodian for the Bonds, to which principal and interest payments on the Bonds will be made so long as Cede & Co. is the Registered Holder of the Bonds. See “Book-Entry System” in *Description of the Bonds* herein for additional information. So long as the Book-Entry Only System is used, individual purchases of the Bonds will be made in book-entry form only, in the principal amount of $5,000 or any integral multiple thereof (“Authorized Denominations”). Individual purchasers (“Beneficial Owners”) of the Bonds will not receive physical delivery of bond certificates, and registration, exchange, transfer, tender and redemption of the Bonds with respect to Beneficial Owners shall be governed by the Book-Entry Only System.

So long as the Book-Entry Only System is used, payments from Cede & Co., as the Registered Holder, to the Beneficial Owners shall be governed by the Book-Entry Only System. If the Book-Entry Only System is discontinued, the principal of and premium, if any, on the Bonds will be payable upon presentation and surrender at the offices of the Paying Agent and Bond Registrar or a duly appointed successor. Interest on the Bonds will be paid by check or draft mailed by the Bond Registrar to the registered holders thereof as such appear on the registration books maintained by the Bond Registrar as of the close of business on the fifteenth day (whether or not a business day) of the calendar month next preceding such interest payment date (the “Record Date”).

Registration, Transfer and Exchange

So long as the Book-Entry Only System is used, payments from Cede & Co., as the Registered Holder, to the Beneficial Owners shall be governed by the Book-Entry Only System. If the Book-Entry Only System is discontinued, the Bonds may be transferred upon surrender of the Bonds at the principal office of the Bond Registrar, duly endorsed for transfer or accompanied by an assignment duly executed by the registered owner or his or her attorney duly authorized in writing. The Bonds, upon surrender thereof at the principal office of the Bond Registrar, may also be exchanged for other Bonds of the same series, of any authorized denominations having the same form, terms, interest rates and maturities as the Bonds being exchanged. The Bond Registrar will require the payment by the Bond holder requesting such exchange or transfer of any tax or governmental charge required to be paid with respect to such exchange or transfer. The Bond Registrar is not required to (i) issue, transfer or exchange any Bond during a period beginning at the opening of business fifteen days before any selection of Bonds of a particular stated maturity for redemption in accordance with the provisions of the Bond resolution and ending on the day of the first mailing of the relevant notice of redemption or (ii) to transfer any Bonds or portion thereof selected for redemption.

Optional Redemption

The Bonds maturing on February 1, 2033 and thereafter are subject to redemption, in whole or in part, on February 1, 2032 and on any date thereafter at a price of par plus accrued interest. If redemption is in part, the selection of the amounts and maturities of the Bonds to be prepaid shall be at the discretion of the City. Notice of redemption shall be given by written notice to the registered owner of the Bonds not less than 30 and not more than 60 days prior to such redemption date.

Book-Entry System

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the Bonds (the “Bonds”). The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for the Bonds, in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.6 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtcc.org.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bonds ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with Bonds held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Agent, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the City or Agent. Under such circumstances, in the event that a successor depository is not obtained, certificates for the Bonds are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, certificates for the Bonds will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but the City of Farmington takes no responsibility for the accuracy thereof.

FULL CONTINUING DISCLOSURE

In order to assist the Underwriter(s) in complying with SEC Rule 15c2-12 (the "Rule"), pursuant to a resolution awarding the Issue, the City has and will covenant for the benefit of holders of the Bonds to annually provide certain financial and operating data, relating to the City to the Municipal Securities Rulemaking Board ("MSRB") in an electronic format prescribed by the MSRB, and to provide notices of the occurrence of certain events enumerated in the Rule to the MSRB (the "Undertaking"). The specific nature of the Undertaking, as well as the information to be contained in the annual report or the notices of material events is set forth in substantially the form attached hereto as Appendix B.

To the best of its knowledge, the City has never failed to comply in all material respects with any previous undertakings under the Rule to provide annual reports or notices of material events within the past five years. A failure by the City to comply with the Certificate will not constitute an event of default on the Bonds (although holders will have an enforceable right to specific performance). Nevertheless, such a failure must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Bonds in the secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the Bonds and their market price. Please see *Appendix B – Continuing Disclosure Undertaking* herein for additional information.

The City has retained a Dissemination Agent for its continuing disclosure filings.

UNDERWRITER

The Bonds are being purchased by _______ (the "Underwriter") at a purchase price of $_______, which is the par amount of the Bonds of $_______ less the Underwriter's discount of $_______, plus the original issue premium of $_________.

MUNICIPAL ADVISOR

The City has retained Northland Securities, Inc. as municipal advisor (the "Municipal Advisor") in connection with the issuance of the Bonds. Northland Securities, Inc. is registered as a municipal advisor with both the Securities and Exchange Commission (SEC) and the Municipal Securities Rulemaking Board (MSRB). In preparing the Official Statement, the Municipal Advisor has relied upon governmental officials, and other sources that have access to relevant data to provide accurate information for the Official Statement, and the Municipal Advisor has not been engaged, nor has it undertaken, to independently verify the accuracy of such information. The Municipal Advisor is not a public accounting firm and has not been engaged by the City to compile, review, examine or audit any information in the Official Statement in accordance with accounting standards.

Northland Securities, Inc., is a subsidiary of Northland Capital Holdings, Inc. First National of Nebraska, Inc., is the parent company of Northland Capital Holdings, Inc. and First National Bank of Omaha.

FUTURE FINANCING

The City does not anticipate the need to issue any additional general obligation debt within the next three months.

BOND RATING

The City received an underlying rating of "AA+" from S&P Global Ratings ("S&P"). No application was made to any other rating agency for the purpose of obtaining an additional rating on the Bonds. This rating reflects only the opinion of S&P and any explanation of the significance of this rating may be obtained only from S&P. There is no assurance that a rating will continue for any given period of time, or that such rating will not be revised or withdrawn, if in the judgment of S&P, circumstances so warrant. A revision or withdrawal of the rating may have an adverse effect on the market price of the Bonds. This rating is not a recommendation to buy, sell or hold the Bonds, and such rating may be subject to revision or withdrawal at any time by the rating agency.

LITIGATION

As of the date of this Official Statement, the City is not aware of any threatened or pending litigation that questions the organization or boundaries of the City or the right of any of its officers to their respective offices or in any manner questioning their rights and power to execute and deliver the Bonds or otherwise questioning the validity of the Bonds.

CERTIFICATION

The City will furnish a statement to the effect that this Official Statement to the best of its knowledge and belief, as of the date of sale and the date of delivery, is true and correct in all material respects, and does not contain any untrue statements of a material fact or omit to state a material fact necessary in order to make the statements made therein, in light of the circumstances under which they were made, not misleading.

The City has always promptly met all payments of principal and interest on its indebtedness when due.

LEGALITY

Legal matters incident to the authorization and issuance of the Bonds are subject to the approving opinion of Dorsey & Whitney LLP, Minneapolis, Minnesota ("Bond Counsel") as to validity and tax exemption. A copy of such opinion will be available at the time of the delivery of the Bonds. See *Appendix A – Form of Legal Opinion*.

Bond Counsel has not participated in the preparation of this Official Statement and is not passing upon its accuracy, completeness or sufficiency. Bond Counsel has not examined, nor attempted to examine, or verify, any of the financial or statistical statements or data contained in this Official Statement, and will express no opinion with respect thereto.

TAX CONSIDERATIONS

The following is a summary of certain U.S. federal and Minnesota income tax considerations relating to the purchase, ownership, and disposition of the Bonds. This summary is based on the U.S. Internal Revenue Code of 1986 (the "Code") and the Treasury Regulations promulgated thereunder, judicial decisions, and published rulings and administrative pronouncements of the Internal Revenue Service (the "IRS"), all as of the date hereof and all of which are subject to change, possibly with retroactive effect. Any such change could adversely affect the matters discussed below, including the tax exemption of interest on the Bonds. The City has not sought and will not seek any rulings from the IRS regarding the matters discussed below, and there can be no assurance the IRS or a court will not take a contrary position regarding these matters.

Prospective purchasers of Bonds should consult their own tax advisors with respect to applicable federal, state, and local tax rules, and any pending or proposed legislation or regulatory or administrative actions, relating to the Bonds based on their own particular circumstances.

This summary is for general information only and is not intended to constitute a complete analysis of all tax considerations relating to the purchase, ownership, and disposition of Bonds. It does not address the application of the alternative minimum tax imposed on noncorporate taxpayers and applicable corporations (as defined in Section 59(k) of the Code) or the additional tax on net investment income, nor does it address the U.S. federal estate and gift tax or any state, local, or non-U.S. tax consequences except with respect to Minnesota income tax to the extent expressly specified herein. This summary is limited to consequences to U.S. holders that purchase the Bonds for cash at original issue and hold the Bonds as "capital assets" (generally, property held for investment).

This discussion does not address all aspects of U.S. federal income or state taxation that may be relevant to particular holders of Bonds in light of their specific circumstances or the tax considerations applicable to holders that may be subject to special income tax rules, such as: holders subject to special tax accounting rules under Section 451(b) of the Code; insurance companies; brokers, dealers, or traders in stocks, securities, or currencies or notional principal contracts; foreign corporations subject to the branch profits tax; holders receiving payments in respect of the Bonds through foreign entities; and S corporations, partnerships, or other pass-through entities or investors therein.

For purposes of this discussion, the "issue price" of a maturity of Bonds is the first price at which a substantial amount of Bonds of that maturity is sold for cash to persons other than bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents, or wholesalers.

The Bonds

Tax-Exempt Interest

In the opinion of Dorsey & Whitney LLP, Bond Counsel, based on existing law and assuming the accuracy of certain representations and compliance with certain covenants, interest on the Bonds (i) is excluded from gross income for federal income tax purposes under Section 103 of the Code, (ii) is not an item of tax preference for purposes of the federal alternative minimum tax imposed on noncorporate taxpayers by Section 55 of the Code, (iii) is excluded from taxable net income of individuals, estates, and trusts for Minnesota income tax purposes, and (iv) is not an item of tax preference for Minnesota alternative minimum tax purposes. Interest on the Bonds may, however, be taken into account in determining adjusted financial statement income for purposes of the federal alternative minimum tax imposed on applicable corporations (as defined in Section 59(k) of the Code), and is included in net income for purposes of the Minnesota franchise tax imposed on corporations and financial institutions.

The Code establishes certain requirements that must be met after the issuance of the Bonds in order that interest on the Bonds be excluded from federal gross income and from Minnesota taxable net income of individuals, estates, and trusts. These requirements include, but are not limited to, provisions regarding the use of Bond proceeds and the facilities financed or refinanced with such proceeds and restrictions on the investment of Bond proceeds and other amounts. The City has made certain representations and has covenanted to comply with certain restrictions, conditions, and requirements designed to ensure interest on the Bonds will not be included in federal gross income. Inaccuracy of these representations or noncompliance with these covenants may cause interest on the Bonds to be included in federal gross income or in Minnesota taxable net income retroactively to their date of issue. Bond Counsel has not independently verified the accuracy of these representations and will not verify the continuing compliance with these covenants. No provision has been made for redemption of or for an increase in the interest rate on the Bonds in the event that interest on the Bonds is included in federal gross income or in Minnesota taxable net income.

Original Issue Discount

Bonds may be issued with original issue discount ("OID"). A Bond will be treated as issued with OID (a "Discount Bond") if its "stated redemption price at maturity" (i.e., the sum of all amounts payable on the Bond other than payments of qualified stated interest) exceeds its issue price. OID that accrues to a holder of a Discount Bond is excluded from federal gross income and from Minnesota taxable net income of individuals, estates, and trusts to the same extent that stated interest on such Discount Bond would be so excluded. The amount of OID that accrues on a Discount Bond is added to the holder's federal and Minnesota tax bases. OID is taxable under the Minnesota franchise tax on corporations and financial institutions.

OID on a Discount Bond generally accrues pursuant to a constant-yield method that reflects semiannual compounding on dates that are determined by reference to the maturity date of the Discount Bond. The amount of OID that accrues for any particular semiannual accrual period generally is equal to the excess of (1) the product of

(a) one-half of the yield on such Discount Bonds (adjusted as necessary for an initial short period) and (b) the adjusted issue price of such Discount Bonds, over (2) the amount of stated interest actually payable. For this purpose, the adjusted issue price is determined by adding to the issue price for such Discount Bonds the OID that is treated as having accrued during all prior accrual periods. If a Discount Bond is sold or otherwise disposed of between compounding dates, then the OID that would have accrued for that accrual period for federal income tax purposes is allocated ratably to the days in that accrual period.

If a Discount Bond is purchased for a cost that exceeds the sum of the issue price plus accrued interest and accrued OID, the amount of OID that is deemed to accrue thereafter to the purchaser is reduced by an amount that reflects amortization of such excess over the remaining term of the Discount Bond. If the excess is greater than the amount of remaining OID, the basis reduction rules for amortizable bond premium may result in taxable gain upon sale or other disposition of the Bonds, even if the Bonds are sold, redeemed, or retired for an amount equal to or less than their cost.

It is possible under certain state and local income tax laws that OID on a Discount Bond may be taxable in the year of accrual and may be deemed to accrue differently than under federal law.
Market Discount

If a Bond is purchased for a cost that is less than the Bond's issue price (plus accrued OID, if any), the purchaser will be treated as having purchased the Bond with market discount (unless a statutory de minimis rule applies). Market discount is treated as ordinary income and generally is recognized on the maturity or earlier disposition of the Bond (to the extent that the gain realized does not exceed the accrued market discount on the Bond).

Market Discount

If a Bond is purchased for a cost that is less than the Bond's issue price (plus accrued OID), the purchaser may be treated as having purchased the Bond with market discount (unless a statutory de minimis rule applies). Market discount is treated as ordinary income and generally is recognized on the maturity or earlier disposition of the Bond (to the extent that the gain realized does not exceed the accrued market discount on the Bond).

Bond Premium

A holder that acquires a Bond for an amount in excess of its stated redemption price at maturity generally must, from time to time, reduce the holder's federal and Minnesota tax bases for the Bond. Premium generally is amortized for federal income tax purposes and Minnesota income and franchise tax purposes on the basis of a bondholder's constant yield to maturity or to certain call dates with semiannual compounding. Accordingly, holders who acquire Bonds at a premium might recognize taxable gain upon sale of the Bonds, even if such Bonds are sold for an amount equal to or less than their original cost. Amortized premium is not deductible for federal income tax purposes or for purposes of the Minnesota income tax applicable to individuals, estates, and trusts.

Related Tax Considerations

Section 86 of the Code and corresponding provisions of Minnesota law require recipients of certain social security and railroad retirement benefits to take interest on the Bonds into account in determining the taxability of such benefits.

Section 265(a) of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Bonds, and Minnesota law similarly denies a deduction for such interest in the case of individuals, estates, and trusts. In the case of a financial institution, generally no deduction is allowed under section 265(b) the Code for that portion of the holder's interest expense that is allocable to interest on tax-exempt obligations, such as the Bonds, unless the obligations are "qualified tax-exempt obligations." Indebtedness may be allocated to the Bonds for this purpose even though not directly traceable to the purchase of the Bonds.

The Bonds are "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Code. Accordingly, although interest expense allocable to the Bonds is not subject to the disallowance under Section 265(b) of the Code, the deduction for interest on indebtedness incurred or continued to purchase or carry the Bonds may be subject to reduction under Section 291 of the Code.

Income or loss on the Bonds may be taken into account in determining adjusted financial statement income for purposes of the federal alternative minimum tax imposed on applicable corporations.

The ownership or disposition of, or the accrual or receipt of amounts treated as interest on, the Bonds may affect a holder's federal, state, or local tax liability in some additional circumstances. The nature and extent of these other tax consequences depends upon the particular tax status of the holder and the holder's other items of income or deduction.

Sale or Other Disposition

A holder will generally recognize gain or loss on the sale, exchange, redemption, retirement, or other disposition of a Bond equal to the difference between (i) the amount realized less amounts attributable to any accrued but unpaid stated interest and (ii) the holder's adjusted tax basis in the Bond. The amount realized includes the cash and the fair market value of any property received by the holder in exchange for the Bond. A holder's adjusted tax basis in a Bond generally will be equal to the amount that the holder paid for the Bond, increased by any accrued OID with respect to the Bond and reduced by the amount of any amortized bond premium on the Bond. Except to the extent attributable to market discount (which will be taxable as ordinary income to the extent not previously included in income), any gain or loss will be capital gain or loss and will be long-term capital gain or loss if the holder held the Bond for more than one year. Long-term capital gains recognized by certain non-corporate persons, including individuals, generally are taxable at a reduced rate. The deductibility of capital losses is subject to significant limitations.

Information Reporting and Backup Withholding

Payments of interest on the Bonds (including any allocable bond premium or accrued OID) and proceeds from the sale or other disposition of the Bonds are expected to be reported to the IRS as required under applicable Treasury Regulations. Backup withholding will apply to these payments if the holder fails to provide an accurate taxpayer identification number and certification that it is not subject to backup withholding (generally on an IRS Form W-9) or otherwise fails to comply with the applicable backup withholding requirements. Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules may be allowed as a refund or a credit against the holder's U.S. federal income tax liability, provided that the required information is timely furnished to the IRS. Certain holders are exempt from information reporting. Potential holders should consult their own tax advisors regarding qualification for an exemption and the procedures for obtaining such an exemption.

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CITY OF FARMINGTON, MINNESOTA

GENERAL INFORMATION

Location/Access/Transportation

Farmington, situated in Dakota County, is located in the east central portion of Minnesota. The City is located approximately 30 miles to the south of the cities of Minneapolis and St. Paul and is part of the Twin Cities metropolitan area. Access is provided via County Roads 31 and 50, and Minnesota Highways 50 and 3.

Area

9,560 Acres
(14.94 Square Miles)

Population

2000 Census	12,365	2020 Census	23,632
2010 Census	21,086	2024 Estimate†	23,719

Labor Force Data[1]

Comparative average labor force and unemployment rate figures for 2024 (through March) and year-end 2023 are listed below. Figures are not seasonally adjusted and numbers of people are estimated by place of residence.

	2024 (March)		2023	
	Civilian Labor Force	*Unemployment Rate*	*Civilian Labor Force*	*Unemployment Rate*
Dakota County	242,765	2.9%	243,606	2.6%
Minneapolis-St. Paul MSA	2,018,686	3.1	2,023,955	2.7
Minnesota	3,092,366	3.4	3,099,923	2.8

Income Data[2]

Comparative income levels are listed below for the City, the State of Minnesota and the United States.

	Farmington	*State of Minnesota*	*United States*
Median Family Income	$133,464	$107,072	$92,646
Per Capita Income	44,105	44,947	41,261

City Government

Farmington was established in 1872. The City operates under the Optional Plan A form of government consisting of an elected mayor and four council members. The Mayor is elected at large for a four-year term and Council members are elected to overlapping four-year terms.

† Source: Minnesota Department of Administration, State Demographic Center
1 Source: Minnesota Department of Employment and Economic Development
2 Source: 2018-2022 American Community Survey, U.S. Census Bureau.

Municipal Enterprise Services

Municipal enterprise services provided by the City include the water, sewer, and storm sewer utilities, along with a municipal liquor store.

Bargaining Units/Labor Contracts

The labor unions representing certain City employee groups are shown below.

Employee Group	*Contract Expiration Date*
Law Enforcement Labor Services Police Office Unit	December 31, 2024
Law Enforcement Labor Services Police Sergeant Unit	December 31, 2024
AFSCME Clerical, Technical & Professional	December 31, 2024
AFSCME Maintenance Unit	December 31, 2024

Employee Pension Programs

The City employs a total of 100 people, 81 full-time and 19 part-time. The pension plan covers all eligible full and part-time employees.

The City participates in contributory pension plans through the Public Employees Retirement Association (PERA) under Minnesota Statutes, Chapters 353 and 356, which cover all full-time and certain part-time employees. PERA administers the General Employees Retirement Fund (GERF) and the Public Employees Police and Fire Fund (PEPFF), which are cost sharing, multiple-employer retirement plans. Benefits are established by State Statute. State Statute requires the City to fund current service pension cost as it accrues.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERF (formerly "PERF") and PEPFF. That report may be obtained at www.mnpera.org, or by writing to PERA at 60 Empire Drive, #200, St. Paul, MN 55103-2088 or by calling (651) 296-7460 or 1-800-652-9026.

The City makes annual contributions to the pension plans equal to the amount required by state statutes. GERF Coordinated Plan members were required to contribute 6.50% of their annual covered salary in 2023. PEPFF members were required to contribute 11.8% of their annual covered salary in 2023. State statute requires the City to contribute 17.7% for PEPFF members. City Contributions to GERF and PEPFF have been as follows:

Audited City contributions to GERF and PEPFF for the past five years have been as follows:

Year	*Amount*	*Year*	*Amount*
2023	$956,689	2020	$888,726
2022	897,364	2019	782,827
2021	897,953		

Volunteer firefighters of the City are eligible for pension benefits through membership in the Association organized under Minnesota Statutes, Chapter 69, and administered by a separate Board elected by the membership. State aids, investment earnings and City contributions fund the plan.

Other Postemployment Benefits (OPEB)

Plan Description
The City operates a single-employer retiree benefit plan which provides post-employment insurance benefits. All post-employment benefits are based on contractual agreements with employee groups. There are 74 active plan members and 11 retirees and beneficiaries receiving benefits. The plan does not issue a publicly available financial report. No plan assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

Changes in Total OPEB Liability

	Total OPEB Liability
Beginning balance – January 1, 2023	$ 1,263,701
Changes for the year:	
Service Cost	$ 121,679
Interest	27,861
Differences between expected and actual experience	141,132
Changes in assumptions	(395,696)
Benefit payments	(65,584)
Net Changes	(170,878)
Ending balance – December 31, 2023	$ 1,092,823

Additional information regarding the City's OPEB obligations is provided in the City's Comprehensive Annual Financial Report, excerpts of which are provided in *Appendix C* of this Official Statement, with particular reference to Note 10.

Cash and Investment Balances as of April 30, 2024 (unaudited)

Fund	
General Fund	$ 6,013,609
Special Revenue Funds	4,471,311
Debt Service Funds	1,667,634
Capital Projects Funds	17,446,405
Enterprise Funds	20,789,751
EDA Funds	539,595
Internal Service Funds	2,920,978
Total Estimated Cash and Investment Balances	$53,849,283

General Fund Budget Summary

	2023 Budget	(Unaudited) 2023 Actual	2024 Budget
Revenues:			
Property Taxes	$13,087,930	$13,072,957	$14,193,707
Licenses and Permits	915,470	927,731	779,050
Intergovernmental Revenue	623,320	852,170	769,110
Charges for Services	460,919	694,094	609,930
Fines and Forfeits	55,000	57,509	55,000
Franchise Fees	145,000	145,000	120,000
Miscellaneous	99,410	458,437	73,100
Transfers In	1,497,734	1,497,734	2,284,510
Total Revenues	$16,884,783	$17,705,632	$18,884,407
Expenditures:			
General Government	$ 2,454,665	$ 2,613,075	$2,814,304
Community Development	554,687	514,138	674,681
Public Safety	7,406,575	7,121,262	7,998,928
Parks & Recreation	1,610,495	1,624,165	1,785,914
Public Works	3,216,339	3,034,037	3,741,580
Transfers Out	1,642,022	1,642,023	1,869,000
Total Expenditures	$16,884,783	$16,548,700	$18,884,407
Revenues Over (Under) Expenditures	-	1,156,932	-
Beginning Fund Balance (January 1)	$ 7,831,517	$ 7,831,518	$ 8,988,450
Ending Fund Balance (December 31)	$ 7,831,517	$ 8,988,450	$ 8,988,450

Residential Development

There are approximately 6,181 single-family homes, 1,618 townhouses, and 826 multifamily units located within the City. In addition, there have been 197 single-family homes constructed within the past twelve months.

Subdivisions planned or constructed within the past three years are as follows:

Subdivision *Name*	*Total Number of Lots/Units*	*Number of Lots/Units Completed*	*Remaining Lots/Units Available*
Sapphire Lake 3rd	32	18	14
Sapphire Lake 4th	30	11	19
Fairhill Estate 4th	20	18	2
Fairhill Estate 5th	13	8	5
Fairhill Estate 6th	45	21	24
Whispering Fields 2nd	56	0	56
Vermillion Commons 1st	76	76	0
Vermillion Commons 2nd	58	32	26
Vermillion Commons 3rd	67	0	67
Denmark Housing Addition	40	0	40
Vita Attiva 1st Addition	42	40	2
Vita Attiva 2nd Addition	8	8	0
Vita Attiva 3rd Addition	59	13	46

Commercial/Industrial Development

Building construction and commercial/industrial development completed from the past three years have been as follows:

Name	*Product/Service*	*Description of Construction*
Hobo Warehouse	Commercial Storage	New Construction
Sweet Kneads	Bakery	Building Expansion
Airlake Truck Body & Paint	Vehicle Body Repair	New Construction
Holiday Gas Station	Service Station	Demo/New Construction
Aerospace Fabrication	Manufacturer	Addition
ISD 192-Ticket/Restrooms Bldg	Education	New Construction
ISD 192-Team Storage Facility	Education	New Construction
The Emery	Apartment Building	New Construction
Valmont	Manufacturer	Addition
Great Oaks Academy	Education	Remodel/Addition
ISD 192-Loading Dock	Education	New Construction
Vita Attiva Amenities Building	Housing 55+ Community	New Construction
ISD 192-ADA Ramp	Education	New Construction

Building Permits

Building permits, excluding plumbing, mechanical and electrical permits, issued for the past five years and a portion of the current year have been as follows:

Year	*Commercial/ Industrial Number of Permits*	*Residential Number of Units*	*Total Number of Permits*	*Total Permit Valuation*
2024 (As of 5/9/2024)	54	279	333	$18,289,722
2023	12	1,273	1,285	50,684,075
2022	36	998	1,034	42,021,502
2021	31	1021	1,052	39,650,568
2020	21	709	730	27,398,711
2019	29	33	549	19,853,125

Education

Independent School District No. 192, Farmington serves the City which operates five elementary schools, two middle schools, and one high school.

Banking/Financial Institutions

Banking and financial services provided within the City include the following: Minnwest Bank, Castle Rock Bank, Old National Bank, and Premier Bank Minnesota.

Major/Leading Employers[1]

Following are some of the major/leading employers within the City.

Employer	*Product/ Service*	*Number of Employees*[2]
ISD No. 192, Farmington	Public Education	839
Federal Aviation Administration	Government	366
Installed Building Solutions	Home Improvement	284
Trinity Care Center	Home Health Services	215
Marschall Line Inc.	Transportation	202
City of Farmington	Government	193
Dakota Electric Association	Utility	191
R&L Carriers	Shipping & Logistics	160
Valmont Industries	Coating Services	134
Kemps LLC	Dairy	130

[1] Sources: The City and Data Axle Reference Solutions.
[2] Includes full-time, part-time, and seasonal employees.

Largest Taxpayers[1]

Following are ten of the largest taxpayers within the City:

Name	*Classification*	*2023/2024 Tax Capacity*	*Percent of Total Tax Capacity ($32,712,009)*[2]
Northern Natural Gas Co.	Utility	$ 1,140,914	3.49%
Xcel Energy	Utility	128,074	0.33
Dakota Storage LLC	Commercial	128,070	0.39
Valmont Industries Inc	Industrial	114,272	0.35
Legacy Partners of Farmington LLC	Multi-unit Housing	113,985	0.35
Dakota Electric Association	Utility	107,696	0.33
RLR Investment LLC	Industrial	100,694	0.31
Seeger Properties, LLC	Multi-unit Housing	97,044	0.29
Minnesota Energy Resources Corp.	Utility	94,440	0.29
POR-MKR Real Estate LLC	Agricultural	86,147	0.26
		$ 2,111,336	6.45%

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[1] As reported by Dakota County.
[2] Before tax increment adjustment.

MINNESOTA VALUATIONS; PROPERTY TAX CLASSIFICATIONS

Market Value

State Law defines the "market value" of real property as the usual selling price at the place where the property to which the term is applied shall be at the time of assessment; being the price which could be obtained at a private sale or an auction sale, if it is determined by the assessor that the price from the auction sale represents an arm's-length transaction. The assessor uses sales and market value income trends to estimate the value of property in an open market transaction. This value is also called "estimated market value". This value is set on January 2 of each year. Property taxes levied each year are based on the value of property on January 2 of the preceding year. According to Minnesota Statutes, Chapter 273, all real property subject to taxation is to be appraised at maximum intervals of five years.

Taxable Market Value

The "taxable market value" is the amount used for calculating property taxes. The taxable market value may differ from the estimated market value due to the application of special programs that exclude value from taxation. These programs currently include, but are not limited to, Homestead Market Value Exclusion and Green Acres.

Market Value Exclusion

In 2011, the State Legislature eliminated the Homestead Market Value Credit. The Credit was an amount paid by the State to local taxing jurisdictions to reduce taxes paid by homesteaded property. The Credit has been replaced by a Homestead Market Value Exclusion. The Exclusion reduces the taxable market value (beginning with taxes payable 2012) of a jurisdiction by excluding a portion of the value of homesteaded property from taxation. For a homestead valued at $76,000 or less, the exclusion is 40 percent of market value, yielding a maximum exclusion of $30,400 at $76,000 of market value. For a homestead valued between $76,000 and $413,800, the exclusion is $30,400 minus nine percent of the valuation over $76,000. For a homestead valued at $413,800 or more, there is no valuation exclusion.

Sales Ratio

The Minnesota Department of Revenue conducts the Assessment Sales Ratio Study to compare real estate sales prices to local assessor valuations. The State uses the study results to ensure consistency in property assessments across the state. There are three different sales ratio studies that cover three distinct time periods. The 12-month study includes sales that occur from October 1st of a given year to September 30th of the following year and are compared to market values used for property taxation. The median ratio from the 12-month study is the sales ratio used to calculate indicated and economic market values.

Economic and Indicated Market Value

"Economic market value" and "indicated market value" reflect adjustments made to account for the effects of the sales ratio. The economic market value is determined by dividing the estimated market value of the jurisdiction by the sales ratio. Economic market value provides an estimation of the full value of property if it were valued at 100% of its value in the marketplace (prior to the application of legislatively mandated exclusions). The indicated market value is determined by dividing the taxable market value of the jurisdiction by the sales ratio. This value represents an estimation of the "full value" of property for taxation, after the deduction of legislative exclusions.

Net Tax Capacity

Property taxes are calculated on the basis of the "net tax capacity value". Net tax capacity is calculated by multiplying the taxable market value of a parcel by the statutory class rate for the use classification of the property. These class rates are subject to revisions by the State Legislature. The table following this section contains current and historical class rates for primary property classifications.

Tax Cycle

Minnesota local government ad valorem property taxes are extended and collected by the various counties within the state. The process begins in the fall of every year with the certification, to the county auditor, of all local taxing districts' property tax levies. Local tax rates are calculated by dividing each taxing district's levy by its net tax capacity. One percentage point of local tax rate represents one dollar of tax per $100 net tax capacity. A list of taxes due is then prepared by the county auditor and turned over to the county treasurer on or before the first Monday in January.

The county treasurer is responsible for collecting all property taxes within the county. Real estate and personal property tax statements (excluding manufactured homes) are to be mailed out no later than March 31, and manufactured home property tax statements no later than July 15. The due dates for payment of real and personal property taxes (excluding manufactured homes) are one-half on or before May 15 (May 31 for resorts) and one-half on or before October 15 (November 15 for farm property). Personal property taxes for manufactured homes become due one-half on or before August 31 and one-half on or before November 15. Delinquent property taxes are penalized at various rates depending on the type of property and the length of delinquency.

Tax Levies for General Obligation Bonds (Minnesota Statutes, Section 475.61)

State Law requires the governing body of any municipality issuing general obligations, prior to delivery of the obligations, to levy by resolution a direct general ad valorem tax upon all taxable property in the municipality to be spread upon the tax rolls for each year of the term of the obligations. The tax levies for all years shall be specified and such that if collected in full will, together with estimated collections of special assessments and other revenues pledged for the payment of said obligations, produce at least five percent in excess of the amount needed to meet the principal and interest payments on the obligations when due.

Such resolution shall irrevocably appropriate the taxes so levied and any special assessments or other revenues so pledged to the municipality's debt service fund or a special debt service fund or account created for the payment of one or more issues of obligations.

The governing body may, at its discretion, at any time after the obligations have been authorized, adopt a resolution levying only a portion of such taxes, to be filed, assessed, extended, collected and remitted, and the amount therein levied shall be credited against the tax required to be levied prior to delivery of the obligations.

The recording officer of the municipality shall file in the office of the county auditor of each county in which any part of the municipality is located a certified copy of the resolution, together with full information regarding the obligations for which the tax is levied. No further action by the municipality is required to authorize the extension, assessment and collection of the tax, but the municipality's liability on the obligations is not limited thereto and its governing body shall levy and cause to be extended, assessed and collected any additional taxes found necessary for full payment of the principal and interest. The auditor shall annually assess and extend upon the tax rolls the amount specified for such year in the resolution, unless the amount has been reduced as authorized below or, if the municipality is located in more than one county, the portion thereof that bears the same ratio to the whole amount as the tax capacity value of taxable property in that part of the municipality located in the county bears to the tax capacity value of all taxable property in the municipality.

Tax levies so made and filed shall be irrevocable, except that if the governing body in any year makes an irrevocable appropriation to the debt service fund of moneys actually on hand or if there is on hand any excess amount in the debt service fund, the recording officer may certify to the county auditor the fact and amount thereof and the auditor shall reduce by the amount so certified the amount otherwise to be included in the rolls next thereafter prepared.

All such taxes shall be collected and remitted to the municipality by the county treasurer as other taxes are collected and remitted, and shall be used only for payment of the obligations on account of that levied or to repay advances from other funds used for such payments, except that any surplus remaining in the debt service fund when the obligations and interest thereon are paid may be appropriated to any other general purpose by the municipality.

Levy Limits

The State Legislature periodically enacts limitations on the ability of cities and counties to levy property taxes. Levy limits were reenacted in 2013 and applied to all counties with a population over 5,000 and all cities with a population over 2,500 for taxes payable in 2014 only. Levies "to pay the costs of the principal and interest on bonded indebtedness" and "to provide for the bonded indebtedness portion of payments made to another political subdivision of the State of Minnesota" are designated special levies and can be levied in addition to the amount allowed by levy limitations.

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The following is a partial summary of these factors:

Property Tax Classifications

Class	Type of Property	Class Rate Schedule 2021/2022	2022/2023	2023/2024
1a	Residential Homestead: First $500,000	1.00%	1.00%	1.00%
	Over $500,000	1.25	1.25	1.25
1c	Commercial seasonal-residential recreational- under 250 days and includes homestead			
	First $600,000	.50	.50	.50
	$600,001-2,300,000	1.00	1.00	1.00
	Over $2,300,000†	1.25	1.25	1.25
2a	Agricultural Homestead – House, Garage, One Acre:			
	First $500,000	1.00	1.00	1.00
	Over $500,000	1.25	1.25	1.25
	Remainder of Farm* –			
	First $1,880,000			
	Over $1,880,000			
	First $1,890,000	0.50	0.50	
	Over $1,890,000	1.00	1.00	
	First $2,150,000			0.50
	Over $2,150,000			1.00
	Agricultural Homestead Land[1]	1.00	1.00	1.00
2a	Non-Homestead Agricultural Productive Land*	1.00	1.00	1.00
2b	Non-Homestead Rural Vacant Land[2]	1.00	1.00	1.00
3a	Commercial/Industrial and Public Utility			
	First $150,000†	1.50	1.50	1.50
	Over $150,000†	2.00	2.00	2.00
4a	Apartment (4+ units, incl. private for-profit hospitals)	1.25	1.25	1.25
4bb(1)	Residential Non-Homestead (Single Unit)			
	First $500,000	1.00	1.00	1.00
	Over $500,000	1.25	1.25	1.25
4c(1)	Seasonal Residential Recreational/Commercial†			
	(Resort): First $500,000	1.00	1.00	1.00
	Over $500,000	1.25	1.25	1.25
4c(12)	Seasonal Residential Recreational†			
	Non-Commercial (Cabin): First $500,000*	1.00	1.00	1.00
	Over $500,000*	1.25	1.25	1.25
4d	Qualifying Low-Income Rental Housing			
	First $100,000		.75	.75
	Over $100,000		.25	.25
	First $174,000	.75		
	Over $174,000	.25		

† Subject to the state general property tax.

* Exempt from referendum market value-based taxes.

1 Homestead remainder & non-homestead; includes structures.

2 Homestead remainder & non-homestead; includes minor ancillary structures.

CITY OF FARMINGTON, MINNESOTA

ECONOMIC AND FINANCIAL INFORMATION[1]

Valuations

	Estimated Market Value 2023/2024	*Net Tax Capacity 2023/2024*
Real Property	$ 3,144,695,800	$ 32,369,915
Personal Property	17,432,100	342,094
Less Tax Increment Deduction	- - -	(112,704)
Fiscal Disparities[2]	- - -	
(Contribution to Pool)	- - -	(1,516,166)
Distribution from Pool	- - -	4,886,705
Total Adjusted Valuation	$ 3,162,127,900	$ 35,969,844

Valuation Trends (Real and Personal Property)

Levy Year/ Collection Year	*Economic Market Value*	*Sales Ratio*	*Estimated Market Value*	*Taxable Market Value*	*Tax Capacity Before Tax Increments*	*Tax Capacity After Tax Increments*
2023/2024	$3,337,728,373	94.86%	$3,162,127,900	$3,053,265,771	$32,712,009	$35,969,844
2022/2023	3,221,022,274	93.60	2,997,634,400	2,893,627,784	30,905,790	34,453,465
2021/2022	2,774,293,689	89.67	2,476,300,200	2,357,314,320	25,059,264	28,543,281
2020/2021	2,481,472,785	95.71	2,369,134,800	2,247,736,496	23,983,304	27,348,467
2019/2020	2,323,347,687	95.26	2,208,352,300	2,093,214,877	22,295,554	25,295,301

Breakdown of Valuations

2023/2024 Tax Capacity, Real and Personal Property (before tax increment and fiscal disparities adjustments):

Residential Homestead	$ 27,451,041	83.92%
Agricultural	350,738	1.07
Commercial & Industrial	2,779,304	8.50
Utility	1,113,650	3.40
Railroad	47,472	0.14
Rural Vacant	27,955	0.09
Apartments	599,755	1.83
Personal Property	342,094	1.05
Totals:	$ 32,712,009	100.00%

[1] Property valuations, tax rates, and tax levies and collections are provided by Dakota County. Economic market value and sales ratio are provided by the Minnesota Department of Revenue.

[2] *Fiscal Disparities Law*
The 1971 Legislature enacted a “fiscal disparities law” which allows all the Twin City Metropolitan Area Municipalities to share in commercial/industrial growth, regardless of where the growth occurred geographically. Forty percent (40%) of every metropolitan municipality’s growth in commercial/industrial assessed valuation is pooled then redistributed to all municipalities on the basis of population and per capita valuation *after* the tax increment and fiscal disparity adjustments.

Tax Capacity Rates

Tax capacity rates for a City resident for the past five-assessable/collection years have been as follows:

Levy Year/ Collection Year	*2019/20 Tax Capacity Rates*	*2020/2021 Tax Capacity Rates*	*2021/2022 Tax Capacity Rates*	*2022/2023 Tax Capacity Rates*	*2023/24 Tax Capacity Rates*
Dakota County	24.133%	22.716%	21.630%	18.816%	18.323%
City of Farmington	50.971	49.251	50.623	42.933	45.069
ISD No. 192, Farmington	53.105	50.805	49.481	38.497	36.439
Metropolitan Council	0.606	0.635	0.649	0.564	0.620
Mosquito Abatement	0.406	0.384	0.372	0.325	0.315
Transit District	1.150	1.038	0.969	0.849	0.000
Dakota County CDA	1.469	1.375	1.391	1.176	1.309
Vermillion River Watershed	0.399	0.370	0.348	0.287	0.270
Totals:	132.239%	126.574%	125.463%	103.447%	102.345%

Market Value Rates:	*2019/2020*	*2020/2021*	*2021/2022*	*2022/2023*	*2023/2024*
ISD No. 192 (Farmington)	0.18904%	0.18392%	0.18244%	0.18725%	0.19446%

Tax Levies and Collections[1]

		Collected During Collection Year		Collected and/or Abated as of 3/31/24	
Levy/Collect	Net Levy	Amount	Percent	Amount	Percent
2023/2024	$14,008,845		In Process of Collection		
2022/2023	12,743,669	$12,653,747	99.29%	$12,671,357	99.43%
2021/2022	12,033,396	11,962,786	99.41	12,011,401	99.82
2020/2021	11,256,345	11,192,879	99.44	11,233,503	99.80
2019/2020	10,723,677	10,658,849	99.40	10,719,888	99.96

[1] 2023/2024 property taxes are currently in the process of collection/reporting and updated figures are not yet available from Dakota County.

SUMMARY OF DEBT AND DEBT STATISTICS

Statutory Debt Limit[1 2]

Minnesota Statutes, Section 475.53 states that a city or county may not incur or be subject to a net debt in excess of three percent (3%) of its estimated market value. Net debt is, with limited exceptions, debt paid solely from ad valorem taxes.

Computation of Legal Debt Margin as of July 2, 2024:

2023/2024 Estimated Market Value	$ 3,162,127,900
Multiplied by 3%	x .03
Statutory Debt Limit	$ 94,863,837

Less outstanding debt applicable to debt limit:

$3,050,000 General Obligation Street Reconstruction Bonds, Series 2015A	$ 1,340,000
$4,540,000 General Obligation Capital Improvement Plan Refunding Bonds, Series 2016B	2,405,000
$1,245,000 G.O. Equipment Certificates of Indebtedness, Series 2020A	475,000
$3,650,000 General Obligation Bonds, Series 2022A	2,055,000
$3,360,000 General Obligation Bonds, Series 2024A (a portion of this issue)	1,545,000
Total Debt applicable to debt limit:	$ 7,820,000
Legal debt margin	$ 87,043,837

1 Effective June 2, 1997 and pursuant to Minnesota Statutes 465.71, any lease revenue or public project revenue bond issues/agreements of $1,000,000 or more are subject to the statutory debt limit. Lease revenue or public project revenue bond issues/agreements less than $1,000,000 are not subject to the statutory debt limit.

2 Pursuant to Minnesota Statutes Section 475.521, capital improvement bonds are not subject to the statutory debt limit established in Section 475.53 if the issuer's population is less than 2,500.

CITY OF FARMINGTON, MINNESOTA
GENERAL OBLIGATION DEBT PAYABLE FROM TAX ABATEMENTS
(As of July 2, 2024, Plus a Portion of This Issue)

		A Portion of This Issue			
Purpose:	**G.O. Bonds Series 2022A**	**G.O. Bonds Series 2024A**			
Dated:	07/06/22	08/15/24			
Original Amount:	$1,415,000	$1,815,000			
Maturity:	1-Feb	1-Feb	**TOTAL**	**TOTAL**	
Interest Rates:	3.00-5.00%		**PRINCIPAL:**	**PRIN & INT:**	
2024	$0	$0	$0	$28,350	2024
2025	120,000	0	120,000	235,785	2025
2026	125,000	65,000	190,000	301,019	2026
2027	130,000	100,000	230,000	331,790	2027
2028	135,000	105,000	240,000	331,733	2028
2029	145,000	105,000	250,000	331,268	2029
2030	150,000	110,000	260,000	330,373	2030
2031	160,000	115,000	275,000	334,766	2031
2032	165,000	115,000	280,000	330,354	2032
2033	170,000	120,000	290,000	331,450	2033
2034	0	125,000	125,000	159,734	2034
2035	0	130,000	130,000	160,270	2035
2036	0	135,000	135,000	160,499	2036
2037	0	140,000	140,000	160,500	2037
2038	0	145,000	145,000	159,994	2038
2039	0	150,000	150,000	159,240	2039
2040	0	155,000	155,000	158,139	2040
	$1,300,000	$1,815,000	$3,115,000	$4,005,262	
	(1)	(2)			

NOTE: 69% OF GENERAL OBLIGATION DEBT PAYABLE FROM TAX ABATEMENTS WILL BE RETIRED WITHIN TEN YEARS.

(1) This schedule represents a portion of the $3,650,000 General Obligation Bonds, Series 2022A, consisting of $1,415,000 backed by tax abatement levies and $2,235,000 backed by ad valorem taxes.

(2) This schedule represents a portion of the $3,360,000 General Obligation Bonds, Series 2024A, consisting of $1,815,000 backed by tax abatement levies and $1,545,000 backed by ad valorem taxes.

CITY OF FARMINGTON, MINNESOTA
GENERAL OBLIGATION DEBT PAYABLE FROM TAXES
(As of July 2, 2024, Plus a Portion of This Issue)

					Portion of This Issue			
Purpose:	**G.O. Street Reconstruction Bonds, Series 2015A**	**G.O. Capital Improvement Plan Refunding Bonds, Series 2016B**	**G.O. Equipment Certificates of Indebtedness, Series 2020A**	**G.O. Bonds Series 2022A**	**G.O. Bonds Series 2024A**			
Dated:	10/15/15	12/01/16	02/19/20	07/06/22	08/15/24			
Original Amount:	$3,050,000	$4,540,000	$1,105,000	$2,235,000	$1,545,000			
Maturity:	1-Feb	1-Feb	1-Feb	1-Feb	1-Feb	**TOTAL**	**TOTAL**	
Interest Rates:	2.00-3.00%	2.00-3.00%	5.00%	3.00-5.00%		**PRINCIPAL:**	**PRIN & INT:**	
2024	$0	$0	$0	$0	$0	$0	$102,550	2024
2025	240,000	575,000	230,000	190,000	0	1,235,000	1,468,514	2025
2026	250,000	595,000	245,000	195,000	110,000	1,395,000	1,584,633	2026
2027	250,000	610,000	0	205,000	140,000	1,205,000	1,353,525	2027
2028	260,000	625,000	0	215,000	145,000	1,245,000	1,359,528	2028
2029	265,000	0	0	230,000	150,000	645,000	730,391	2029
2030	75,000	0	0	240,000	155,000	470,000	533,973	2030
2031	0	0	0	250,000	155,000	405,000	451,904	2031
2032	0	0	0	260,000	165,000	425,000	457,804	2032
2033	0	0	0	270,000	170,000	440,000	459,325	2033
2034	0	0	0	0	175,000	175,000	184,409	2034
2035	0	0	0	0	180,000	180,000	183,195	2035
	$1,340,000	$2,405,000	$475,000	$2,055,000	$1,545,000	$7,820,000	$8,869,749	
		(1)		(3)	(4)			

NOTE: 95% OF GENERAL OBLIGATION DEBT PAYABLE FROM TAXES WILL BE RETIRED WITHIN TEN YEARS.

(1) These bonds current refunded a portion of the General Obligation Capital Improvement Plan Bonds, Series 2007A, dated June 28, 2007. Maturities 2018 through 2028, inclusive, were called for redemption on February 1, 2017, at a price of par plus accrued interest.

(2) This schedule represents a portion of the $1,645,000 General Obligation Bonds, Series 2019A, consisting of $925,000 backed by ad valorem taxes, and $720,000 backed by net revenues of the City's water utility.

(3) This schedule represents a portion of the $3,650,000 General Obligation Bonds, Series 2022A, consisting of $1,415,000 backed by tax abatement levies and $2,235,000 backed by ad valorem taxes.

(4) This schedule represents a portion of the $3,360,000 General Obligation Bonds, Series 2024A, consisting of $1,815,000 backed by tax abatement levies and $1,545,000 backed by ad valorem taxes.

CITY OF FARMINGTON, MINNESOTA
GENERAL OBLIGATION DEBT PAYABLE FROM REVENUES
(As of July 2, 2024)

Purpose:	**G.O. Bonds, Series 2019A**			
Dated:	05/15/19			
Original Amount:	$720,000			
Maturity:	1-Feb	**TOTAL**	**TOTAL**	
Interest Rates:	4.00-5.00%	**PRINCIPAL:**	**PRIN & INT:**	
2024	$0	$0	$9,025	2024
2025	70,000	70,000	86,300	2025
2026	75,000	75,000	87,675	2026
2027	80,000	80,000	88,800	2027
2028	85,000	85,000	90,100	2028
2029	85,000	85,000	86,700	2029
	$395,000	$395,000	$448,600	
	(1) (2)			

NOTE: 100% OF GENERAL OBLIGATION DEBT PAYABLE FROM REVENUES WILL BE RETIRED WITHIN TEN YEARS.

(1) These bonds are payable primarily from net revenues of the municipal water utility system and additionally secured by ad valorem taxes on all taxable property within the City and without limitation of amount.

(2) This schedule represents a portion of the $1,645,000 General Obligation Bonds, Series 2019A, consisting of $925,000 backed by ad valorem taxes, and $720,000 backed by net revenues of the City's water utility.

Indirect Debt*

Issuer	*2023/2024 Tax Capacity Value(1)*	*2023/2024 Tax Capacity Value in City(1)*	*Percentage Applicable in City*	*Outstanding General Obligation Debt(2)*	*Taxpayers' Share of Debt*
ISD No. 192, Farmington	$ 53,422,775	$31,076,527	58.17%	$97,115,000	$ 56,491,796
ISD No. 196, Rosemount-Apple Valley-Eagan	273,305,919	6,612	0.01	372,305,000	37,231
Metropolitan Council	6,313,906,529	31,083,139	0.49	7,645,000(3)	37,461
Metro Transit	5,540,695,433	31,083,139	0.56	230,580,000 (4)	1,291,248
				Total Indirect Debt:	$ 57,857,736

(Remainder of page intentionally left blank)

* Only those taxing jurisdictions with general obligation debt outstanding that is not payable from revenues are included. Debt figures do not include non-general obligation debt, short-term general obligation debt, general obligation debt payable from revenues, or general obligation tax/aid anticipation certificates of indebtedness.

(1) Tax Capacity Value is after tax increment deduction and fiscal disparity adjustments.

(2) Debt listed is as of July 2, 2024, unless otherwise noted.

(3) Metropolitan Council has $7,645,000 of general obligation debt outstanding as of December 31, 2023. This debt is payable from ad valorem taxes levied on all taxable property within the Metropolitan Taxing District. This amount excludes $1,185,889,000 of general obligation debt payable from wastewater and sewer revenues, and lease agreements.

(4) Metropolitan Transit has $230,580,000 of property tax supported general obligation debt outstanding as of December 31, 2023. Transit debt is issued by the Metropolitan Council for public transit operations and is payable from ad valorem taxes levied on all taxable property within the Metropolitan Transit District. This amount excludes $270,715,000 of general obligation debt payable from revenues.

General Obligation Debt

Bonds secured by ad valorem taxes (includes a portion of this issue)	$ 7,820,000
Bonds secured by tax abatements (includes a portion of this issue)	3,115,000
Bonds secured by water/sewer revenues	395,000
Subtotal	$ 11,330,000
Less bonds secured by water/sewer revenues	(395,000)
Direct General Obligation Debt	10,935,000
Add taxpayers' share of indirect debt	57,857,736
Direct and Indirect Debt	$ 68,792,736

Facts for Ratio Computations

2023/2024 Economic Market Value (real and personal property)	$3,337,728,373
Population (2024 estimate)	23,719

Debt Ratios Excluding Revenue-Supported Debt

	Direct Debt	*Indirect Debt*	*Direct and Indirect Debt*
To Economic Market Value	.33%	1.73%	2.06%
Per Capita	$461	$2,439	$2,900

APPENDIX A

Legal Opinion

FORM OF LEGAL OPINION

City of Farmington
Farmington, Minnesota

[Purchaser]
[City, State]

Re: $[PAR] General Obligation Bonds, Series 2024A
City of Farmington, Minnesota

Ladies and Gentlemen:

We have acted as Bond Counsel in connection with the issuance by the City of Farmington, Minnesota (the "City"), of the obligations described above, dated, as originally issued, as of August [__], 2024 (the "Bonds"). In that capacity, we have reviewed copies of certain proceedings taken by the City Council in the authorization, sale and issuance of the Bonds, including the form of the Bonds and certain other proceedings and documents furnished by the City and others. As to questions of fact material to our opinion, we have assumed the authenticity of and relied upon the proceedings, affidavits and certificates furnished to us without undertaking to verify the same by independent investigation. From our examination of such proceedings, affidavits and certificates and on the basis of existing law, it is our opinion that:

1. The Bonds are valid and binding general obligations of the City, enforceable in accordance with their terms.

2. The principal of and interest on the Bonds are payable from tax abatement revenues and ad valorem taxes duly levied on all taxable property in the City, which tax abatement revenues and ad valorem taxes are expected to produce amounts sufficient to pay the principal and interest on the Bonds when due; but, if necessary for the payment of such principal and interest, additional ad valorem taxes are required by law to be levied on all taxable property in the City without limitation as to rate or amount.

3. Interest on the Bonds (a) is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code") and (b) is not an item of tax preference for purposes of the federal alternative minimum tax imposed on noncorporate taxpayers by Section 55 of the Code.

4. Interest on the Bonds (a) is excluded from taxable net income of individuals, estates, and trusts for Minnesota income tax purposes and (b) is not an item of tax preference for purposes of the Minnesota alternative minimum tax imposed on individuals, estates, and trusts.

5. The Bonds are "qualified tax-exempt obligations" within the meaning of Section 265(b)(3) of the Code.

The opinions expressed in paragraphs 1 and 2 above are subject, as to enforceability, to the effect of any state or federal laws relating to bankruptcy, insolvency, reorganization, moratorium or creditors' rights and the application of equitable principles, whether considered at law or in equity.

The opinions expressed in paragraphs 3, 4, and 5 above are subject to the compliance by the City with certain requirements of the Code that must be satisfied subsequent to the issuance of the Bonds. Noncompliance with these requirements could result in the inclusion of interest on the Bonds in gross income for federal income tax purposes and taxable net income of individuals, estates, and trusts for Minnesota income tax purposes or the Bonds failing to be qualified tax-exempt obligations, retroactive to the date of issuance of the Bonds.

Except as stated herein, we express no opinion regarding federal, state, or other tax consequences to the owner of the Bonds. We note, however, that interest on the Bonds may be taken into account in determining adjusted financial statement income for purposes of the federal alternative minimum tax imposed on applicable corporations (as defined in Section 59(k) of the Code), and interest on the Bonds is included in net income of corporations and financial institutions for purposes of the Minnesota franchise tax.

In providing this opinion, we have relied upon representations of the City and its officers as to (i) the intended application of the proceeds of the Bonds, (ii) the nature, use, cost, and economic life of the facilities financed by the Bonds, and (iii) other matters relating to the exemption of the interest on the Bonds from federal income taxation.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may occur after the date hereof and which may be retroactive.

Dated this [__]^{h} day of August, 2024.

Very truly yours,

APPENDIX B

Continuing Disclosure Certificate

FORM OF CONTINUING DISCLOSURE

Continuing Disclosure. (a) Purpose and Beneficiaries. To provide for the public availability of certain information relating to the Bonds and the security therefor and to permit the Purchaser and other participating underwriters in the primary offering of the Bonds to comply with amendments to Rule 15c2-12 promulgated by the SEC under the Securities Exchange Act of 1934 (17 C.F.R. § 240.15c2-12), relating to continuing disclosure (as in effect and interpreted from time to time, the Rule), which will enhance the marketability of the Bonds, the City hereby makes the following covenants and agreements for the benefit of the Owners (as hereinafter defined) from time to time of the outstanding Bonds. The City is the only obligated person in respect of the Bonds within the meaning of the Rule for purposes of identifying the entities in respect of which continuing disclosure must be made. If the City fails to comply with any provisions of this section, any person aggrieved thereby, including the Owners of any outstanding Bonds, may take whatever action at law or in equity may appear necessary or appropriate to enforce performance and observance of any agreement or covenant contained in this section, including an action for a writ of mandamus or specific performance. Direct, indirect, consequential and punitive damages shall not be recoverable for any default hereunder to the extent permitted by law. Notwithstanding anything to the contrary contained herein, in no event shall a default under this section constitute a default under the Bonds or under any other provision of this resolution. As used in this section, Owner or Bondowner means, in respect of a Bond, the registered owner or owners thereof appearing in the bond register maintained by the Registrar or any Beneficial Owner (as hereinafter defined) thereof, if such Beneficial Owner provides to the Registrar evidence of such beneficial ownership in form and substance reasonably satisfactory to the Registrar. As used herein, Beneficial Owner means, in respect of a Bond, any person or entity which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, such Bond (including persons or entities holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of the Bond for federal income tax purposes.

(b) Information To Be Disclosed. The City will provide, in the manner set forth in subsection (c) hereof, either directly or indirectly through an agent designated by the City, the following information at the following times:

(1) on or before twelve (12) months after the end of each fiscal year of the City, commencing with the fiscal year ending December 31, 2024, the following financial information and operating data in respect of the City (the Disclosure Information):

(A) the audited financial statements of the City for such fiscal year, prepared in accordance with the governmental accounting standards promulgated by the Governmental Accounting Standards Board or as otherwise provided under Minnesota law, as in effect from time to time, or, if and to the extent such financial statements have not been prepared in accordance with such generally accepted accounting principles for reasons beyond the reasonable control of the City, noting the discrepancies therefrom and the effect thereof, and certified as to accuracy and completeness in all material respects by the fiscal officer of the City; and

(B) to the extent not included in the financial statements referred to in paragraph (A) hereof, the information for such fiscal year or for the period most recently available of the type contained in the Official Statement under the headings: "Economic and Financial Information—Valuations," "—Tax Capacity Rates" and "—Tax Levies and Collections" and "Summary of Debt and Debt Statistics," which information may be unaudited.

Notwithstanding the foregoing paragraph, if the audited financial statements are not available by the date specified, the City shall provide on or before such date unaudited financial statements and, within 10 days after the receipt thereof, the City shall provide the audited financial statements. Any or all of the Disclosure Information may be incorporated by reference, if it is updated as required hereby, from other documents, including official statements, which have been submitted to the Municipal Securities Rulemaking Board (the MSRB) through its Electronic Municipal Market Access System (EMMA) or the SEC. The City shall clearly identify in the Disclosure Information each document so incorporated by reference. If any part of the Disclosure Information can no longer be generated because the operations of the City have materially changed or been discontinued, such Disclosure Information need no longer be provided if the City includes in the Disclosure Information a statement to such effect; provided, however, if such operations have been replaced by other City operations in respect of which data is not included in the Disclosure Information and the City determines that certain specified data regarding such replacement operations would be a Material Fact (as defined in paragraph (2) hereof), then, from and after such determination, the Disclosure Information shall include such additional specified data regarding the replacement operations. If the Disclosure Information is changed or this section is amended as permitted by this paragraph (b)(1) or subsection (d), then the City shall include in the next Disclosure Information to be delivered hereunder, to the extent necessary, an explanation of the reasons for the amendment and the effect of any change in the type of financial information or operating data provided.

(2) In a timely manner, not in excess of 10 business days after the occurrence of the event, to the MSRB through EMMA, notice of the occurrence of any of the following events (each a "Material Fact," as hereinafter defined):

(A) principal and interest payment delinquencies;
(B) non-payment related defaults, if material;
(C) unscheduled draws on debt service reserves reflecting financial difficulties;
(D) unscheduled draws on credit enhancements reflecting financial difficulties;
(E) substitution of credit or liquidity providers, or their failure to perform;
(F) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with

respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;

(G) modifications to rights of Bond holders, if material;

(H) Bond calls, if material and tender offers;

(I) defeasances;

(J) release, substitution, or sale of property securing repayment of the Bonds if material;

(K) rating changes;

(L) bankruptcy, insolvency, receivership, or similar event of the obligated person;

(M) the consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;

(N) appointment of a successor or additional trustee or the change of name of a trustee, if material;

(O) Incurrence of a financial obligation of the obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the obligated person, any of which affect security holders, if material; “financial obligation” means a (a) debt obligation; (b) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (c) guarantee of a debt obligation or any such derivative instrument; provided that “financial obligation” shall not include municipal securities as to which a final official statement (as defined in the Rule) has been provided to the MSRB consistent with the Rule; and

(P) Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the obligated person, any of which reflect financial difficulties.

As used herein, for those events that must be reported if material, an event is material if a substantial likelihood exists that a reasonably prudent investor would attach importance thereto in deciding to buy, hold or sell a Bond or, if not disclosed, would significantly alter the total information otherwise available to an investor from the Official Statement, information disclosed hereunder or information generally available to the public. Notwithstanding the foregoing sentence, an event is also material if it would be deemed material for purposes of the purchase, holding or sale of a Bond within the meaning of applicable federal securities laws, as interpreted at the time of discovery of the occurrence of the event.

For the purposes of the event identified in (L) hereinabove, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

(3) In a timely manner, to the MSRB through EMMA, notice of the occurrence of any of the following events or conditions:

(A) the failure of the City to provide the Disclosure Information required under paragraph (b)(1) at the time specified thereunder;
(B) the amendment or supplementing of this section pursuant to subsection (d), together with a copy of such amendment or supplement and any explanation provided by the City under subsection (d)(2);
(C) the termination of the obligations of the City under this section pursuant to subsection (d);
(D) any change in the accounting principles pursuant to which the financial statements constituting a portion of the Disclosure Information are prepared; and
(E) any change in the fiscal year of the City.

(c) Manner of Disclosure.

(1) The City agrees to make available to the MSRB through EMMA, in an electronic format as prescribed by the MSRB, the information described in subsection (b).

(2) All documents provided to the MSRB pursuant to this subsection (c) shall be accompanied by identifying information as prescribed by the MSRB from time to time.

(d) Term; Amendments; Interpretation.

(1) The covenants of the City in this section shall remain in effect so long as any Bonds are outstanding. Notwithstanding the preceding sentence, however, the obligations of the City under this section shall terminate and be without further effect as of any date on which the City delivers to the Registrar an opinion of Bond Counsel to the effect that, because of legislative action or final judicial or administrative actions or proceedings, the failure of the City to comply with the requirements of this section will not cause participating underwriters in the primary offering of the Bonds to be in violation of the Rule or other applicable requirements of the Securities Exchange Act of 1934, as amended, or any statutes or laws successory thereto or amendatory thereof.

(2) This section (and the form and requirements of the Disclosure Information) may be amended or supplemented by the City from time to time, without notice to

(except as provided in paragraph (c)(2) hereof) or the consent of the Owners of any Bonds, by a resolution of this Council filed in the office of the recording officer of the City accompanied by an opinion of Bond Counsel, who may rely on certificates of the City and others and the opinion may be subject to customary qualifications, to the effect that: (i) such amendment or supplement (a) is made in connection with a change in circumstances that arises from a change in law or regulation or a change in the identity, nature or status of the City or the type of operations conducted by the City, or (b) is required by, or better complies with, the provisions of paragraph (b)(5) of the Rule; (ii) this section as so amended or supplemented would have complied with the requirements of paragraph (b)(5) of the Rule at the time of the primary offering of the Bonds, giving effect to any change in circumstances applicable under clause (i)(a) and assuming that the Rule as in effect and interpreted at the time of the amendment or supplement was in effect at the time of the primary offering; and (iii) such amendment or supplement does not materially impair the interests of the Bondowners under the Rule.

If the Disclosure Information is so amended, the City agrees to provide, contemporaneously with the effectiveness of such amendment, an explanation of the reasons for the amendment and the effect, if any, of the change in the type of financial information or operating data being provided hereunder.

(3) This section is entered into to comply with the continuing disclosure provisions of the Rule and should be construed so as to satisfy the requirements of paragraph (b)(5) of the Rule.

APPENDIX C

City's Financial Report

The following financial statements are excerpts from the annual financial report for the year ended December 31, 2023. The complete preliminary financial report for the year 2023 and the prior two years are available for inspection at the Farmington City Hall and the office of Northland Securities. The reader of this Official Statement should be aware that the complete financial report may have further data relating to the excerpts presented in the appendix which may provide additional explanation, interpretation or modification of the excerpts.

PRINCIPALS
Thomas A. Karnowski, CPA
Paul A. Radosevich, CPA
William J. Lauer, CPA
James H. Eichten, CPA
Aaron J. Nielsen, CPA
Victoria L. Holinka, CPA/CMA
Jaclyn M. Huegel, CPA
Kalen T. Karnowski, CPA

INDEPENDENT AUDITOR'S REPORT

To the City Council and Management
City of Farmington, Minnesota

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINIONS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Farmington, Minnesota (the City) as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of December 31, 2023, and the respective changes in financial position, and, where applicable, cash flows thereof, and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

BASIS FOR OPINIONS

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

RESPONSIBILITIES OF MANAGEMENT FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of 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 12 months beyond the financial statements date, including any currently known information that may raise substantial doubt shortly thereafter.

(continued)

Malloy, Montague, Karnowski, Radosevich & Co., P.A.
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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 generally accepted auditing standards and *Government Auditing Standards* 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 generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

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

REQUIRED SUPPLEMENTARY INFORMATION

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required supplementary information (RSI), as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 RSI 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.

(continued)

SUPPLEMENTARY INFORMATION

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

OTHER INFORMATION

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

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

OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 20, 2024, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Malloy, Montague, Karnowski, Radosevich & Co., P.A.

Minneapolis, Minnesota
June 20, 2024

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As management of the City of Farmington, Minnesota (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2023. Management's discussion and analysis (MD&A) is intended to be considered in conjunction with the additional information that we have furnished in our letter of transmittal, located earlier in this report, and the City's financial statements contained within this report.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the City exceeded liabilities and deferred inflows of resources by $137,275,061 (net position) at the close of the most recent fiscal year. Of this amount, $38,057,486 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.

- The City's total net position increased by $6,405,292 from fiscal 2023 activity, including an increase of $3,187,232 attributable to governmental activities, and an increase of $3,218,060 attributable to business-type activities.

- The City's outstanding debt, including bonds and lease liabilities, decreased by $1,284,410, or 10 percent, during the fiscal year, as scheduled debt service principal payments exceeded new lease liabilities issued during the year.

- The City's governmental funds reported combined ending fund balances of $28,351,774 on December 31, 2023, an increase of $2,885,854 from fiscal 2023 activity. Approximately 82 percent of this total, or $23,328,209, is available for use within the City's constraints and policies.

- At the end of the current fiscal year, the unassigned fund balance for the General Fund was $8,987,268, or 48 percent, of 2024 General Fund budgeted expenditures and transfers out.

OVERVIEW OF THE FINANCIAL STATEMENTS

This MD&A is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

These financial statements include not only the City itself (known as the primary government), but also the Farmington Economic Development Authority (EDA). The EDA has been presented as a blended component unit on the City's financial statements in accordance with accounting principles generally accepted in the United States of America.

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

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

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

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, public works, parks and recreation, and economic development. The business-type activities of the City include liquor operations, and sewer, solid waste, storm water, water, and street light utility operations.

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

Governmental Funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on the near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government'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 funds Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains numerous individual governmental funds. Information is presented separately in the governmental funds Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances for the City's five individual major governmental funds. They are as follows:

- General Fund
- Federal Aid Special Revenue Fund
- Private Capital Projects Fund
- Storm Water Trunk Capital Projects Fund
- Closed Bond Debt Service Fund

Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts annual appropriated budgets for its General Fund, most special revenue funds, the Debt Service Fund (combined), and most capital projects funds. Budgetary comparison statements or schedules have been provided for these funds to demonstrate compliance with their respective budgets.

Proprietary Funds – The City maintains six enterprise funds and four internal service funds within its proprietary fund type. Enterprise funds are used to report the same functions presented as business-type activities in the governmental-wide financial statements. The City uses enterprise funds to account for its liquor operations, and its sewer, solid waste, storm water, water, and street light utility operations. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary funds financial statements provide separate information for the enterprise funds, all of which are considered to be major funds of the City.

Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its employee benefits, property and liability insurance, maintaining its fleet of vehicles, and information technology needs. All internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements, labeled Governmental Activities – Internal Service Funds. Because all of these services predominately benefit governmental, rather than business-type functions, they have been included within governmental activities in the government-wide financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report.

Notes to Basic Financial Statements – The notes to basic financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information – In addition to the basic financial statements and accompanying notes, the financial section also presents required supplementary information, and combining and individual fund statements and schedules (presented as supplementary information) referred to earlier in connection with nonmajor governmental funds, internal service funds, budgetary comparison schedules, which are presented immediately following the basic financial statements.

Furthermore, a statistical section has been included as part of the Annual Comprehensive Financial Report (ACFR) to facilitate additional analysis, and is the third and final section of the report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

An analysis of the City's financial position begins with a review of the government-wide Statement of Net Position and the Statement of Activities. These two statements report the City's net position and changes in net position. It should be noted that the financial position can also be affected by nonfinancial factors, including economic conditions, population growth, and new regulations.

As noted earlier, net position may serve over time as a useful indicator of the City's financial position. As presented in the following condensed version of the Statement of Net Position, the City's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $137,275,061 on December 31, 2023.

City of Farmington's Net Position

	Governmental Activities		Business-Type Activities		Total	
	2023	2022	2023	2022	2023	2022
Current and other assets	$ 40,953,662	$ 40,193,291	$ 25,002,090	$ 21,631,006	$ 65,955,752	$ 61,824,297
Capital assets, net	49,003,064	47,611,027	49,830,438	49,866,617	98,833,502	97,477,644
Total assets	$ 89,956,726	$ 87,804,318	$ 74,832,528	$ 71,497,623	$ 164,789,254	$ 159,301,941
Deferred outflows of resources	$ 8,239,235	$ 9,527,443	$ 102,195	$ 163,687	$ 8,341,430	$ 9,691,130
Current liabilities	$ 5,105,522	$ 5,373,349	$ 684,958	$ 411,720	$ 5,790,480	$ 5,785,069
Long-term liabilities	20,014,829	29,235,578	1,825,000	2,155,047	21,839,829	31,390,625
Total liabilities	$ 25,120,351	$ 34,608,927	$ 2,509,958	$ 2,566,767	$ 27,630,309	$ 37,175,694
Deferred inflows of resources	$ 8,099,929	$ 934,385	$ 125,385	$ 13,223	$ 8,225,314	$ 947,608
Net position						
Net investment in capital assets	$ 39,137,210	$ 37,033,206	$ 48,486,110	$ 48,353,192	$ 87,623,320	$ 85,386,398
Restricted	9,132,767	10,556,611	2,461,488	2,461,488	11,594,255	13,018,099
Unrestricted	16,705,704	14,198,632	21,351,782	18,266,640	38,057,486	32,465,272
Total net position	$ 64,975,681	$ 61,788,449	$ 72,299,380	$ 69,081,320	$ 137,275,061	$ 130,869,769

The largest portion of the City's net position, $87,623,320, or 64 percent, reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment); less any outstanding related debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Restricted net position of $11,594,255 comprised 8 percent of net position at the close of the fiscal year ended December 31, 2023. These assets are subject to external restrictions on how they may be used.

The balance of unrestricted net position, $38,057,486, or approximately 28 percent, may be used to meet the City's ongoing obligations to citizens and creditors. Certain balances within unrestricted net position may have internally imposed commitments or limitations, which may further limit the purpose for which such net position may be used.

CHANGE IN NET POSITION

The following table provides a condensed version of the Statement of Activities for the year ended December 31, 2023, with comparative totals for the year ended December 31, 2022. The City's total net position increased by $6,405,292, or 5 percent, during the current fiscal year.

City of Farmington's Change in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2023	2022	2023	2022	2023	2022
Revenues						
Charges for services	$ 3,425,186	$ 3,678,479	$ 13,908,710	$ 13,026,908	$ 17,333,896	$ 16,705,387
Operating grants and contributions	1,924,255	1,076,883	10,822	30,616	1,935,077	1,107,499
Capital grants and contributions	1,002,806	833,090	–	–	1,002,806	833,090
Property taxes	15,284,709	14,463,106	–	–	15,284,709	14,463,106
Franchise taxes	201,431	227,017	–	–	201,431	227,017
Unrestricted grants	944,364	207,501	–	–	944,364	207,501
Investment earnings (charges)	1,407,087	(874,200)	913,579	(525,811)	2,320,666	(1,400,011)
Gain on disposal of capital assets	136,368	81,008	–	–	136,368	81,008
Total revenues	24,326,206	19,692,884	14,833,111	12,531,713	39,159,317	32,224,597
Expenses						
General government	5,200,453	3,626,853	–	–	5,200,453	3,626,853
Public safety	8,712,115	7,936,364	–	–	8,712,115	7,936,364
Public works	3,806,386	5,333,328	–	–	3,806,386	5,333,328
Parks and recreation	2,583,554	2,522,085	–	–	2,583,554	2,522,085
Economic development	177,927	247,970	–	–	177,927	247,970
Interest and fiscal charges	239,992	288,751	–	–	239,992	288,751
Liquor operations	–	–	6,256,081	5,977,403	6,256,081	5,977,403
Sewer	–	–	2,872,236	2,606,288	2,872,236	2,606,288
Solid waste	–	–	76,270	87,359	76,270	87,359
Storm water	–	–	725,039	719,225	725,039	719,225
Water	–	–	1,889,215	1,814,354	1,889,215	1,814,354
Street light	–	–	214,757	210,174	214,757	210,174
Total expenses	20,720,427	19,955,351	12,033,598	11,414,803	32,754,025	31,370,154
Change in net position before transfers	3,605,779	(262,467)	2,799,513	1,116,910	6,405,292	854,443
Transfers	(418,547)	3,393,908	418,547	(3,393,908)	–	–
Change in net position	3,187,232	3,131,441	3,218,060	(2,276,998)	6,405,292	854,443
Net position – beginning	61,788,449	72,703,910	69,081,320	137,275,061	130,869,769	209,978,971
Net position – ending	$ 64,975,681	$ 61,788,449	$ 72,299,380	$ 69,081,320	$ 137,275,061	$ 130,869,769

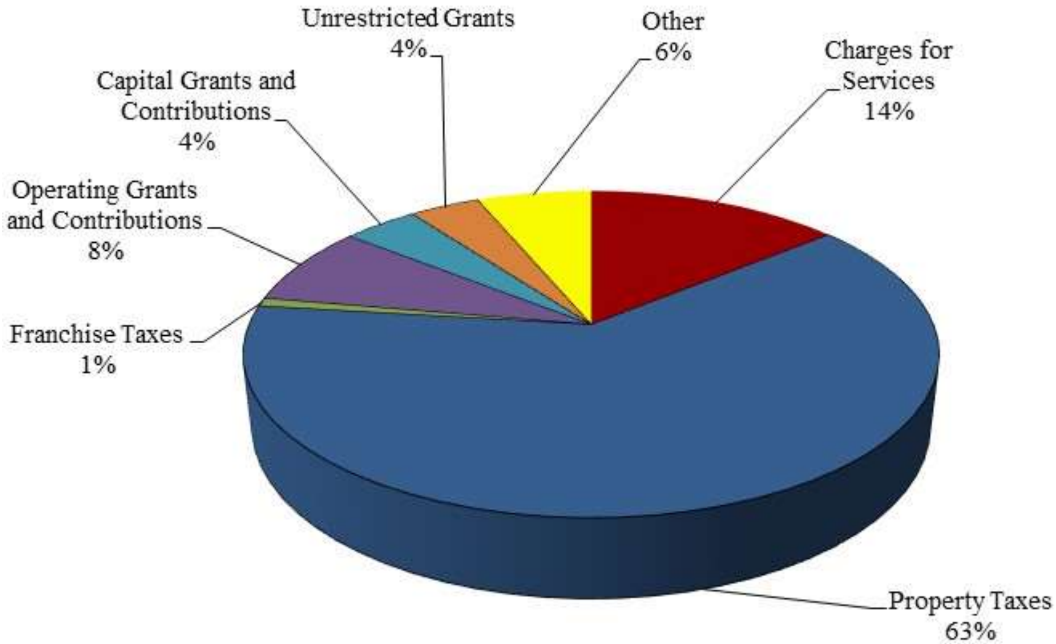
Governmental Activities – Governmental activities increased the City's net position by $3,187,232. An increase in the approved property tax levy, more federal grant entitlements used, new state funding for public safety, and improvement in investment earnings (charges) from improved interest rates and market conditions contributed to a $4,633,322 increase in total governmental activities revenues compared to the previous year. Governmental activities expenses increased $765,076 from the previous year with the increase mainly in the general government and public safety functions. Increased grant spending, contractual salary increases, and inflationary increases to employee benefits, utilities, supplies, and other purchased services contributed to the overall increase. Public works expenses decreased, due to a greater proportion of street improvement projects being capitalized in the current year, including $2,284,363 of capitalized utility infrastructure contributed to the business-type activities.

Business-Type Activities – Business-type activities increased the City's net position by $3,218,060. An increase in liquor operation gross sales, utility rate increases, and improved investment earnings (charges) contributed to a $2,301,398 increase in total business-type activities revenues compared to the previous year. Increases in liquor cost of goods sold and sewer disposal charges were the largest factors in a $618,795 increase in total business-type activities expenses. The City has been in the process of transitioning its solid waste and recycling collection operation to a private contractor the last two years, greatly reducing the activity reported in that function compared to prior years. It is anticipated that operations will be fully discontinued, and the related enterprise fund closed in fiscal 2024.

GOVERNMENTAL ACTIVITIES

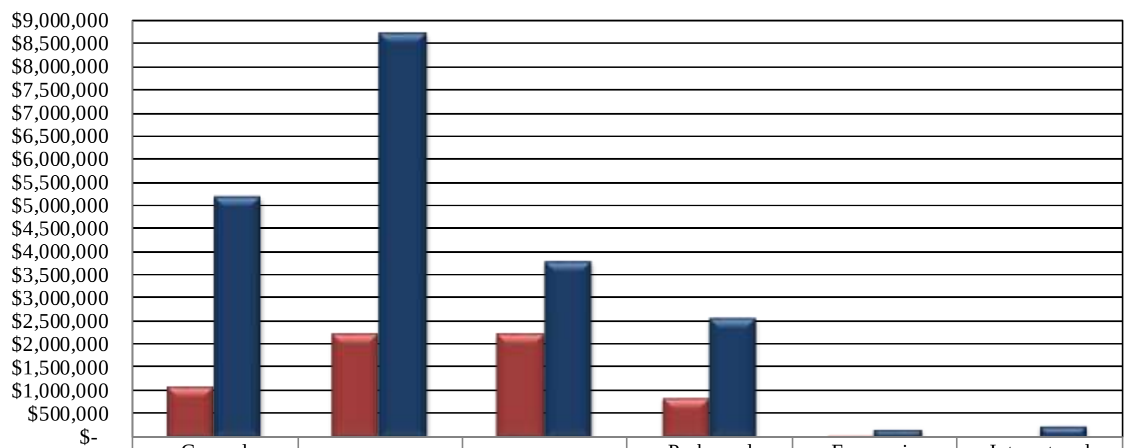
Revenues – The following chart illustrates the City's revenues by source for its governmental activities:

Revenues by Source – Governmental Activities



Expenses – The following chart illustrates the City's governmental expenses and corresponding program revenues, excluding transfers, for its governmental activities:

Expenses and Program Revenues – Governmental Activities

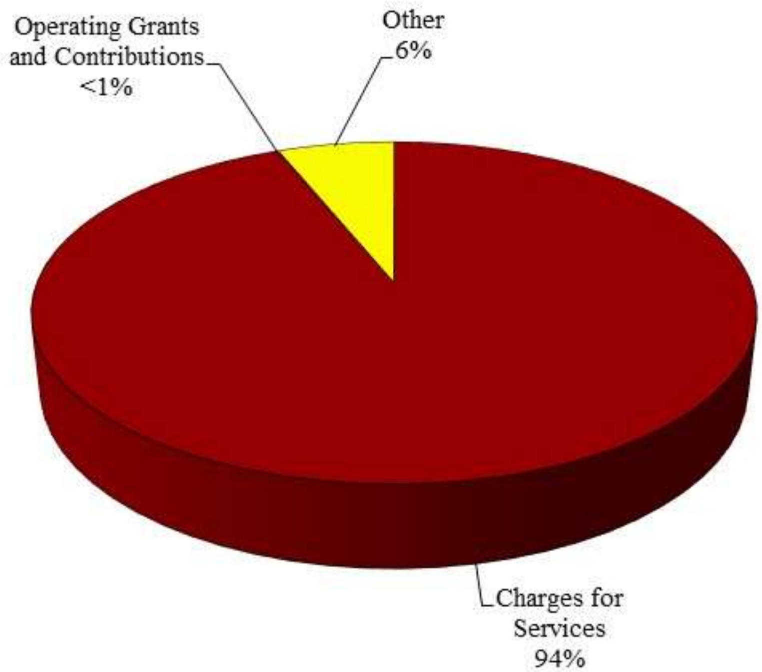


	General Government	Public Safety	Public Works	Parks and Recreation	Economic Development	Interest and Fiscal Charges
Program Revenues	$1,092,271	$2,186,491	$2,210,628	$829,953	$32,904	$–
Expenses	$5,200,453	$8,712,115	$3,806,386	$2,583,554	$177,927	$239,992

BUSINESS-TYPE ACTIVITIES

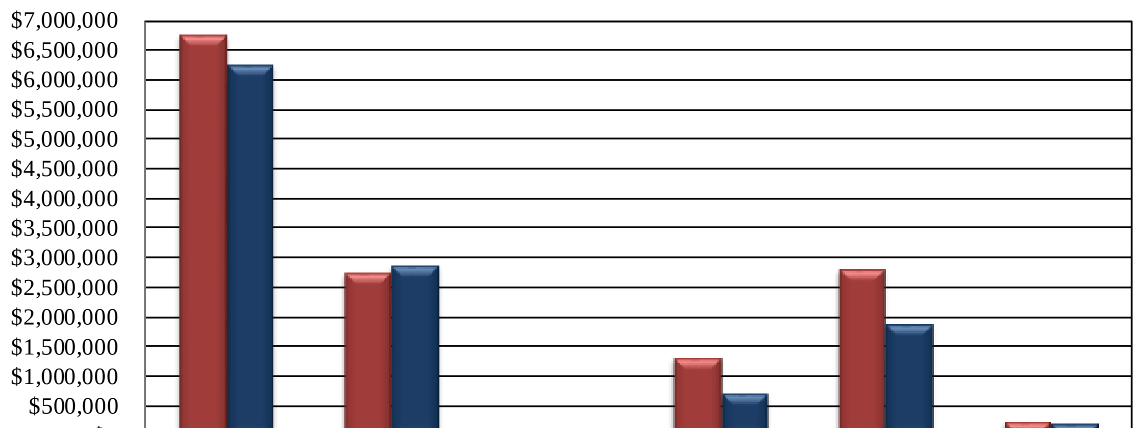
Revenues – The following chart illustrates the City's revenues by source for its business-type activities:

Revenues by Source – Business-Type Activities



Expenses – Below is a graph showing the City's expenses and program revenues, excluding transfers, for its business-type activities:

Expenses and Program Revenues – Business-Type Activities



	Liquor Operations	Sewer	Solid Waste	Storm Water	Water	Street Light
Program Revenues	$6,770,085	$2,762,566	$14,693	$1,327,620	$2,805,763	$238,805
Expenses	$6,256,081	$2,872,236	$76,270	$725,039	$1,889,215	$214,757

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of $28,351,774, an 11 percent increase of $2,885,854 from 2023 activity. The increase is mainly attributable to resources accumulated for public safety programs, trunk fees, and positive operating results in the General Fund.

Committed, assigned, and unassigned fund balances, which are available for spending at the City's discretion, had a combined balance of $23,328,209 at year-end. The remainder of the fund balance is either not available for new spending, or available for new spending but limited in use, because it is either nonspendable for prepaids ($15,883); or restricted: 1) to pay debt service ($2,100,445), 2) for economic development ($374,938), 3) for various public safety programs ($1,099,845), 4) for park or recreational capital improvements ($1,220,794), or 5) to pay for future cable communication expenditures ($211,660).

Financial highlights for the City's major governmental funds are as follows:

General Fund – The General Fund is the chief operating fund of the City. At the end of 2023, the unassigned fund balance of the General Fund was $8,987,268. As a measure of the General Fund's liquidity, it may be useful to compare the fund balance to total fund expenditures. The 2023 unassigned fund balance represents approximately 48 percent of total 2024 General Fund budgeted expenditures and transfers out.

The ratio of the General Fund's unassigned fund balance to the subsequent years' budgeted expenditures and transfers out has increased steadily from 21 percent as of December 31, 2011 to 48 percent as of December 31, 2023. The City Council has increased its commitment to not only sound, comprehensive budgets, but also long-term financial planning. In addition, the City has benefitted from community growth and tight budgetary control of expenditures, which have contributed to the strengthening of the General Fund's balance over that period.

The City Council also recently revised the City's fund balance policy and stated it would strive to maintain the fund balance in the General Fund between 40–50 percent of the subsequent year's budgeted expenditures and transfers out in order to provide enough funding to carry city operations to the next semiannual receipt of tax proceeds (in June/July). As of December 31, 2023, the City's General Fund balance meets the minimum fund balance guideline.

Total fund balances increased by $1,156,920 in the General Fund during the 2023 fiscal year. Higher than anticipated revenues from intergovernmental sources, charges for services, and investment earnings; along with expenditures being held under budget in total, contributed to this increase.

Federal Aid Special Revenue Fund – The increase of $75,255 in fund balance was due to allocated investment earnings in 2023. The City utilized $942,029 of available federal funding for various projects during the year.

Private Capital Projects Fund – There were no significant projects in this fund during 2023. The increase in fund balance of $83,525 was due to allocated investment earnings in 2023.

Storm Water Trunk Capital Projects Fund – The increase of $664,310 in fund balance was due to revenues from property taxes, trunk fees, and allocated investment earnings exceeding expenditures in 2023.

Closed Bond Debt Service Fund – The City established this fund in 2023 with transfers of $1,046,942 to account for accumulated resources related to bond issues that fully matured or were called by the City using internal resources in prior years. Additional revenues of $551,082 brought the fund balance up to $1,598,024 at year-end, which the City has assigned for future debt service.

Total fund balances in the City's nonmajor governmental funds decreased $692,180 in fiscal 2023, to a year-end total of $12,278,527. Financial highlights for some of the significant changes in the City's nonmajor governmental funds are as follows:

Public Safety Special Revenue Fund – The increase in fund balance of $1,035,106 was due to a one-time state public safety grant received during the year.

Water Trunk Capital Projects Fund – Revenues from charges for services and investment earnings resulted in a net increase in fund balance of $492,518, as there were no projects in this fund in 2023.

Spruce Street Reconstruction Capital Projects Fund – The decrease in fund balance of $1,921,952 resulted from project costs exceeding revenue in 2023.

Maintenance Capital Projects Fund – The increase in fund balance of $568,492 was due to transfers in exceeding the planned project costs incurred by year-end.

Capital Projects Reserve Capital Projects Fund – The increase of $316,234 in fund balance is due to transfers from the State Aid Construction and Permanent Improvement Revolving Capital Projects Funds to establish this new fund.

Debt Service Fund – The decrease of $1,054,504 in fund balance is due to transfers of $1,046,942 to eliminate several closed bond accounts and establish the Closed Bond Debt Service Fund.

Proprietary Funds – The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Financial highlights for the significant changes in the City's proprietary funds are as follows:

Liquor Operations Fund – Each year the City reviews the financial performance of its liquor operations. After setting aside a certain amount of funds for operations and administrative transfers, the remaining funds on hand are allocated to community investment and future capital improvements.

Liquor operations produced income before transfers of $604,140, an increase of $232,507 from the prior year, mainly due to increased sales and investment earnings. The net position of the Liquor Operations Fund at the end of 2023 totaled $2,444,814, an increase of $409,014. The cash position for both stores increased from $1,636,290 on December 31, 2022 to $2,352,268 as of December 31, 2023.

Sewer Operations Fund – The current year increase in net position of $273,493 is primarily due to capital infrastructure asset contributions of $629,637 received from governmental fund activities during the year. An increase of approximately 6 percent in charges for services, due mainly to a rate increase, was more than offset by a 10 percent increase in operating expenses. The City has implemented a series of rate increases designed to provide sufficient funds to cover both operations and depreciation. This fund continues to maintain a significant unrestricted net position of $3,507,824.

Solid Waste Fund – The Solid Waste Fund net position decreased by $407,578, mainly due to transfers out related to the continued process of closing the fund. It is anticipated that operations will be completely discontinued, and the fund closed in fiscal 2024.

Storm Water Fund – The increase in net position of $1,157,016 is primarily due charges for services being sufficient to cover operating expenses, resulting in operating income of $651,397 for the year. This fund also received capital infrastructure asset contributions of $868,749 received from governmental fund activities during the year. This fund continues to maintain a significant unrestricted net position of $3,232,777.

Water Fund – The increase in net position of $1,746,337 is primarily due to charges for services being sufficient to cover depreciation expense, improved investment earnings, and capital infrastructure asset contributions of $785,977 received from governmental fund activities during the year. This fund continues to maintain a significant unrestricted net position of $10,517,451.

Street Light Fund – The Street Light Fund was established in 2010. By making this a utility fund, all properties within the City, including tax-exempt properties, pay for street lighting. This fund has achieved a modest positive net position of $383,773 at year-end, an increase of $39,778 from last year.

GENERAL FUND BUDGETARY HIGHLIGHTS

The City's original and final budgets are the same, as no budget amendments were made during the year.

Actual revenues were $812,619 over budget. Revenue variances from final budget to actual include:

- Intergovernmental revenue was $228,849 over budget, mainly due to street maintenance, training reimbursements, and other miscellaneous grants exceeding budget.
- Charges for services were $233,175 more than the City's conservative budget, with higher than expected charges for fire service and engineering.
- Investment earnings were $312,980 over budget, due to higher interest rates and improvements in the fair values of the City's investment portfolio. As the City generally intends to hold investments to maturity, it is anticipated that this temporary market gain will fluctuate before the investments mature.

Expenditures were $336,073 less than the budgeted amount, mainly in the public safety and public works areas. The City experienced lower salaries and benefits costs partially attributable to continuing challenges in filling vacant positions.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets – The City's investment in capital assets for its governmental and business-type activities as of December 31, 2023, was $98,833,502 (net of accumulated depreciation/amortization). This investment in capital assets includes land, buildings, improvements other than buildings, park facilities, machinery and equipment, vehicles, roads, bridges, infrastructure, intangibles, water mains, water reservoirs, sewer mains, lift stations, and storm water mains. The City's investment in capital assets for the current fiscal year increased by 1 percent, mainly due to capitalized street and utility infrastructure and lease asset additions, offset by current year depreciation/amortization.

City of Farmington's Capital Assets

	Governmental Activities		Business-Type Activities		Total	
	2023	2022	2023	2022	2023	2022
Land and easements	$ 1,658,302	$ 1,658,302	$ 498,376	$ 498,376	$ 2,156,678	$ 2,156,678
Construction in progress	554,953	2,574,042	–	–	554,953	2,574,042
Buildings	12,863,478	13,297,011	1,128,499	1,333,629	13,991,977	14,630,640
Improvements other than buildings	824,468	295,150	1,392,088	1,497,899	2,216,556	1,793,049
Machinery and equipment	3,626,858	3,899,180	510,021	632,716	4,136,879	4,531,896
Infrastructure	28,762,779	25,798,272	–	–	28,762,779	25,798,272
Collection/distribution systems	–	–	45,526,648	45,008,564	45,526,648	45,008,564
Leases – vehicles	712,226	89,070	–	–	712,226	89,070
Leases – buildings	–	–	774,806	895,433	774,806	895,433
Total (net of depreciation)	$ 49,003,064	$ 47,611,027	$ 49,830,438	$ 49,866,617	$ 98,833,502	$ 97,477,644

Additional information on the City's capital assets can be found in Note 5 of the notes to basic financial statements.

Long-Term Debt – At the end of the current fiscal year, the City had total debt (bonds and lease liabilities) outstanding of $11,700,414. All City bonded debt is general obligation debt, which is backed by the full faith and credit of the government. Furthermore, at year-end, the City has long-term liabilities of $1,097,977 for compensated absences, $7,948,615 for net pension liabilities, and $1,092,823 for other post-employment benefits.

City of Farmington's Outstanding Long-Term Debt

	Governmental Activities		Business-Type Activities		Total	
	2023	2022	2023	2022	2023	2022
General obligation improvement bonds	$ 5,435,000	$ 6,305,000	$ –	$ –	$ 5,435,000	$ 6,305,000
Capital improvement bonds	2,965,000	3,510,000	–	–	2,965,000	3,510,000
Equipment certificates	695,000	905,000	–	–	695,000	905,000
General obligation revenue bonds	–	–	465,000	530,000	465,000	530,000
Unamortized premiums	544,915	668,370	51,207	61,120	596,122	729,490
Lease liabilities	716,171	83,029	828,121	922,305	1,544,292	1,005,334
Total debt outstanding	$ 10,356,086	$ 11,471,399	$ 1,344,328	$ 1,513,425	$ 11,700,414	$ 12,984,824

Bond principal repayments during 2023 totaled $1,690,000. The only new debt issued by the City in 2023 was $714,239 of new vehicle leases. The City's credit rating from Standard & Poor's was raised from "AA" to "AA+" in April 2019, which was affirmed in 2023.

Minnesota Statutes limit the amount of general obligation debt a Minnesota city may issue to 3 percent of total estimated market value. The current debt limitation for the City is $86,808,834, which is significantly more than the City's outstanding general obligation debt. Additional information on the City's long-term debt may be found in Note 6 of the notes to basic financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City increased its General Fund net operating levy in 2024 by $1,415,404. The final city total net tax levy for 2024 of $14,008,798 is 9.9 percent higher than the comparable 2023 levy. Of the total General Fund budgeted revenues, including transfers in for 2024, 75.2 percent are from property taxes, including $2.1 million in fiscal disparities revenue. The remaining General Fund budgeted revenues were adjusted to reflect forecasted building activity and an anticipated increase in intergovernmental revenues and charges for service.

Proposed 2024 General Fund expenditures, including transfers out, are estimated at $18,884,407, an increase of 11.8 percent compared to the 2023 budget. The 2024 budget maintains funding for core services—police and fire protection, street maintenance and snow removal, parks and recreation, and administration; and continues long-term funding for the City's seal coating, trail maintenance, building maintenance, and police and fire equipment. The City's Capital Improvement Plan provides for the continued replacement of police vehicles and public safety equipment in 2024.

The City steadfastly upholds its commitment to four key priorities: business growth, community engagement, infrastructure support, and employee engagement. The City remains dedicated to delivering top-tier essential services to its existing residents and also actively promoting the City, aiming to attract and bolster new development, thereby broadening the tax base and ensuring the City's prosperity.

REQUESTS FOR INFORMATION

This ACFR is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to the Finance Director at the City of Farmington, 430 Third Street, Farmington, Minnesota 55024. Email requests can be sent to ksommerland@farmingtonmn.gov.

BASIC FINANCIAL STATEMENTS

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CITY OF FARMINGTON

Statement of Net Position
as of December 31, 2023

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and investments	$ 34,137,550	$ 20,044,781	$ 54,182,331
Receivables			
Accounts	484,009	1,476,483	1,960,492
Interest	143,403	92,748	236,151
Property taxes	1,311,184	–	1,311,184
Special assessments	2,750,016	270,924	3,020,940
Due from other governments	469,403	1,195	470,598
Lease	101,536	–	101,536
Inventory	–	654,431	654,431
Prepaid items	20,008	40	20,048
Restricted assets – temporarily restricted			
Cash for future drinking water treatment plant	–	2,461,488	2,461,488
Net pension asset – fire relief	1,536,553	–	1,536,553
Capital assets			
Not depreciated/amortized	2,213,255	498,376	2,711,631
Depreciated/amortized, net	46,789,809	49,332,062	96,121,871
Total capital assets, net	49,003,064	49,830,438	98,833,502
Total assets	89,956,726	74,832,528	164,789,254
Deferred outflows of resources			
Pension plan deferments – PERA	7,354,712	100,096	7,454,808
Pension plan deferments – fire relief	851,277	–	851,277
OPEB plan deferments	33,246	2,099	35,345
Total deferred outflows of resources	8,239,235	102,195	8,341,430
Total assets and deferred outflows of resources	$ 98,195,961	$ 74,934,723	$ 173,130,684
Liabilities			
Accounts and contracts payable	$ 1,297,053	$ 440,851	$ 1,737,904
Accrued salaries and employee benefits payable	227,489	–	227,489
Accrued interest payable	133,685	8,950	142,635
Deposits payable	1,964,564	88,585	2,053,149
Due to other governments	686	146,572	147,258
Unearned revenue	1,482,045	–	1,482,045
Long-term liabilities			
Due within one year			
Bonds, certificates, lease liabilities, and compensated absences	2,481,143	204,669	2,685,812
Total OPEB liability	75,600	–	75,600
Due in more than one year			
Bonds, certificates, lease liabilities, and compensated absences	8,927,904	1,184,675	10,112,579
Net pension liability	7,577,873	370,742	7,948,615
Total OPEB liability	952,309	64,914	1,017,223
Total long-term liabilities	20,014,829	1,825,000	21,839,829
Total liabilities	25,120,351	2,509,958	27,630,309
Deferred inflows of resources			
Pension plan deferments – PERA	7,330,959	125,385	7,456,344
Pension plan deferments – fire relief	667,434	–	667,434
Lease revenue for subsequent years	101,536	–	101,536
Total deferred inflows of resources	8,099,929	125,385	8,225,314
Net position			
Net investment in capital assets	39,137,210	48,486,110	87,623,320
Restricted for			
Debt service	4,294,767	–	4,294,767
Economic development	374,938	–	374,938
Public safety programs	1,099,845	–	1,099,845
Park improvements	1,100,850	–	1,100,850
Capital projects	331,604	–	331,604
State-funded street projects	394,210	–	394,210
Fire relief pensions	1,536,553	–	1,536,553
Water Fund – future drinking water treatment plant	–	2,461,488	2,461,488
Unrestricted	16,705,704	21,351,782	38,057,486
Total net position	64,975,681	72,299,380	137,275,061
Total liabilities, deferred inflows of resources, and net position	$ 98,195,961	$ 74,934,723	$ 173,130,684

See notes to basic financial statements

CITY OF FARMINGTON

Statement of Activities
Year Ended December 31, 2023

		Program Revenues		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government				
Governmental activities				
General government	$ 5,200,453	$ 1,048,415	$ 43,845	$ 11
Public safety	8,712,115	581,869	1,574,372	30,250
Public works	3,806,386	965,032	273,051	972,545
Parks and recreation	2,583,554	829,870	83	–
Economic development	177,927	–	32,904	–
Interest and fiscal charges	239,992	–	–	–
Total governmental activities	20,720,427	3,425,186	1,924,255	1,002,806
Business-type activities				
Liquor operations	6,256,081	6,770,039	46	–
Sewer	2,872,236	2,762,566	–	–
Solid waste	76,270	10,605	4,088	–
Storm water	725,039	1,327,620	–	–
Water	1,889,215	2,799,075	6,688	–
Street light	214,757	238,805	–	–
Total business-type activities	12,033,598	13,908,710	10,822	–
Total government	$ 32,754,025	$ 17,333,896	$ 1,935,077	$ 1,002,806

General revenues
Property taxes
Franchise taxes
Grants and contributions not restricted to specific programs
Investment earnings
Gain on sale of capital assets
Transfers
Total general revenues and transfers

Change in net position

Net position – beginning

Net position – ending

Net (Expense) Revenue and Changes in Net Position		
Governmental Activities	Business-Type Activities	Total
$ (4,108,182)	$ –	$ (4,108,182)
(6,525,624)	–	(6,525,624)
(1,595,758)	–	(1,595,758)
(1,753,601)	–	(1,753,601)
(145,023)	–	(145,023)
(239,992)	–	(239,992)
(14,368,180)	–	(14,368,180)
–	514,004	514,004
–	(109,670)	(109,670)
–	(61,577)	(61,577)
–	602,581	602,581
–	916,548	916,548
–	24,048	24,048
–	1,885,934	1,885,934
(14,368,180)	1,885,934	(12,482,246)
15,284,709	–	15,284,709
201,431	–	201,431
944,364	–	944,364
1,407,087	913,579	2,320,666
136,368	–	136,368
(418,547)	418,547	–
17,555,412	1,332,126	18,887,538
3,187,232	3,218,060	6,405,292
61,788,449	69,081,320	130,869,769
$ 64,975,681	$ 72,299,380	$ 137,275,061

CITY OF FARMINGTON

Balance Sheet
Governmental Funds
as of December 31, 2023

	General	Special Revenue – Federal Aid	Capital Projects – Private
Assets			
Cash and investments	$ 7,798,138	$ 1,467,069	$ 2,022,941
Receivables			
Accounts	286,129	–	14,202
Interest	40,781	6,053	8,347
Property taxes			
Unremitted	1,160,672	–	–
Delinquent	150,512	–	–
Special assessments			
Delinquent	261	–	–
Noncurrent	970	–	–
Due from other funds	2,691	–	–
Due from other governments	36,674	–	–
Lease	101,536	–	–
Prepaid items	1,169	14,714	–
Total assets	$ 9,579,533	$ 1,487,836	$ 2,045,490
Liabilities			
Accounts and contracts payable	$ 307,734	$ 13,037	$ –
Deposits payable	29,941	–	1,919,665
Due to other governments	142	–	–
Due to other funds	–	–	–
Unearned revenue	–	1,482,045	–
Total liabilities	337,817	1,495,082	1,919,665
Deferred inflows of resources			
Unavailable revenue – property taxes	150,512	–	–
Unavailable revenue – special assessments	1,231	–	–
Unavailable revenue – long-term receivable	–	–	–
Lease revenue for subsequent years	101,536	–	–
Total deferred inflows of resources	253,279	–	–
Fund balances (deficits)			
Nonspendable	1,169	14,714	–
Restricted	–	–	–
Committed	–	–	125,825
Assigned	–	–	–
Unassigned	8,987,268	(21,960)	–
Total fund balances (deficits)	8,988,437	(7,246)	125,825
Total liabilities, deferred inflows of resources, and fund balances	$ 9,579,533	$ 1,487,836	$ 2,045,490

See notes to basic financial statements

Capital Projects – Storm Water Trunk	Debt Service – Closed Bond	Nonmajor	Total
$ 5,346,147	$ 1,591,457	$ 12,930,520	$ 31,156,272
–	–	183,678	484,009
22,060	6,567	47,294	131,102
–	–	–	1,160,672
–	–	–	150,512
–	2,496	–	2,757
–	2,325,511	420,778	2,747,259
–	–	35,379	38,070
–	–	416,867	453,541
–	–	–	101,536
–	–	–	15,883
$ 5,368,207	$ 3,926,031	$ 14,034,516	$ 36,441,613
$ –	$ –	$ 890,149	$ 1,210,920
–	–	12,238	1,961,844
–	–	544	686
–	–	38,070	38,070
–	–	–	1,482,045
–	–	941,001	4,693,565
–	–	–	150,512
–	2,328,007	420,778	2,750,016
–	–	394,210	394,210
–	–	–	101,536
–	2,328,007	814,988	3,396,274
–	–	–	15,883
–	–	5,007,682	5,007,682
5,368,207	–	7,696,991	13,191,023
–	1,598,024	–	1,598,024
–	–	(426,146)	8,539,162
5,368,207	1,598,024	12,278,527	28,351,774
$ 5,368,207	$ 3,926,031	$ 14,034,516	$ 36,441,613

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CITY OF FARMINGTON

Reconciliation of the Balance Sheet to the
Statement of Net Position
Governmental Funds
as of December 31, 2023

Total fund balances – governmental funds	$ 28,351,774
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in governmental funds.	
Cost of capital assets	98,970,379
Less accumulated depreciation/amortization	(49,970,064)
Net pension assets are only recorded in the government-wide financial statements as they are not current financial resources to governmental funds.	1,536,553
Long-term liabilities are not payable with current financial resources and, therefore, are not reported in governmental funds.	
Bonds	(9,095,000)
Unamortized bond premiums	(544,915)
Lease liability	(716,171)
Compensated absences	(1,001,179)
Net pension liability	(7,577,873)
Total OPEB liability	(1,027,909)
Interest on long-term debt is included in the change in net position as it accrues, regardless of when payment is due. However, it is included in the change in fund balances when due.	(133,685)
Internal service funds are used by management to charge certain costs to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Position.	2,648,191
Due to availability, certain revenues are not recognized under the governmental fund statements until received; however, under full accrual in the government-wide Statement of Activities, revenues are recorded when earned regardless of when received.	
Delinquent property taxes	150,512
Delinquent and deferred special assessments	2,750,016
Long-term receivables	394,210
Governmental funds do not report certain long-term amounts related to pensions that are included in net position.	
Deferred outflows of resources – pension plan deferments	8,205,989
Deferred outflows of resources – OPEB plan deferments	33,246
Deferred inflows of resources – pension plan deferments	(7,998,393)
Total net position – governmental activities	$ 64,975,681

CITY OF FARMINGTON

Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended December 31, 2023

	General	Special Revenue – Federal Aid	Capital Projects – Private
Revenues			
Property taxes	$ 13,070,482	$ –	$ –
Franchise taxes	145,000	–	–
Special assessments	2,474	–	–
Licenses and permits	927,731	–	–
Intergovernmental	852,169	942,028	–
Charges for services	694,094	–	–
Fines and forfeits	57,509	–	–
Investment earnings	363,980	75,256	83,525
Other	86,229	–	–
Total revenues	16,199,668	1,017,284	83,525
Expenditures			
Current			
General government	3,122,528	942,029	–
Public safety	7,112,803	–	–
Public works	3,019,828	–	–
Parks and recreation	1,600,767	–	–
Economic development	–	–	–
Capital outlay			
General government	4,800	–	–
Public safety	8,461	–	–
Public works	14,104	–	–
Parks and recreation	23,397	–	–
Debt service			
Principal	–	–	–
Interest and fiscal charges	–	–	–
Total expenditures	14,906,688	942,029	–
Excess (deficiency) of revenues over expenditures	1,292,980	75,255	83,525
Other financing sources (uses)			
Sale of capital assets	8,228	–	–
Leases issued	–	–	–
Transfers in	1,497,734	–	–
Transfers out	(1,642,022)	–	–
Total other financing sources (uses)	(136,060)	–	–
Net change in fund balances	1,156,920	75,255	83,525
Fund balances (deficits)			
Beginning of year	7,831,517	(82,501)	42,300
End of year	$ 8,988,437	$ (7,246)	$ 125,825

Capital Projects – Storm Water Trunk	Debt Service – Closed Bond	Nonmajor	Total
$ 166,000	$ –	$ 2,014,520	$ 15,251,002
–	–	56,431	201,431
–	500,114	17,528	520,116
–	–	–	927,731
–	–	3,149,671	4,943,868
277,962	–	1,059,645	2,031,701
–	–	–	57,509
228,231	50,968	476,025	1,277,985
–	–	351,296	437,525
672,193	551,082	7,125,116	25,648,868
–	–	119,761	4,184,318
–	–	94,124	7,206,927
–	–	846,936	3,866,764
–	–	643,223	2,243,990
–	–	177,927	177,927
–	–	–	4,800
–	–	1,207,977	1,216,438
–	–	4,168,592	4,182,696
–	–	234,520	257,917
–	–	1,706,097	1,706,097
7,883	–	388,658	396,541
7,883	–	9,587,815	25,444,415
664,310	551,082	(2,462,699)	204,453
–	–	128,140	136,368
–	–	714,239	714,239
–	1,046,942	2,398,528	4,943,204
–	–	(1,470,388)	(3,112,410)
–	1,046,942	1,770,519	2,681,401
664,310	1,598,024	(692,180)	2,885,854
4,703,897	–	12,970,707	25,465,920
$ 5,368,207	$ 1,598,024	$ 12,278,527	$ 28,351,774

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CITY OF FARMINGTON

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities
Governmental Funds
Year Ended December 31, 2023

Total net change in fund balances – governmental funds	$ 2,885,854
Amounts reported for governmental activities in the Statement of Activities are different because:	
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/amortization expense.	
Capital outlay	6,195,552
Transfer of capital assets to business-type activities	(2,284,363)
Depreciation/amortization expense	(2,514,665)
A gain or loss on the disposal of capital assets, including the difference between the carrying value and any related sale proceeds, is included in the change in net position. However, only the sale proceeds are included in the change in fund balances.	(3,387)
Net pension assets are included in net position, but are excluded from fund balances because they do not represent financial resources.	(177,552)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Other long-term adjustments are also made between the governmental funds and the Statement of Activities for debt premiums, compensated absences, pension liabilities, and OPEB obligations.	
Debt issued	(714,239)
Principal payments for debt	1,706,097
Debt premiums	123,455
Compensated absences	84,081
Net pension liability	7,863,986
Total OPEB liability	160,046
Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.	33,094
Internal service funds are used by management to charge certain costs to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities in the government-wide financial statements.	(126,791)
Certain revenues included in net position as soon as they are earned are not included in the change in fund balances until available to liquidate liabilities of the current period.	
Delinquent property taxes	33,707
Delinquent and deferred special assessments	(371,134)
Long-term receivable	(1,239,117)
Governmental funds do not report additions or deletions to certain long-term amounts related to pensions that are included in the change in net position.	
Deferred outflows of resources – pension plan deferments	(1,261,127)
Deferred outflows of resources – OPEB plan deferments	(27,081)
Deferred inflows of resources – pension plan deferments	(7,179,184)
Change in net position – governmental activities	$ 3,187,232

See notes to basic financial statements

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CITY OF FARMINGTON

Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual
General Fund
Year Ended December 31, 2023

	Original and Final Budget	Actual	Variance With Final Budget
Revenues			
Property taxes	$ 13,087,930	$ 13,070,482	$ (17,448)
Franchise taxes	145,000	145,000	–
Special assessments	–	2,474	2,474
Licenses and permits	915,470	927,731	12,261
Intergovernmental	623,320	852,169	228,849
Charges for services	460,919	694,094	233,175
Fines and forfeits	55,000	57,509	2,509
Investment earnings	51,000	363,980	312,980
Other	48,410	86,229	37,819
Total revenues	15,387,049	16,199,668	812,619
Expenditures			
Current			
General government	3,007,352	3,122,528	115,176
Public safety	7,386,575	7,112,803	(273,772)
Public works	3,213,039	3,019,828	(193,211)
Parks and recreation	1,581,264	1,600,767	19,503
Capital outlay			
General government	2,000	4,800	2,800
Public safety	20,000	8,461	(11,539)
Public works	3,300	14,104	10,804
Parks and recreation	29,231	23,397	(5,834)
Total expenditures	15,242,761	14,906,688	(336,073)
Excess of revenues over expenditures	144,288	1,292,980	1,148,692
Other financing sources (uses)			
Sale of capital assets	–	8,228	8,228
Transfers in	1,497,734	1,497,734	–
Transfers out	(1,642,022)	(1,642,022)	–
Total other financing sources (uses)	(144,288)	(136,060)	8,228
Net change in fund balances	$ –	1,156,920	$ 1,156,920
Fund balances			
Beginning of year		7,831,517	
End of year		$ 8,988,437	

CITY OF FARMINGTON

Statement of Net Position
Proprietary Funds
as of December 31, 2023

	Business-Type Activities – Enterprise Funds			
	Liquor Operations	Sewer Operations	Solid Waste	Storm Water
Assets				
Current assets				
Cash and investments	$ 2,352,268	$ 2,726,259	$ 1,458,338	$ 2,945,877
Cash restricted for drinking water treatment plant	–	–	–	–
Receivables				
Accounts	90,958	600,194	734	287,957
Interest	9,691	11,249	6,017	12,155
Delinquent special assessments	–	15,271	–	–
Deferred special assessments	–	255,653	–	–
Due from other governments	–	–	–	–
Inventory	654,431	–	–	–
Prepaid items	40	–	–	–
Total current assets	3,107,388	3,608,626	1,465,089	3,245,989
Noncurrent assets				
Capital assets				
Land	–	85,000	–	84,992
Buildings	–	–	–	–
Improvements other than buildings	358,276	–	–	–
Machinery and equipment	303,945	999,791	–	433,883
Distribution system	–	–	–	–
Collection system	–	29,713,301	–	21,721,102
Leases – buildings	951,551	–	–	–
Less accumulated depreciation/amortization	(585,705)	(15,355,113)	–	(9,559,932)
Total capital assets (net of accumulated depreciation/amortization)	1,028,067	15,442,979	–	12,680,045
Total assets	4,135,455	19,051,605	1,465,089	15,926,034
Deferred outflows of resources				
Pension plan deferments – PERA	100,096	–	–	–
OPEB plan deferments	2,099	–	–	–
Total deferred outflows of resources	102,195	–	–	–
Total assets and deferred outflows of resources	$ 4,237,650	$ 19,051,605	$ 1,465,089	$ 15,926,034
Liabilities				
Current liabilities				
Accounts and contracts payable	$ 289,817	$ 26,252	$ –	$ 13,212
Accrued salaries and employee benefits payable	–	–	–	–
Deposits payable	–	–	–	–
Due to other governments	68,841	74,550	–	–
Accrued interest payable	–	–	–	–
Compensated absences payable – current	33,762	–	–	–
Bonds payable – current	–	–	–	–
Lease liability – current	100,907	–	–	–
Total current liabilities	493,327	100,802	–	13,212
Noncurrent liabilities				
Compensated absences payable	11,254	–	–	–
Bonds payable (net of unamortized premiums)	–	–	–	–
Lease liability	727,214	–	–	–
Net pension liability – PERA	370,742	–	–	–
Total OPEB liability	64,914	–	–	–
Total noncurrent liabilities	1,174,124	–	–	–
Total liabilities	1,667,451	100,802	–	13,212
Deferred inflows of resources				
Pension plan deferments – PERA	125,385	–	–	–
Net position				
Net investment in capital assets	199,946	15,442,979	–	12,680,045
Restricted for drinking water treatment plant	–	–	–	–
Unrestricted	2,244,868	3,507,824	1,465,089	3,232,777
Total net position	2,444,814	18,950,803	1,465,089	15,912,822
Total liabilities, deferred inflows of resources, and net position	$ 4,237,650	$ 19,051,605	$ 1,465,089	$ 15,926,034

See notes to basic financial statements

Water	Street Light	Total	Governmental Activities – Internal Service
$ 10,180,637	$ 381,402	$ 20,044,781	$ 2,981,278
2,461,488	–	2,461,488	–
462,446	34,194	1,476,483	–
52,062	1,574	92,748	12,301
–	–	15,271	–
–	–	255,653	–
1,195	–	1,195	15,862
–	–	654,431	–
–	–	40	4,125
13,157,828	417,170	25,002,090	3,013,566
328,384	–	498,376	–
5,290,137	–	5,290,137	–
1,534,818	–	1,893,094	–
567,340	–	2,304,959	99,124
34,072,870	–	34,072,870	–
–	–	51,434,403	–
–	–	951,551	–
(21,114,202)	–	(46,614,952)	(96,375)
20,679,347	–	49,830,438	2,749
33,837,175	417,170	74,832,528	3,016,315
–	–	100,096	–
–	–	2,099	–
–	–	102,195	–
$ 33,837,175	$ 417,170	$ 74,934,723	$ 3,016,315
$ 78,173	$ 33,397	$ 440,851	$ 86,133
–	–	–	227,489
88,585	–	88,585	2,720
3,181	–	146,572	–
8,950	–	8,950	–
–	–	33,762	51,782
70,000	–	70,000	–
–	–	100,907	–
248,889	33,397	889,627	368,124
–	–	11,254	–
446,207	–	446,207	–
–	–	727,214	–
–	–	370,742	–
–	–	64,914	–
446,207	–	1,620,331	–
695,096	33,397	2,509,958	368,124
–	–	125,385	–
20,163,140	–	48,486,110	2,749
2,461,488	–	2,461,488	–
10,517,451	383,773	21,351,782	2,645,442
33,142,079	383,773	72,299,380	2,648,191
$ 33,837,175	$ 417,170	$ 74,934,723	$ 3,016,315

CITY OF FARMINGTON

Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
Year Ended December 31, 2023

	Business-Type Activities – Enterprise Funds			
	Liquor Operations	Sewer Operations	Solid Waste	Storm Water
Operating revenue				
Sales	$ 6,765,798	$ –	$ –	$ –
Charges for services	–	2,757,991	9,105	1,327,520
Insurance reimbursement	–	–	–	–
Total operating revenue	6,765,798	2,757,991	9,105	1,327,520
Cost of goods sold	5,049,555	–	–	–
Gross profit	1,716,243	2,757,991	9,105	1,327,520
Operating expenses				
Personal services	662,090	830	–	204
Professional services	325,276	2,175,626	54,102	183,212
Materials and supplies	11,627	27,683	22,168	21,573
Insurance	–	–	–	–
Depreciation/amortization	163,546	665,198	–	471,134
Total operating expenses	1,162,539	2,869,337	76,270	676,123
Operating income (loss)	553,704	(111,346)	(67,165)	651,397
Nonoperating revenues (expenses)				
Intergovernmental	46	–	4,088	–
Investment earnings	90,136	108,581	70,081	117,340
Loss on sale of capital assets	–	(605)	–	(48,916)
Other	4,241	4,575	1,500	100
Interest and fiscal charges	(43,987)	(2,294)	–	–
Total nonoperating revenues (expenses)	50,436	110,257	75,669	68,524
Income (loss) before contributions and transfers	604,140	(1,089)	8,504	719,921
Capital contributions	–	629,637	–	868,749
Transfers in	–	–	–	–
Transfers out	(195,126)	(355,055)	(416,082)	(431,654)
Change in net position	409,014	273,493	(407,578)	1,157,016
Net position				
Beginning of year	2,035,800	18,677,310	1,872,667	14,755,806
End of year	$ 2,444,814	$ 18,950,803	$ 1,465,089	$ 15,912,822

Water	Street Light	Total	Governmental Activities – Internal Service
$ –	$ –	$ 6,765,798	$ –
2,496,686	237,519	6,828,821	3,797,451
–	–	–	328,057
2,496,686	237,519	13,594,619	4,125,508
–	–	5,049,555	–
2,496,686	237,519	8,545,064	4,125,508
11,314	–	674,438	3,404,583
629,376	214,462	3,582,054	494,315
230,969	295	314,315	181,704
–	–	–	334,721
1,003,217	–	2,303,095	1,100
1,874,876	214,757	6,873,902	4,416,423
621,810	22,762	1,671,162	(290,915)
6,688	–	10,822	–
511,711	15,730	913,579	129,102
(2,426)	–	(51,947)	–
302,389	1,286	314,091	–
(11,913)	–	(58,194)	–
806,449	17,016	1,128,351	129,102
1,428,259	39,778	2,799,513	(161,813)
785,977	–	2,284,363	–
–	–	–	35,022
(467,899)	–	(1,865,816)	–
1,746,337	39,778	3,218,060	(126,791)
31,395,742	343,995	69,081,320	2,774,982
$ 33,142,079	$ 383,773	$ 72,299,380	$ 2,648,191

CITY OF FARMINGTON

Statement of Cash Flows
Proprietary Funds
Year Ended December 31, 2023

	Business-Type Activities – Enterprise Funds			
	Liquor Operations	Sewer Operations	Solid Waste	Storm Water
Cash flows from operating activities				
Cash received from customers	$ 6,757,852	$ 2,735,204	$ 34,321	$ 1,311,044
Cash receipts from other funds and reimbursements	–	–	–	–
Cash payments to suppliers	(5,138,489)	(2,153,832)	(81,517)	(198,876)
Cash payments to employees for services	(649,386)	(830)	–	(204)
Cash payments for interfund services used	–	–	–	–
Net cash flows from operating activities	969,977	580,542	(47,196)	1,111,964
Cash flows from noncapital financing activities				
Intergovernmental revenue	46	–	4,088	–
Transfers in	–	–	–	–
Transfers out	(195,126)	(355,055)	(416,082)	(431,654)
Net cash flows from noncapital financing activities	(195,080)	(355,055)	(411,994)	(431,654)
Cash flows from capital and related financing activities				
Acquisition and construction of capital assets	(6,320)	–	–	–
Principal payment on bonds and leases	(94,184)	–	–	–
Interest and fiscal charges paid	(43,987)	(2,294)	–	–
Net cash flows from capital and related financing activities	(144,491)	(2,294)	–	–
Cash flows from investing activities				
Interest received and changes in fair value on investments	85,572	104,863	69,768	111,947
Net increase in cash and cash equivalents	715,978	328,056	(389,422)	792,257
Cash and cash equivalents				
Beginning of year	1,636,290	2,398,203	1,847,760	2,153,620
End of year	$ 2,352,268	$ 2,726,259	$ 1,458,338	$ 2,945,877
Reconciliation of operating income (loss) to net cash flows from operating activities				
Operating income (loss)	$ 553,704	$ (111,346)	$ (67,165)	$ 651,397
Adjustments to reconcile operating income (loss) to net cash flows from operating activities				
Depreciation/amortization	163,546	665,198	–	471,134
Other	4,241	4,575	1,500	100
Change in assets, deferred outflows of resources, liabilities, and deferred inflows of resources				
Accounts receivable	(12,187)	(35,313)	2,190	(16,576)
Special assessments	–	7,951	–	–
Due from other governments	–	–	21,526	–
Inventory	32,941	–	–	–
Prepaid items	–	–	–	–
Deferred outflows of resources – pension plan deferments	59,744	–	–	–
Deferred outflows of resources – OPEB plan deferments	1,748	–	–	–
Accounts and contracts payable	207,222	19,657	(5,247)	5,909
Accrued salaries and employee benefits	–	–	–	–
Deposits payable	–	–	–	–
Due to other governments	7,806	29,820	–	–
Compensated absences	(1,306)	–	–	–
Net pension liability	(148,812)	–	–	–
Total OPEB liability	(10,832)	–	–	–
Deferred inflows of resources – pension plan deferments	112,162	–	–	–
Net cash flows from operating activities	$ 969,977	$ 580,542	$ (47,196)	$ 1,111,964
Schedule of noncash capital and related financing activities				
Capital assets contributed from governmental funds	$ –	$ 629,637	$ –	$ 868,749
Net book values of capital asset disposals	$ –	$ 605	$ –	$ 48,916
Amortization of bond premium	$ –	$ –	$ –	$ –

See notes to basic financial statements

Water	Street Light	Total	Governmental Activities – Internal Service
$ 2,719,569	$ 235,210	$ 13,793,200	$ –
–	–	–	4,150,508
(850,433)	(215,249)	(8,638,396)	–
(11,314)	–	(661,734)	(3,411,740)
–	–	–	(958,223)
1,857,822	19,961	4,493,070	(219,455)
6,688	–	10,822	–
–	–	–	35,022
(467,899)	–	(1,865,816)	–
(461,211)	–	(1,854,994)	35,022
(28,180)	–	(34,500)	–
(65,000)	–	(159,184)	–
(23,175)	–	(69,456)	–
(116,355)	–	(263,140)	–
493,778	15,243	881,171	126,300
1,774,034	35,204	3,256,107	(58,133)
10,868,091	346,198	19,250,162	3,039,411
$ 12,642,125	$ 381,402	$ 22,506,269	$ 2,981,278
$ 621,810	$ 22,762	$ 1,671,162	$ (290,915)
1,003,217	–	2,303,095	1,100
302,389	1,286	314,091	–
(80,231)	(3,595)	(145,712)	40,738
–	–	7,951	–
725	–	22,251	(15,738)
–	–	32,941	–
–	–	–	41,559
–	–	59,744	–
–	–	1,748	–
19,957	(492)	247,006	9,280
–	–	–	(8,870)
(11,327)	–	(11,327)	714
1,282	–	38,908	–
–	–	(1,306)	2,677
–	–	(148,812)	–
–	–	(10,832)	–
–	–	112,162	–
$ 1,857,822	$ 19,961	$ 4,493,070	$ (219,455)
$ 785,977	$ –	$ 2,284,363	$ –
$ 2,426	$ –	$ 51,947	$ –
$ 9,913	$ –	$ 9,913	$ –

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NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

A. Organization

The City of Farmington, Minnesota (the City) was incorporated in 1872 and operates under the state of Minnesota Statutory Plan A form of government. The City Council is the governing body and is composed of an elected mayor and four councilmembers who exercise legislative authority and determine all matters of policy. The City provides the following services: public safety, roads, water and sanitary sewer, storm water management, solid waste and recycling disposal, public improvements, planning and zoning, recreation, and general administration.

The accounting policies of the City conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

B. Reporting Entity

As required by accounting principles generally accepted in the United States of America, these financial statements include the City (the primary government) and its component unit. Component units are legally separate entities for which the primary government is financially accountable, or for which the exclusion of the component unit would render the financial statements of the primary government misleading. The criteria used to determine if the primary government is financially accountable for a component unit includes whether or not the primary government appoints the voting majority of the potential component unit's board, is able to impose its will on the potential component unit, is in a relationship of financial benefit or burden with the potential component unit, or is fiscally depended upon by the potential component unit.

As a result of applying these criteria, one organization has been included in this report as follows:

> **Blended Component Unit** – The Farmington Economic Development Authority (EDA) is the City's official decision-making body regarding economic development. The EDA promotes the retention and expansion of existing businesses, while attracting new businesses to the community in order to promote a diversified tax base, job opportunities, and convenient shopping for residents. The EDA is a legally separate entity from the City; however, the City is financially accountable for the EDA. The EDA's governing board is comprised of the City's mayor and councilmembers, and the City has the ability to impose its will on the EDA. The EDA does not issue separate financial statements. Therefore, the EDA has been reported as a blended component unit of the City, with its funds reported as funds of the City.

C. Government-Wide Financial Statement Presentation

The government-wide financial statements (Statement of Net Position and Statement of Activities) display information about the reporting government as a whole. These statements include all of the financial activities of the City. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which significantly rely upon sales, fees, and charges for support.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The government-wide Statement of Activities demonstrates the extent to which the direct expense of a given function (general government, public safety, public works, parks and recreation, and economic development) or business-type activity (liquor operations, utility services) is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or business-type activity. Interest on debt is considered an indirect expense and is reported separately in the Statement of Activities. Depreciation/amortization expense is included in the direct expenses of each function. 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 business-type activity and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or business-type activity. Taxes and other items not included among program revenues are reported instead as general revenues. Internally directed revenues are reported as general revenues rather than program revenues.

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 and special assessments are recognized as revenues in the fiscal year for which they are certified for levy. Grants and similar items are recognized when all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. However, charges between the City's enterprise funds and other functions are not eliminated, as that would distort the direct costs and program revenues reported in those functions.

D. Fund Financial Statement Presentation

Separate fund financial statements are provided for governmental and proprietary funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements. Aggregated information for the remaining nonmajor funds is reported in a single column in the respective fund financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this basis of accounting, transactions are recorded in the following manner:

1. **Revenue Recognition** – Revenue is recognized when it becomes measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days after year-end. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. Grants and similar items are recognized when all eligibility requirements imposed by the provider have been met. Proceeds of long-term debt are reported as other financing sources.

   Major revenues susceptible to accrual include property taxes, special assessments, intergovernmental revenue, charges for services, and interest earned on investments. Major revenue that is not susceptible to accrual includes licenses and permits, fees, and miscellaneous revenue. Such revenues are recorded only when received because they are not measurable until collected.

2. **Recording of Expenditures** – Expenditures are generally recorded when a liability is incurred, except for principal and interest on long-term debt and other long-term liabilities, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as capital outlay expenditures in the governmental funds.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Proprietary fund financial statements are reported using the economic resources measurement focus and accrual basis of accounting, similar to the government-wide financial statements. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds and internal service funds are charges to customers for sales and services. The operating expenses for the enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation/amortization on capital assets. All revenues and expenses that do not meet this definition are reported as nonoperating revenues and expenses.

Aggregated information for the internal service funds is reported in a single column in the proprietary fund financial statements. Because the principal user of the internal services is the City's governmental activities, the financial statements of the internal service funds are consolidated into the governmental column when presented in the government-wide financial statements. The cost of these services is reported in the appropriate functional activity.

Description of Funds

The City reports the following major governmental funds:

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

Federal Aid Special Revenue Fund – This fund accounts for the operations and activities related to certain federal funding awarded during the COVID-19 pandemic.

Private Capital Projects Fund – This fund accounts for engineering and administrative fee deposits related to private development projects within the City.

Storm Water Trunk Capital Projects Fund – This fund accounts for the construction and improvement of storm water trunk infrastructure within the City.

Closed Bond Debt Service Fund – This fund accounts for accumulated resources related to bond issues that fully matured or were called by the City using internal resources in prior years, which will be for future debt service.

The City reports the following major enterprise funds:

Liquor Operations Fund – The Liquor Operations Fund accounts for the retail operations of the City's two off-sale municipal liquor stores.

Sewer Operations Fund – The Sewer Operations Fund accounts for the operations of the City's wastewater collection and treatment systems.

Solid Waste Fund – The Solid Waste Fund accounts for the revenue and expenses related to the operation of the City's garbage collection and recycling programs. The City has been in the process of transitioning these functions to a private contractor beginning in 2022. It is anticipated that this fund will be closed in 2024.

Storm Water Fund – The Storm Water Fund accounts for revenues and expenses related to the maintenance and cleaning of the City's existing storm water collection and holding pond system.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Water Fund – The Water Fund accounts for the operations of the City's water distribution system, including wells, reservoirs, and trunk infrastructure system.

Street Light Fund – The Street Light Fund accounts for the financial activities related to city-owned street lights.

Additionally, the City reports the following fund type:

Internal Service Funds – Internal service funds account for the financing of goods and services provided to other departments or agencies of the City on a cost-reimbursement basis. The City's internal service funds account for employee benefits expenses, insurance, fleet services, and technology services.

E. Budgets and Budgetary Accounting

Budgets are prepared annually on a modified accrual basis and legally adopted by the City Council for the General Fund, most special revenue funds, the Debt Service Fund (in total), and most capital projects funds. No fiscal 2023 budgets were adopted for the Federal Aid, Police Public Outreach, K-9, or Public Safety Special Revenue Funds; for the Parking Lot Project, Akin Street Reconstruction, Spruce Street Reconstruction, Capital Projects Reserve, 2024 Street Improvements, or Emerald Ash Borer Capital Projects Funds; or for the Closed Bond Debt Service Fund. Budgeted expenditure appropriations lapse at year-end.

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The city administrator submits a proposed operating budget for the fiscal year commencing the following January 1 to the City Council. The operating budget includes proposed expenditures and the means of financing them.

2. The City Council reviews the proposed budgets and makes the appropriate changes.

3. Public hearings are conducted to obtain taxpayer comments.

4. The budgets are legally enacted through passage of a resolution on a departmental basis and can be expended by each department based upon detailed budget estimates for individual expenditure accounts.

5. Formal budgetary integration is employed as a management control device during the year for the governmental and enterprise funds.

6. The legal level of budgetary control is at the fund level. Expenditures may not legally exceed budgeted appropriations at the total fund level. Monitoring of budgets is maintained at the expenditure category level (e.g., personnel services, supplies, other services and charges, etc.) within each department. Management can exceed appropriations at the department level without City Council approval. The City Council must approve any expenditures over budget at the fund level by resolution or through the disbursement process.

7. The City Council may authorize transfers of budgeted amounts between funds.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

For the year ended December 31, 2023, expenditures exceeded budget for the following funds. Expenditures in excess of budget were approved by the City Council either through the disbursement process or separate City Council action.

	Budgeted Expenditures		Actual Expenditures	
Major funds				
Storm Water Trunk Capital Projects	$	–	$	7,883
Nonmajor special revenue funds				
Police Donations and Forfeitures	$	2,000	$	2,195
Arena	$	453,107	$	493,543
Nonmajor capital projects funds				
Sanitary Sewer Trunk	$	–	$	18,575
Fire	$	7,000	$	42,998
General Capital Equipment	$	557,408	$	1,315,883

F. Cash and Investments

Cash and investments include balances from all funds that are combined and invested to the extent available in various securities as authorized by state law. Earnings from the pooled investments are allocated to the respective funds based on month-end outstanding balances for each fund.

Certain resources set aside for future use, such as the construction of a drinking water treatment plant, are classified as restricted assets on the Statement of Net Position, because their use is limited by outside agreements. Interest on these investments is allocated to the respective fund.

For purposes of the Statement of Cash Flows, the City considers all highly liquid instruments with an original maturity from the time of purchase by the City of three months or less to be cash equivalents. The proprietary funds' portion in the government-wide cash and investment management pool is considered cash equivalent.

It is the City's policy to invest in a manner that seeks to ensure preservation of capital in the overall portfolio. Safety of principal is the foremost objective, but liquidity and yield are also important considerations. The objective will be to mitigate credit risk by purchasing only highly rated securities or with adequate collateral and interest rate risk by matching maturities to cash flow needs and holding securities to maturity.

The City reports all investments at fair value. The City categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

See Note 2 for the City's recurring fair value measurements as of the current year-end.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Receivables

Utility and miscellaneous accounts receivable are reported at gross. Since the City is generally able to certify delinquent amounts to the county for collection as special assessments; no allowance for uncollectible accounts has been provided on current receivables. Receivables not expected to be fully collected within one year include leases, special assessments, property taxes, and certain state-aid receivables.

H. Interfund Balances and Transfers

In the fund financial statements, balances between funds that are representative of lending or borrowing arrangements are reported as either "due to/from other funds" (current portion) or "advances to/from other funds." All other outstanding balances between funds are reported as "due to/from other funds." Interfund balances and transfers reported in the fund financial statements are eliminated to the extent possible in the government-wide financial statements. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

I. Property Taxes

Property tax levies are set by the City Council in December of each year and certified to Dakota County for collection in the following year. In Minnesota, counties act as collection agents for all property taxes, spreading the levies over all taxable property. Such taxes become a lien on January 1 and are recorded as receivables by the City on that date. Tax levies on real property are payable in two equal installments on May 15 and October 15. Personal property taxes are due in full on May 15. The county provides tax settlements to cities and other taxing districts four times a year: in June, July, December, and January.

Property taxes are recognized as revenue in the year levied in the government-wide financial statements and proprietary fund financial statements. In the governmental fund financial statements, taxes are recognized as revenue when received in cash or within 60 days after year-end. Taxes which remain unpaid on December 31 are classified as delinquent taxes receivable and are offset by a deferred inflow of resources in the governmental fund financial statements.

J. Special Assessments

Special assessments represent the financing for public improvements paid for by benefiting property owners. Special assessments are recorded as receivables upon certification to the county. Special assessments are recognized as revenue in the year levied in the government-wide financial statements and proprietary fund financial statements. In the governmental fund financial statements, special assessments are recognized as revenue when received in cash or within 60 days after year-end. Governmental fund special assessments receivable which remain unpaid on December 31, are offset by a deferred inflow of resources in the governmental fund financial statements.

K. Inventories

Inventories of the proprietary funds, primarily the liquor operations, are stated at cost, which approximates market, using the average cost method.

L. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. Prepaid items are reported using the consumption method and recorded as expenditures/expenses at the time of consumption.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Capital Assets

Capital assets, which include property, buildings, improvements, equipment, infrastructure assets (roads, bridges, sidewalks, and similar items), and intangible assets, such as easements, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the proprietary fund financial statements, but not in the governmental fund financial statements. Such assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their estimated acquisition value on the date of donation. Lease assets are recorded based on the measurement of payments applicable to the lease term. The City defines capital assets as those with an initial, individual cost of $5,000 or more with an estimated useful life in excess of five years. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Land, easements, and construction in progress are not depreciated. Lease assets are amortized over the term of the lease or over the useful life of the applicable asset class previously described, if future ownership is anticipated. The other classes of capital assets are depreciated using the straight-line method over the following estimated useful lives:

Buildings	20–50 years
Improvements other than buildings	20–50 years
Machinery and equipment	5–20 years
Infrastructure	30 years
Collection/distribution systems	50 years

N. Deferred Outflows/Inflows of Resources

In addition to assets and liabilities, statements of financial position or balance sheets may report separate financial statement elements called deferred outflows of resources or deferred inflows of resources. These separate financial statement elements represent a consumption or acquisition of net assets, respectively, that apply to future periods and will not be recognized as an outflow of financial resources (expense/expenditure) or an inflow of financial resources (revenue) until then.

Deferred outflows and inflows of resources related to pension and other post-employment benefits (OPEB) plans are reported in the government-wide and enterprise funds Statements of Net Position. These deferred outflows and inflows result from differences between expected and actual experience, changes in proportion, changes of assumptions, net collective difference between projected and actual earnings on plan investments, and from contributions to the plans subsequent to the measurement date and before the end of the reporting period. These amounts are deferred and amortized as required under applicable pension or OPEB standards.

The City also reports deferred inflows of resources related to leases. Lessors are required to recognize deferred inflows of resources corresponding to lease receivables, which are reported in both the governmental fund financial statements and the government-wide financial statements. These amounts are deferred and amortized in a systematic and rationale manner over the term of the lease.

Unavailable revenue arises only under a modified accrual basis of accounting and, therefore, is only reported in the governmental funds Balance Sheet. The governmental funds report unavailable revenue from: property taxes, special assessments, and long-term receivables. These amounts are deferred and recognized as inflows of resources in the period that the amounts become available.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. Long-Term Obligations

In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts, if material, are deferred and amortized over the life of the bonds using the straight-line method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses.

P. Compensated Absences

It is the City's policy to permit employees to accumulate earned, but unused leave benefits as either paid time off (PTO), or vacation and sick leave. Under the City's personnel policies and collective bargaining contracts, city employees are granted leave benefits in varying amounts based on length of service. No liability is recorded for nonvesting accumulating rights to receive sick leave benefits. As benefits accrue to employees, the accumulated PTO, vacation, and vested sick leave is reported as expense and liability in the government-wide and proprietary fund financial statements. Accrued PTO, vacation, and any portion of sick leave payable to employees upon termination are reported as expenditures in the governmental fund that will pay them when they become due and payable.

Q. State-Wide Pension Plans

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

R. Risk Management

The City is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City continues to carry commercial insurance for risks of loss, including workers' compensation, property and general liability, and employee health and accident insurance. The City retains risk for the deductible portions of the insurance policies. The amount of these deductibles is considered immaterial to the financial statements.

Property and Casualty Insurance – Property and casualty insurance is provided through the League of Minnesota Cities Insurance Trust (LMCIT), a public entity risk pool currently operating as a common risk management and insurance program for Minnesota cities: general liability, excess liability, property, automobile, marine, crime, federal laws, employee dishonesty, boiler, petro fund, and open meeting law.

The City pays an annual premium to the LMCIT for its insurance coverage. The LMCIT is self-sustaining through member premiums and will reinsure through commercial companies for excess claims. The LMCIT allows the pool to make additional assessments to make the pool self-sustaining.

Current state statutes (Minnesota Statutes, Subd. 466.04) provide limits of liability for the City. These limits are that the combination of defense expense and indemnification expense shall not exceed $500,000 in the case of one claimant or $1,500,000 for any number of claims arising out of a single occurrence. The City retains risk for the deductible portion of its insurance policies and any potential judicial ruling in excess of the statutory maximum. The City has never had a claim in excess of the statutory maximum. There were no significant reductions in insurance from the previous year or settlements in excess of insurance coverage for any of the past three fiscal years.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Workers' Compensation Insurance – Workers' compensation coverage is provided through a pooled self-insurance program through the LMCIT. The City pays an annual premium to the LMCIT. The City is subject to supplemental assessments as deemed necessary by the LMCIT. The LMCIT reinsures through the Workers' Compensation Reinsurance Association as required by law. The City's premiums are determined after loss experience is known. The amount of premium adjustment, if any, is considered immaterial, and is not recorded until received or paid.

S. Net Position Classifications and Flow Assumptions

In the government-wide and proprietary fund financial statements, net position represents the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources. Net position is displayed in three components:

- **Net Investment in Capital Assets** – Consists of capital assets, net of accumulated depreciation and amortization, reduced by any outstanding debt attributable to acquire capital assets.

- **Restricted Net Position** – Consists of net position restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

- **Unrestricted Net Position –** All other elements of net position that do not meet the definition of "restricted" or "net investment in capital assets."

The City applies restricted resources first when an expense is incurred for which both restricted and unrestricted resources are available.

T. Fund Balance Classifications and Flow Assumptions

In the fund financial statements, governmental funds report fund balance in classifications that disclose constraints for which amounts in those funds can be spent. These classifications are as follows:

- **Nonspendable** – Consists of amounts that are not in spendable form, such as prepaid items, inventory, and other long-term assets.

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

- **Committed** – Consists of internally imposed constraints that are established by resolution of the City Council. Those committed amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action it employed to previously commit those amounts.

- **Assigned** – Consists of internally imposed constraints for amounts intended to be used by the City for specific purposes, but do not meet the criteria to be classified as restricted or committed. These constraints are established by the City Council and/or management. The City Council has adopted a fund balance policy, which delegates the authority to assign amounts for specific purposes to the city administrator and/or finance director.

- **Unassigned** – The residual classification for the General Fund, which also reflects negative residual amounts in other funds.

When both restricted and unrestricted resources are available for use, the City first uses restricted resources, then unrestricted resources as needed. When committed, assigned, or unassigned resources are available for use, the City uses resources in the following order: 1) committed, 2) assigned, and 3) unassigned.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

U. Use of Estimates

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

NOTE 2 – DEPOSITS AND INVESTMENTS

A. Components of Cash and Investments

Cash and investments at year-end consist of the following:

Deposits	$	12,294,914
Investments		44,344,873
Petty cash		4,032
Total	$	56,643,819

Cash and investments are included on the basic financial statements as follows:

Statement of Net Position		
Cash and investments	$	54,182,331
Restricted assets – temporarily restricted		
Cash for future drinking water treatment plant		2,461,488
Total	$	56,643,819

B. Deposits

In accordance with applicable Minnesota Statutes, the City maintains deposits at depository banks authorized by the City Council, including checking and savings accounts.

The following is considered the most significant risk associated with deposits:

Custodial Credit Risk – In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may be lost.

Minnesota Statutes require that all deposits be protected by federal deposit insurance, corporate surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by federal deposit insurance or corporate surety bonds. Authorized collateral includes treasury bills, notes, and bonds; issues of U.S. government agencies; general obligations rated "A" or better; revenue obligations rated "AA" or better; irrevocable standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota Statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral. The City has no additional deposit policies addressing custodial credit risk.

At year-end, the carrying amount of the City's deposits was $12,294,914, while the balance on the bank records was $12,486,284. At December 31, 2023, all deposits were fully covered by federal deposit insurance, surety bonds, or by collateral held by the City's agent in the City's name.

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

C. Investments

The City has the following investments at year-end:

	Credit Risk		Fair Value Measurements	Interest Risk – Maturity Duration in Years		
Investment Type	Rating	Agency	Using	Less Than 1	1 to 5	Total
U.S. treasury securities	Not Applicable		Level 2	$ 8,814,196	$ 2,599,511	$ 11,413,707
U.S. agency securities	AA	S&P	Level 2	3,054,505	10,898,521	13,953,026
U.S. agency securities	Aaa	Moody's	Level 2	–	457,332	457,332
Municipal bonds	AAA	S&P	Level 2	–	1,287,478	1,287,478
Municipal bonds	Aa	Moody's	Level 2	586,304	4,213,307	4,799,611
Municipal bonds	AA	S&P	Level 2	888,541	4,529,256	5,417,797
Municipal bonds	A	Moody's	Level 2	–	369,568	369,568
Negotiable certificates of deposit	Not Rated		Level 2	2,983,634	3,408,038	6,391,672
				$ 16,327,180	$ 27,763,011	44,090,191
Investment pools/mutual funds	AAA	S&P	Level 1			254,682
Total investments						$ 44,344,873

Investments are subject to various risks, the following of which are considered the most significant:

Custodial Credit Risk – For investments, this is the risk that in the event of a failure of the counterparty to an investment transaction (typically a broker-dealer) the City would not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment policies do not further address this risk.

Credit Risk – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Minnesota Statutes limit the City's investments to direct obligations or obligations guaranteed by the United States or its agencies; shares of investment companies registered under the Federal Investment Company Act of 1940 that receive the highest credit rating, are rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of 13 months or less; general obligations rated "A" or better; revenue obligations rated "AA" or better; general obligations of the Minnesota Housing Finance Agency rated "A" or better; bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System; commercial paper issued by United States corporations or their Canadian subsidiaries, rated of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less; Guaranteed Investment Contracts guaranteed by a United States commercial bank, domestic branch of a foreign bank, or a United States insurance company, and with a credit quality in one of the top two highest categories; repurchase or reverse purchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding $10,000,000; that are a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York; or certain Minnesota securities broker-dealers. The City's investment policies do not further address credit risk.

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

Concentration Risk – This is the risk associated with investing a significant portion of the City's investments (considered 5.0 percent or more) in the securities of a single issuer, excluding U.S. guaranteed investments (such as treasuries), investment pools, and mutual funds. The City's investment policy places no limit on the amount the City may invest in any one issuer. However, it discusses the need to diversify investments to minimize risk. Of the City's investment portfolio at December 31, 2023, 15.2 percent were issued by the Federal Home Loan Bank, 7.0 percent were issued by the Federal Farm Credit Bank, and 6.0 percent were issued by the Federal National Mortgage Association.

Interest Rate Risk – This is the risk of potential variability in the fair value of fixed rate investments resulting from changes in interest rates (the longer the period for which an interest rate is fixed, the greater the risk). The City's investment policy states the investment portfolio should be structured to meet cash requirements for ongoing operations. The policy limits investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates, stating that no more than 30 percent of total investments should extend beyond 5 years and none should extend beyond 15 years. The City's year-end investment portfolio maturities comply with this policy.

NOTE 3 – INTERFUND BALANCES AND TRANSFERS

A. Interfund Balances

The City had the following interfund balances at year-end:

Receivable Fund	Payable Fund	Purpose	Amount
Governmental	Governmental		
General	Nonmajor	Cash flow	$ 2,691
Nonmajor	Nonmajor	Cash flow	35,379
			$ 38,070

B. Interfund Transfers

The following transfers were made during the year:

Transfers Out	Transfers In – Governmental – General	Transfers In – Governmental – Debt Service – Closed Bond	Transfers In – Governmental – Nonmajor	Transfers In – Proprietary – Internal Service	Total
Governmental					
General	$ –	$ –	$ 1,609,000 (3)	$ 33,022 (1)	$ 1,642,022
Nonmajor	–	1,046,942 (2)	423,446 (4)	–	1,470,388
Proprietary – Enterprise					
Liquor Operations	94,126 (1)	–	100,000 (5)	1,000 (1)	195,126
Sewer Operations	354,055 (1)	–	–	1,000 (1)	355,055
Solid Waste	150,000 (1)	–	266,082 (6)	–	416,082
Storm Water	431,654 (1)	–	–	–	431,654
Water	467,899 (1)	–	–	–	467,899
Total	$ 1,497,734	$ 1,046,942	$ 2,398,528	$ 35,022	$ 4,978,226

(1) To fund administrative overhead costs.
(2) To close debt service accounts for matured or called bond issues.
(3) For EDA operations ($50,000), ice arena ($20,000), emerald ash borer abatement ($50,000), or capital purposes ($1,489,000).
(4) For EDA operations ($36,969), ice arena ($70,243), or to close funds ($316,234).
(5) For park improvements.
(6) For emerald ash borer abatement.

NOTE 4 – LEASES RECEIVABLE

In 2018, the City entered into an agreement to lease space in City Hall to the U.S. Department of Agriculture (USDA). The USDA is required to make monthly payments for the space rental for a 20-year term maturing February 28, 2038, with a 3.0 percent interest rate. As part of this agreement, the City made improvements to the space in accordance with USDA specifications with a total cost of $113,500. The USDA will reimburse the City for the full cost of these improvements through noncancelable monthly payments annually over a 10-year period, with 3.0 percent interest. During the current year, the City received principal and interest payments of $16,908. Additionally, the City received $12,637 in other variable payments for common area maintenance fees, which are not a part of the lease asset.

NOTE 5 – CAPITAL ASSETS

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

A. Changes in Capital Assets Used in Governmental Activities

	Beginning Balance	Additions	Deletions	Completed Construction	Transfers	Ending Balance
Capital assets, not depreciated/amortized						
Land	$ 1,350,435	$ –	$ –	$ –	$ –	$ 1,350,435
Easements	307,867	–	–	–	–	307,867
Construction in progress	2,574,042	4,677,102	–	(6,696,191)	–	554,953
Total capital assets, not depreciated/amortized	4,232,344	4,677,102	–	(6,696,191)	–	2,213,255
Capital assets, depreciated/amortized						
Buildings	21,303,850	–	–	–	–	21,303,850
Improvements other than buildings	1,848,362	524,792	–	76,560	–	2,449,714
Machinery and equipment	9,391,667	272,980	(411,620)	–	–	9,253,027
Infrastructure	59,421,059	–	(726,989)	6,619,631	(2,284,363)	63,029,338
Leases – vehicles	99,641	720,678	–	–	–	820,319
Total capital assets, depreciated/amortized	92,064,579	1,518,450	(1,138,609)	6,696,191	(2,284,363)	96,856,248
Less accumulated depreciation/amortization						
Buildings	8,006,839	433,533	–	–	–	8,440,372
Improvements other than buildings	1,553,212	72,034	–	–	–	1,625,246
Machinery and equipment	5,492,487	541,915	(408,233)	–	–	5,626,169
Infrastructure	33,622,787	1,370,761	(726,989)	–	–	34,266,559
Leases – vehicles	10,571	97,522	–	–	–	108,093
Total accumulated depreciation/amortization	48,685,896	2,515,765	(1,135,222)	–	–	50,066,439
Net capital assets, depreciated/amortized	43,378,683	(997,315)	(3,387)	6,696,191	(2,284,363)	46,789,809
Total capital assets, net	$ 47,611,027	$ 3,679,787	$ (3,387)	$ –	$ (2,284,363)	$ 49,003,064

NOTE 5 – CAPITAL ASSETS (CONTINUED)

B. Changes in Capital Assets Used in Business-Type Activities

	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
Capital assets, not depreciated/amortized					
Land	$ 498,376	$ –	$ –	$ –	$ 498,376
Capital assets, depreciated/amortized					
Buildings	5,290,137	–	–	–	5,290,137
Improvements other than buildings	1,893,094	–	–	–	1,893,094
Machinery and equipment	2,270,459	34,500	–	–	2,304,959
Collection/distribution systems	83,461,594	–	(238,684)	2,284,363	85,507,273
Leases – buildings	951,551	–	–	–	951,551
Total capital assets, depreciated/amortized	93,866,835	34,500	(238,684)	2,284,363	95,947,014
Less accumulated depreciation/amortization					
Buildings	3,956,508	205,130	–	–	4,161,638
Improvements other than buildings	395,195	105,811	–	–	501,006
Machinery and equipment	1,637,743	157,195	–	–	1,794,938
Collection/distribution systems	38,453,030	1,714,332	(186,737)	–	39,980,625
Leases – buildings	56,118	120,627	–	–	176,745
Total accumulated depreciation/amortization	44,498,594	2,303,095	(186,737)	–	46,614,952
Net capital assets, depreciated/amortized	49,368,241	(2,268,595)	(51,947)	2,284,363	49,332,062
Total capital assets, net	$ 49,866,617	$ (2,268,595)	$ (51,947)	$ 2,284,363	$ 49,830,438

C. Depreciation/Amortization Expense by Function

Depreciation/amortization expense was charged to the following functions:

Governmental activities	
General government	$ 1,568,023
Public safety	475,398
Public works	212,989
Parks and recreation	259,355
Total depreciation/amortization expense – governmental activities	$ 2,515,765
Business-type activities	
Liquor operations	$ 163,546
Sewer operations	665,198
Storm water	471,134
Water	1,003,217
Total depreciation/amortization expense – business-type activities	$ 2,303,095

NOTE 6 – LONG-TERM LIABILITIES

A. Components of Long-Term Liabilities

	Original Issue	Interest Rate	Issue Date	Final Maturity Date	Balance – End of Year
Governmental activities					
General obligation improvement bonds					
G.O. Street Reconstruction Bonds 2015A	$ 3,050,000	2.00–3.00%	10/15/2015	02/01/2030	$ 1,575,000
G.O. Street Reconstruction Bonds 2019A	$ 925,000	5.00%	05/15/2019	02/01/2024	210,000
G.O. Street Reconstruction Bonds 2022A	$ 3,650,000	3.00–5.00%	07/06/2022	02/01/2033	3,650,000
Total general obligation improvement bonds					5,435,000
General obligation capital improvement bonds					
G.O. Capital Improvement Refunding Bonds 2016B	$ 4,540,000	2.00–3.00%	12/01/2016	02/01/2028	2,965,000
General obligation equipment certificates					
G.O. Equipment Certificates of Indebtedness 2020A	$ 1,105,000	5.00%	02/19/2020	02/01/2026	695,000
Total bonds and certificates					9,095,000
Unamortized premiums					544,915
Lease liabilities					
Lease – vehicle	$ 31,238	6.62%	06/23/2022	06/30/2026	21,807
Lease – vehicle	$ 31,238	6.62%	06/23/2022	06/30/2026	22,984
Lease – vehicle	$ 29,970	7.71%	09/23/2022	09/30/2026	21,807
Lease – vehicle	$ 30,637	2.68%	03/13/2023	03/31/2028	25,988
Lease – vehicle	$ 30,590	2.68%	03/16/2023	03/31/2028	25,988
Lease – vehicle	$ 30,590	2.68%	03/16/2023	03/31/2028	25,988
Lease – vehicle	$ 30,590	2.68%	03/16/2023	03/31/2028	25,988
Lease – vehicle	$ 44,510	3.53%	04/19/2023	04/30/2028	38,551
Lease – vehicle	$ 50,395	2.31%	05/25/2023	05/31/2028	44,564
Lease – vehicle	$ 39,285	2.79%	07/24/2023	07/31/2027	35,129
Lease – vehicle	$ 42,292	2.74%	07/27/2023	07/31/2028	38,795
Lease – vehicle	$ 40,296	2.74%	08/21/2023	08/31/2028	37,482
Lease – vehicle	$ 40,296	2.74%	08/21/2023	08/31/2028	37,482
Lease – vehicle	$ 40,296	2.74%	08/21/2023	08/31/2028	37,482
Lease – vehicle	$ 40,129	2.74%	08/24/2023	08/31/2028	37,383
Lease – vehicle	$ 39,267	2.79%	08/25/2023	08/31/2027	35,911
Lease – vehicle	$ 57,934	2.74%	08/31/2023	08/31/2028	54,163
Lease – vehicle	$ 39,264	3.53%	10/12/2023	10/31/2027	37,152
Lease – vehicle	$ 39,302	3.53%	10/12/2023	10/31/2027	37,188
Lease – vehicle	$ 39,302	3.53%	10/12/2023	10/31/2027	37,188
Lease – vehicle	$ 39,264	3.53%	10/12/2023	10/31/2027	37,151
Total lease liabilities					716,171
Compensated absences					1,052,961
Total governmental activities					$ 11,409,047
Business-type activities					
General obligation revenue bonds					
G.O. Water Revenue Bonds 2019A	$ 720,000	4.00–5.00%	05/15/2019	02/01/2029	$ 465,000
Unamortized premiums					51,207
Lease liabilities					
Lease – buildings (Downtown liquor store)	$ 745,373	6.62%	10/01/2021	05/31/2036	689,258
Lease – buildings (Pilot Knob liquor store)	$ 211,684	5.00%	12/01/2022	11/30/2025	138,863
Total lease liabilities					828,121
Compensated absences					45,016
Total business-type activities					$ 1,389,344

NOTE 6 – LONG-TERM LIABILITIES (CONTINUED)

B. Bonds and Certificates Payable

- **General Obligation Bonds** – The City issues general obligation bonds to provide funds for the acquisition and construction of major capital improvements or to refinance (refund) previous bond issues. The reporting entity's long-term debt is segregated between the amounts to be repaid from governmental activities and amounts to be repaid from business-type activities. General obligation bonds are direct obligations and pledge the full faith and credit of the City.

- **General Obligation Equipment Certificates** – The City issues general obligation equipment certificates of indebtedness in accordance with Minnesota Statutes § 412.301 to finance the purchase of equipment, which will be repaid primarily through ad valorem tax levies.

- **General Obligation Revenue Bonds** – The City issues general obligation revenue bonds to finance capital improvements in the enterprise funds. These bonds will be repaid from future net operating revenues pledged from enterprise funds and are backed by the taxing power of the City.

Minimum annual payments required to retire bonds and certificates are as follows:

Governmental Activities

Year Ending	G.O. Improvement		G.O. Capital Improvement		G.O. Equipment		Total	
December 31,	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2024	$ 740,000	$ 194,400	$ 560,000	$ 68,200	$ 220,000	$ 29,250	$ 1,520,000	$ 291,850
2025	550,000	168,100	575,000	51,175	230,000	18,000	1,355,000	237,275
2026	570,000	147,450	595,000	33,625	245,000	6,125	1,410,000	187,200
2027	585,000	125,450	610,000	18,600	–	–	1,195,000	144,050
2028	610,000	101,950	625,000	6,250	–	–	1,235,000	108,200
2029–2033	2,380,000	190,388	–	–	–	–	2,380,000	190,388
Total	$ 5,435,000	$ 927,738	$ 2,965,000	$ 177,850	$ 695,000	$ 53,375	$ 9,095,000	$ 1,158,963

Business-Type Activities

Year Ending	G.O. Revenue	
December 31,	Principal	Interest
2024	$ 70,000	$ 19,800
2025	70,000	16,300
2026	75,000	12,675
2027	80,000	8,800
2028	85,000	5,100
2029	85,000	1,700
Total	$ 465,000	$ 64,375

C. Revenue Pledged

Future revenue pledged for the payment of long-term bonded debt is as follows:

		Revenue Pledged				Current Year	
Bond Issue	Use of Proceeds	Type	Percent of Debt Service	Term of Pledge	Remaining Principal and Interest	Principal and Interest Paid	Pledged Revenue Received
G.O. Water Revenue Bonds 2019A	Utility improvements	Utility charges	100%	2019–2029	$ 529,375	$ 88,175	$ 2,496,686

NOTE 6 – LONG-TERM LIABILITIES (CONTINUED)

D. Ultimate Responsibility for Debt

All general obligation bonds are backed by the full faith and credit of the City.

The City is subject to statutory limitation by the state of Minnesota for bonded indebtedness payable principally from property taxes equal to 3.0 percent of the taxable market value of property in the City. As of December 31, 2023, the City had not utilized $77,713,834 of its $86,808,834 legal debt limit.

E. Lease Liabilities

- **Leases – Vehicles** – The City is leasing a number of vehicles under agreements that are secured by the leased equipment. The total amount of underlying lease assets by major classes and the related accumulated amortization is presented in Note 5 of the notes to basic financial statements. The leases are being paid by the (nonmajor) General Capital Equipment Capital Projects Fund.

- **Leases – Buildings** – The City operates two retail liquor stores known colloquially as Downtown and Pilot Knob. The City leases building space through two agreements that are being paid by the Liquor Operations Enterprise Fund. The Downtown store lease is for an approximately 7,400 square foot space in the Farmington Mall, for which the City paid $26,545 in common area operating expenses in 2023 that are not included in the lease liability. The Pilot Knob location occupies a 4,758 square foot store in the Farmington Gateway Center, for which the City paid $45,915 in common area operating expenses in 2023 that are not included in the lease liability. The total amount of underlying lease assets by major classes and the related accumulated amortization is presented in Note 5 of the notes to basic financial statements.

Minimum annual payments required to retire bonds and certificates are as follows:

	Governmental Activities		Business-Type Activities	
Year Ending	Vehicle Leases		Liquor Store Building Leases	
December 31,	Principal	Interest	Principal	Interest
2024	$ 171,422	$ 20,986	$ 100,907	$ 39,125
2025	177,459	14,587	101,686	33,919
2026	171,792	8,098	37,356	30,440
2027	145,574	3,287	41,348	28,482
2028	49,924	425	45,607	26,318
2029–2033	–	–	302,380	90,933
2034–2036	–	–	198,837	12,814
Total	$ 716,171	$ 47,383	$ 828,121	$ 262,031

F. Other Long-Term Liabilities

The City provides its employees with various benefits, including compensated absences, and pension benefits and OPEB as further described elsewhere in these notes. The General Fund and Liquor Operations Enterprise Fund will be used to liquidate these liabilities.

NOTE 6 – LONG-TERM LIABILITIES (CONTINUED)

G. Changes in Long-Term Liabilities

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Governmental activities					
G.O. improvement bonds	$ 6,305,000	$ –	$ 870,000	$ 5,435,000	$ 740,000
G.O. capital improvement bonds	3,510,000	–	545,000	2,965,000	560,000
G.O. equipment certificates	905,000	–	210,000	695,000	220,000
Unamortized premiums	668,370	–	123,455	544,915	–
Lease liabilities	83,029	714,239	81,097	716,171	171,422
Compensated absences	1,134,365	706,003	787,407	1,052,961	789,721
Total governmental activities	12,605,764	1,420,242	2,616,959	11,409,047	2,481,143
Business-type activities					
G.O. revenue bonds	530,000	–	65,000	465,000	70,000
Unamortized premiums	61,120	–	9,913	51,207	–
Lease liabilities	922,305	–	94,184	828,121	100,907
Compensated absences	46,322	27,186	28,492	45,016	33,762
Total business-type activities	1,559,747	27,186	197,589	1,389,344	204,669
Total government-wide	$ 14,165,511	$ 1,447,428	$ 2,814,548	$ 12,798,391	$ 2,685,812

NOTE 7 – DEFINED BENEFIT PENSION PLANS

Employees of the City participate in three defined benefit pension plans. Two of the plans are state-wide, cost-sharing, multiple-employer defined benefit pension plans administered by the PERA of Minnesota: the General Employees Retirement Fund (GERF) and the Public Employees Police and Fire Fund (PEPFF). The third is a single-employer defined benefit pension plan administered through the Farmington Fire Fighters' Relief Association (the Association). The details of the City's participation in each of these plans are presented later in these notes. The following table summarizes the impact of these plans on the City's government-wide financial statements:

	State-Wide PERA Pension Plans			Farmington Fire Fighters' Relief Association	Total All Plans
	GERF	PEPFF	Total		
Net pension asset	$ –	$ –	$ –	$ 1,536,553	$ 1,536,553
Deferred outflows of resources	$ 1,000,960	$ 6,453,848	$ 7,454,808	$ 851,277	$ 8,306,085
Net pension liability	$ 3,707,422	$ 4,241,193	$ 7,948,615	$ –	$ 7,948,615
Deferred inflows of resources	$ 1,253,850	$ 6,202,494	$ 7,456,344	$ 667,434	$ 8,123,778
Pension expense	$ 629,463	$ 1,248,580	$ 1,878,043	$ 205,963	$ 2,084,006

NOTE 8 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

A. Plan Descriptions

The City participates in the following cost-sharing, multiple-employer defined benefit pension plans administered by the Public Employees Retirement Association (PERA) of Minnesota. The PERA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356. The PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code (IRC).

1. General Employees Retirement Fund (GERF)

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

2. Public Employees Police and Fire Fund (PEPFF)

The Public Employees Police and Fire Fund (PEPFF), originally established for police officers and firefighters not covered by a local relief association, now covers all police officers and firefighters hired since 1980. Effective July 1, 1999, the PEPFF also covers police officers and firefighters belonging to local relief associations that elected to merge with and transfer assets and administration to the PERA.

B. Benefits Provided

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

1. GERF Benefits

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

Benefit increases are provided to benefit recipients each January. The post-retirement increase is equal to 50.0 percent of the cost of living adjustment (COLA) announced by the Social Security Administration, with a minimum increase of at least 1.0 percent and a maximum of 1.5 percent. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase, will receive the full increase. Recipients receiving the annuity or benefit for at least one month, but less than a full year as of the June 30 before the effective date of the increase, will receive a reduced prorated increase. In 2023, legislation repealed the statute delaying increases for members retiring before full retirement age.

2. PEPFF Benefits

Benefits for the PEPFF members first hired after June 30, 2010 but before July 1, 2014, vest on a prorated basis from 50.0 percent after five years, up to 100.0 percent after 10 years of credited service. Benefits for the PEPFF members first hired after June 30, 2014, vest on a prorated basis from 50.0 percent after 10 years, up to 100.0 percent after 20 years of credited service. The annuity accrual rate is 3.0 percent of average salary for each year of service. For Police and Fire Plan members who were first hired prior to July 1, 1989, a full annuity is available when age plus years of service equal at least 90.

Benefit increases are provided to benefit recipients each January. The post-retirement increase is fixed at 1.0 percent. Recipients that have been receiving the annuity or benefit for at least 36 months as of the June 30 before the effective date of the increase, will receive the full increase. Recipients receiving the annuity or benefit for at least 25 months, but less than 36 months as of the June 30 before the effective date of the increase, will receive a reduced prorated increase.

In 2023, the Legislature allocated funding for a one-time lump-sum payment to General Employee and Police and Fire Plan benefit recipients. Eligibility criteria and the payment amount is specified in statute. The one-time payment is noncompounding towards future benefits.

C. Contributions

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

1. GERF Contributions

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2023, and the City was required to contribute 7.50 percent for Coordinated Plan members. The City’s contributions to the GERF for the year ended December 31, 2023, were $396,285. The City’s contributions were equal to the required contributions as set by state statutes.

2. PEPFF Contributions

PEPFF Plan members were required to contribute 11.80 percent of their annual covered salary in fiscal year 2023, and the City was required to contribute 17.70 percent for Police and Fire Plan members. The City’s contributions to the PEPFF for the year ended December 31, 2023, were $560,404. The City’s contributions were equal to the required contributions as set by state statutes.

NOTE 8 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

D. Pension Costs

1. GERF Pension Costs

At December 31, 2023, the City reported a liability of $3,707,422 for its proportionate share of the GERF's net pension liability. The City's net pension liability reflected a reduction, due to the state of Minnesota's contribution of $16.0 million. The state of Minnesota is considered a nonemployer contributing entity and the state's contribution meets the definition of a special funding situation. The state of Minnesota's proportionate share of the net pension liability associated with the City totaled $102,159. The net pension liability was measured as of June 30, 2023, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportionate share of the net pension liability was based on the City's contributions received by the PERA during the measurement period for employer payroll paid dates from July 1, 2022 through June 30, 2023, relative to the total employer contributions received from all of the PERA's participating employers. The City's proportionate share was 0.0663 percent at the end of the measurement period and 0.0656 percent for the beginning of the period.

The amount recognized by the City as its proportionate share of the net pension liability, the direct aid, and total portion of the net pension liability that was associated with the City were as follows:

City's proportionate share of the net pension liability	$ 3,707,422
State's proportionate share of the net pension liability associated with the City	102,159
Total	$ 3,809,581

For the year ended December 31, 2023, the City recognized pension expense of $629,004 for its proportionate share of the GERF's pension expense. In addition, the City recognized an additional $459 as pension expense (and grant revenue) for its proportionate share of the state of Minnesota's contribution of $16.0 million to the GERF.

At December 31, 2023, the City reported its proportionate share of the GERF's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 121,445	$ 25,925
Changes in actuarial assumptions	608,618	1,016,173
Net collective difference between projected and actual investment earnings	–	175,455
Changes in proportion	73,057	36,297
Contributions paid to the PERA subsequent to the measurement date	197,840	–
Total	$ 1,000,960	$ 1,253,850

NOTE 8 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

A total of $197,840 reported as deferred outflows of resources related to pensions resulting from city contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2024. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending December 31,	Pension Expense Amount
2024	$ 109,610
2025	$ (575,322)
2026	$ 95,406
2027	$ (80,424)

2. PEPFF Pension Costs

At December 31, 2023, the City reported a liability of $4,241,193 for its proportionate share of the PEPFF's net pension liability. The net pension liability was measured as of June 30, 2023, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportionate share of the net pension liability was based on the City's contributions received by the PERA during the measurement period for employer payroll paid dates from July 1, 2022 through June 30, 2023, relative to the total employer contributions received from all of the PERA's participating employers. The City's proportionate share was 0.2456 percent at the end of the measurement period and 0.2474 percent for the beginning of the period.

The state of Minnesota contributed $18.0 million to the PEPFF in the plan fiscal year ended June 30, 2023. The contribution consisted of $9.0 million in direct state aid that meets the definition of a special funding situation and $9.0 million in supplemental state aid that does not meet the definition of a special funding situation. The $9.0 million direct state aid was paid on October 1, 2022. Thereafter, by October 1 of each year, the state will pay $9.0 million to the PEPFF until full funding is reached or July 1, 2048, whichever is earlier. The $9.0 million in supplemental state aid will continue until the fund is 90.0 percent funded, or until the State Patrol Plan (administered by the Minnesota State Retirement System) is 90.0 percent funded, whichever occurs later. The state of Minnesota's proportionate share of the net pension liability associated with the City totaled $170,843.

The amount recognized by the City as its proportionate share of the net pension liability, the direct aid, and total portion of the net pension liability that was associated with the City were as follows:

City's proportionate share of the net pension liability	$ 4,241,193
State's proportionate share of the net pension liability associated with the City	170,843
Total	$ 4,412,036

NOTE 8 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

The state of Minnesota is included as a nonemployer contributing entity in the Police and Fire Retirement Plan Schedule of Employer Allocations and Schedule of Pension Amounts by Employer, Current Reporting Period Only (pension allocation schedules) for the $9.0 million in direct state aid. Police and Fire Plan employers need to recognize their proportionate share of the state of Minnesota's pension expense (and grant revenue) under GASB 68 special funding situation accounting and financial reporting requirements. For the year ended December 31, 2023, the City recognized pension expense of $1,258,870 for its proportionate share of the Police and Fire Plan's pension expense. The City recognized $10,290 as a reduction of grant revenue and pension expense for its proportionate share of the state of Minnesota's pension expense for the contribution of $9.0 million to the PEPFF.

The state of Minnesota is not included as a nonemployer contributing entity in the Police and Fire Pension Plan pension allocation schedules for the $9.0 million in supplemental state aid. The City recognized $22,104 for the year ended December 31, 2023 as revenue and an offsetting reduction of net pension liability for its proportionate share of the state of Minnesota's on-behalf contributions to the PEPFF.

At December 31, 2023, the City reported its proportionate share of the PEPFF's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 1,169,756	$ –
Changes in actuarial assumptions	4,931,764	5,962,538
Net collective difference between projected and actual investment earnings	–	174,679
Changes in proportion	61,381	65,277
Contributions paid to the PERA subsequent to the measurement date	290,947	–
Total	$ 6,453,848	$ 6,202,494

A total of $290,947 reported as deferred outflows of resources related to pensions resulting from city contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ending December 31, 2024. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending December 31,	Pension Expense Amount
2024	$ 212,956
2025	$ 63,153
2026	$ 1,034,611
2027	$ (284,988)
2028	$ (1,065,325)

NOTE 8 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

E. Long-Term Expected Return on Investments

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	33.50 %	5.10 %
International equity	16.50	5.30 %
Fixed income	25.00	0.75 %
Private markets	25.00	5.90 %
Total	100.00 %	

F. Actuarial Methods and Assumptions

The total pension liability in the June 30, 2023, actuarial valuation was determined using an individual entry-age normal actuarial cost method. The long-term rate of return on pension plan investments used in the determination of the total liability is 7.00 percent. This assumption is based on a review of inflation and investments return assumptions from a number of national investment consulting firms. The review provided a range of return investment return rates deemed to be reasonable by the actuary. An investment return of 7.00 percent was deemed to be within that range of reasonableness for financial reporting purposes.

Inflation is assumed to be 2.25 percent for the General Employees Plan and the Police and Fire Plan. Benefit increases after retirement are assumed to be 1.25 percent for the General Employees Plan and 1.00 percent for the Police and Fire Plan.

Salary growth assumptions in the General Employees Plan range in annual increments from 10.25 percent after one year of service to 3.00 percent after 27 years of service. In the Police and Fire Plan, salary growth assumptions range from 11.75 percent after one year of service to 3.00 percent after 24 years of service.

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

Actuarial assumptions for the General Employees Plan are reviewed every four years. The most recent four-year experience study for the General Employees Plan was completed in 2022. The assumption changes were adopted by the Board and became effective with the July 1, 2023 actuarial valuation. The most recent four-year experience study for the Police and Fire Plan was completed in 2020, adopted by the Board, and became effective with the July 1, 2021 actuarial valuation.

NOTE 8 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

The following changes in actuarial assumptions and plan provisions occurred in 2023:

1. **GERF**

CHANGES IN ACTUARIAL ASSUMPTIONS

- The investment return assumption and single discount rate were changed from 6.50 percent to 7.00 percent.

CHANGES IN PLAN PROVISIONS

- An additional one-time direct state aid contribution of $170.1 million will be contributed to the Plan on October 1, 2023.
- The vesting period of those hired after June 30, 2010, was changed from five years of allowable service to three years of allowable service.
- The benefit increase delay for early retirements on or after January 1, 2024, was eliminated.
- A one-time, noncompounding benefit increase of 2.50 percent minus the actual 2024 adjustment will be payable in a lump sum for calendar year 2024 by March 31, 2024.

2. **PEPFF**

CHANGES IN ACTUARIAL ASSUMPTIONS

- The investment return assumption was changed from 6.50 percent to 7.00 percent.
- The single discount rate changed from 5.40 percent to 7.00 percent.

CHANGES IN PLAN PROVISIONS

- Additional one-time direct state aid contribution of $19.4 million will be contributed to the Plan on October 1, 2023.
- Vesting requirement for new hires after June 30, 2014, was changed from a graded 20-year vesting schedule to a graded 10-year vesting schedule, with 50.00 percent vesting after five years, increasing incrementally to 100.00 percent after 10 years.
- A one-time, noncompounding benefit increase of 3.00 percent will be payable in a lump sum for calendar year 2024 by March 31, 2024.
- Psychological treatment is required effective July 1, 2023, prior to approval for a duty disability benefit for a psychological condition relating to the member's occupation.
- The total and permanent duty disability benefit was increased, effective July 1, 2023.

G. Discount Rate

The discount rate used to measure the total pension liability in 2023 was 7.00 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund and the Police and Fire Fund were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

NOTE 8 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

H. Pension Liability Sensitivity

The following table presents the City's proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed on the preceding page, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

	1% Decrease in Discount Rate (6.00%)	Current Discount Rate (7.00%)	1% Increase in Discount Rate (8.00%)
City's proportionate share of the GERF net pension liability	$ 6,558,727	$ 3,707,422	$ 1,362,115
City's proportionate share of the PEPFF net pension liability	$ 8,415,032	$ 4,241,193	$ 809,738

I. Pension Plan Fiduciary Net Position

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

NOTE 9 – DEFINED BENEFIT PENSION PLAN – FIRE RELIEF ASSOCIATION

A. Plan Description

Volunteer firefighters of the Farmington Volunteer Fire Department (the Department) are members of the Association, which administers a single-employer defined benefit pension plan established to provide benefits for its members. The plan is established and administered in accordance with Minnesota Statutes, Chapter 69. The Association is governed by a Board of nine trustees; six voting trustees elected by the members of the Association, and the City's mayor, city administrator, and fire chief as ex officio members. As of December 31, 2022, the plan covered 50 active firefighters and 12 vested terminated firefighters whose pension benefits are deferred. The Association maintains a separate Special Fund to accumulate assets to fund the retirement benefits earned by the Department's membership.

B. Benefits Provided

A firefighter who completes at least 20 years as an active member of the Department is entitled, after age 50, to a full service pension upon retirement equivalent to $8,500 per year of service.

The bylaws of the Association also provide for an early vested service pension for a retiring member who has completed fewer than 20 years of service. The reduced pension, available to members with 10 years of service, shall be equal to 60 percent of the pension as described by the bylaws. This percentage increases 4 percent per year, so that at 20 years of service, the full amount prescribed is paid. Members who retire with less than 20 years of service and have reached the age of 50 and have completed at least 10 years of active membership, are entitled to a reduced service pension not to exceed the amount calculated by multiplying the member's service pension for the completed years of service times the applicable nonforfeitable percentage of pension.

NOTE 9 – DEFINED BENEFIT PENSION PLAN – FIRE RELIEF ASSOCIATION (CONTINUED)

C. Contributions

Minnesota Statutes, Chapters 424 and 424A authorize pension benefits for volunteer fire relief associations. The plan is funded by fire state aid, investment earnings, and, if necessary, employer contributions as specified in Minnesota Statutes and voluntary city contributions (if applicable). The firefighters have no obligation to contribute to the plan. Nonemployer pension contributions include state aid from the state of Minnesota and municipal contributions from the City. On-behalf of state aid payments from the state of Minnesota are received initially by the City and subsequently remitted to the Association. These on-behalf of state aid payments, in addition to the City's municipal contribution payments to the Association plan, are recognized as revenues and expenditures in the City's General Fund during the period received.

The state of Minnesota contributed $210,460 in fire state aid to the plan on behalf of the Department for the year ended December 31, 2023, which was recorded as revenue. Required employer contributions are calculated annually based on statutory provisions. The City's statutorily-required contributions to the plan for the year ended December 31, 2023 were $0; however, the City made a voluntary contribution of $150,000 to the plan.

D. Pension Costs

At December 31, 2023, the City reported a net pension liability (asset) of ($1,536,553) for the plan. The net pension liability (asset) was measured as of December 31, 2022. The total pension liability used to calculate the net pension liability (asset) in accordance with GASB Statement No. 68 was determined by applying an actuarial formula to specific census data certified by the Department as of December 31, 2022.

The following table presents the changes in net pension liability (asset) during the year:

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a-b)
Beginning balance	$ 2,693,997	$ 4,408,102	$ (1,714,105)
Changes for the year			
Service cost	218,873	–	218,873
Interest	149,757	–	149,757
Difference between expected and actual experience	(425,928)	–	(425,928)
Changes of assumptions	(11,048)	–	(11,048)
Contributions (state and local)	–	337,645	(337,645)
Net investment income	–	(566,313)	566,313
Benefit payments	(120,699)	(120,699)	–
Administrative costs	–	(17,230)	17,230
Total net changes	(189,045)	(366,597)	177,552
Ending balance	$ 2,504,952	$ 4,041,505	$ (1,536,553)

For the year ended December 31, 2023, the City recognized pension revenue of $187,645 and pension expense of $205,963.

NOTE 9 – DEFINED BENEFIT PENSION PLAN – FIRE RELIEF ASSOCIATION (CONTINUED)

At December 31, 2023, the City reported deferred inflows of resources and deferred outflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual liability	$ –	$ 440,564
Change of assumptions	135,788	16,410
Net difference between projected and actual earnings on plan investments	355,029	–
City contributions subsequent to the measurement date	150,000	–
State aid to the City subsequent to the measurement date	210,460	210,460
Total	$ 851,277	$ 667,434

Deferred outflows of resources totaling $360,460 related to pensions resulting from city contributions to the plan subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2024. Deferred inflows of resources totaling $210,460 related to state aid received subsequent to the measurement date will be recognized for its impact on the net pension liability in the year ending December 31, 2024. Other amounts reported as deferred outflows and inflows of resources related to the plan will be recognized in pension expense as follows:

Year Ending December 31,	Pension Expense Amount
2024	$ (17,397)
2025	$ 54,089
2026	$ 92,220
2027	$ 126,373
2028	$ (32,085)
Thereafter	$ (189,357)

E. Actuarial Methods and Assumptions

The total pension liability (asset) at year-end was determined using the entry-age normal actuarial cost method and the following actuarial assumptions:

Retirement eligibility at 100 percent service pension at age 50 with 20 years of service, early vested retirement at age 50 with 10 years of service vested at 60 percent and increased by 4 percent for each additional year of service up to 20 and eligibility for deferred service pension payable at age 50 with 20 years of service.
Inflation rate – 2.50% per year
Investment rate of return – 5.25%
20-year municipal bond yield – 4.05%

Actuarial assumption changes since the prior valuation included an inflation rate assumption update from 2.25 percent to 2.50 percent. Mortality, disability, and withdrawal assumptions were also changed to those used in the most recent Minnesota PERA Police and Fire Plan actuarial valuation.

NOTE 9 – DEFINED BENEFIT PENSION PLAN – FIRE RELIEF ASSOCIATION (CONTINUED)

The 5.25 percent long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates for expected future real rates of return (expected returns, net of inflation) were developed for each asset class using the plan's target investment allocation, along with long-term return expectations by asset class. Inflation expectations were applied to derive the nominal rate of return for the portfolio.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return	Long-Term Expected Nominal Rate of Return
Domestic equity	65.74 %	4.10 %	6.60 %
International equity	9.84	4.64 %	7.14 %
Fixed income	–	1.05 %	3.55 %
Real estate and alternatives	4.90	3.54 %	6.04 %
Cash and equivalents	19.52	(0.45) %	2.05 %
Total	100.00 %		5.25 %

F. Discount Rate

The discount rate used to measure the total pension liability was 5.25 percent. The projection of cash flows used to determine the discount rate assumed that contributions to the plan will be made as specified in state statutes. Based on that assumption and considering the funding ratio of the plan, the fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

G. Pension Liability (Asset) Sensitivity

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

	1% Decrease in Discount Rate (4.25%)	Current Discount Rate (5.25%)	1% Increase in Discount Rate (6.25%)
Net pension liability (asset)	$ (1,400,353)	$ (1,536,553)	$ (1,665,339)

H. Pension Plan Fiduciary Net Position

The Association issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the Farmington Fire Fighters' Relief Association, 430 Third Street, Farmington, Minnesota 55024, or by calling (651) 280-6953.

NOTE 10 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN

A. Plan Description

The City provides post-employment insurance benefits to certain eligible employees through its OPEB Plan, a single-employer defined benefit plan administered by the City. All post-employment benefits are based on contractual agreements with employee groups. Eligibility for these benefits is based on years of service and/or minimum age requirements. These contractual agreements do not include any specific contribution or funding requirements. The Plan does not issue a publicly available financial report. No plan assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

B. Benefits Provided

All retirees of the City upon retirement have the option under state law to continue their medical insurance coverage through the City. For members of certain employee groups, the City pays for all or part of the eligible retiree's premiums for medical and/or dental insurance from the time of retirement until the employee reaches the age of eligibility for Medicare. Benefits paid by the City differ by bargaining unit and date of hire, with some contracts specifying a certain dollar amount per month, and some covering premium costs as defined within each collective bargaining agreement. Retirees not eligible for these city-paid premium benefits must pay the full city premium rate for their coverage.

The City is legally required to include any retirees for whom it provides health insurance coverage in the same insurance pool as its active employees until the retiree reaches Medicare eligibility, whether the premiums are paid by the City or the retiree. Consequently, participating retirees are considered to receive a secondary benefit known as an "implicit rate subsidy." This benefit relates to the assumption that the retiree is receiving a more favorable premium rate than they would otherwise be able to obtain if purchasing insurance on their own, due to being included in the same pool with the City's younger and statistically healthier active employees.

For police officers or firefighters disabled in the line-of-duty, Minnesota Statutes require the City to continue payment of the employer's contribution toward health coverage for the police officer or firefighter and their spouse, if the spouse was covered at the time of disability, until age 65.

C. Contributions

The required contribution is based on projected pay-as-you-go financing requirements, with additional amounts to prefund benefits as determined periodically by the City. The City's current year required pay-as-you-go contributions to finance the benefits described in the previous section totaled $35,345.

D. Membership

Membership in the plan consisted of the following as of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	11
Active plan members	74
Total members	85

E. Total OPEB Liability of the City

The City's total OPEB liability of $1,092,823 as of year-end was measured as of December 31, 2022, and was determined by an actuarial valuation as of December 31, 2022.

NOTE 10 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN (CONTINUED)

F. Actuarial Methods and Assumptions

The total OPEB liability was determined using the entry-age normal cost method. Liability gains and losses and plan changes are recognized immediately, in accordance with GASB Statement No. 75 Alternative Measurement Method requirements. The following actuarial assumptions applied to all periods included in the measurement, unless otherwise specified:

Discount rate	4.05%
20-year municipal bond yield	4.05%
Inflation rate	2.60%
Healthcare trend rate	8.00% grading to 4.04% over 52 years

The actuarial assumptions used in the latest valuation were based on input from a variety of published sources of historical and projected future financial data. Each assumption was reviewed for reasonableness with the source information, as well as for consistency with the other economic assumptions.

Since the plan is not funded by an irrevocable trust, the discount rate is equal to the 20-year municipal bond yield rate of 4.05 percent, which was set by considering published rate information for 20-year high quality, tax-exempt, general obligation municipal bonds as of the measurement date.

Withdrawal rates, retirement rates, mortality rates, and salary scale were based on the July 1, 2014 through June 30, 2018 PERA experience studies.

Assumption changes since the prior measurement date include the following:

- Medical trend was updated based on recently published trend model and trend surveys to better reflect future anticipated experience.
- Medical per capita claims tables were updated based on recent experience and demographics.
- The discount rate was updated from 2.06 percent to 4.05 percent based on recent municipal bond index rates.
- Membership participation was updated from 65.00 percent to 50.00 percent based on experience and demographics.

G. Changes in the Total OPEB Liability

	Total OPEB Liability
Beginning balance – January 1, 2023	$ 1,263,701
Changes for the year	
Service cost	121,679
Interest	27,861
Differences between expected and actual experience	141,132
Changes of assumptions	(395,696)
Benefit payments – employer-financed	(65,854)
Total net changes	(170,878)
Ending balance – December 31, 2023	$ 1,092,823

NOTE 10 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN (CONTINUED)

H. Total OPEB Liability Sensitivity to Discount and Healthcare Cost Trend Rate Changes

The following presents the total OPEB liability of the City, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current discount rate:

	1% Decrease in Discount Rate	Current Discount Rate	1% Increase in Discount Rate
OPEB discount rate	3.05%	4.05%	5.05%
Total OPEB liability	$ 1,183,800	$ 1,092,823	$ 1,007,824

The following presents the total OPEB liability of the City, as well as what the City's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1 percentage point lower or 1 percentage point higher than the current healthcare trend rates:

	1% Decrease in Healthcare Trend Rate	Current Healthcare Trend Rate	1% Increase in Healthcare Trend Rate
OPEB healthcare trend rate	7.00% decreasing to 3.04% over 52 years	8.00% decreasing to 4.04% over 52 years	9.00% decreasing to 5.04% over 52 years
Total OPEB liability	$ 962,803	$ 1,092,823	$ 1,244,954

I. OPEB Expense and Related Deferred Outflows of Resources and Deferred Inflows of Resources

For the current year, the City recognized negative OPEB expense of $105,024. As of year-end, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions subsequent to the measurement date	$ 35,345	$ –

Deferred outflows of resources reported $35,345 related to OPEB resulting from city contributions subsequent to the measurement date that will be recognized as a reduction of the total OPEB liability in the year ending December 31, 2024.

NOTE 11 – DEFICIT FUND BALANCES

At December 31, 2023, the Federal Aid Special Revenue Fund reported a deficit fund balance of $7,246, the (nonmajor) K-9 Special Revenue Fund reported a deficit fund balance of $159, the (nonmajor) Akin Street Reconstruction Capital Projects Fund reported a deficit fund balance of $132,740, the (nonmajor) Spruce Street Reconstruction Capital Projects Fund reported a deficit fund balance of $209,989, the (nonmajor) 2024 Street Improvements Capital Projects Fund reported a deficit fund balance of $65,283, and the Emerald Ash Borer Capital Projects Fund reported a deficit fund balance of $17,975. These deficits are generally due to project or other expenditures incurred in advance of funding, and will be eliminated through future revenues and other financing sources.

NOTE 12 – NET POSITION/FUND BALANCES

A. Net Investment in Capital Assets

The government-wide Statement of Net Position at December 31, 2023 includes the City's net investment in capital assets, calculated as follows:

	Governmental Activities	Business-Type Activities	Total
Net investment in capital assets			
Capital assets, net	$ 49,003,064	$ 49,830,438	$ 98,833,502
Less capital-related long-term debt outstanding	(10,356,086)	(1,344,328)	(11,700,414)
Add unused bond proceeds	490,232	–	490,232
Total net investment in capital assets	$ 39,137,210	$ 48,486,110	$ 87,623,320

B. Governmental Fund Balance Classifications

At December 31, 2023, the City had the following governmental fund balances:

			Capital Projects –				
	General	Special Revenue – Federal Aid	Private	Storm Water Trunk	Debt Service – Closed Bond	Nonmajor	Total
Nonspendable							
Prepaid items	$ 1,169	$ 14,714	$ –	$ –	$ –	$ –	$ 15,883
Restricted							
Economic development	–	–	–	–	–	374,938	374,938
Public safety programs	–	–	–	–	–	1,099,845	1,099,845
Park improvements	–	–	–	–	–	1,100,850	1,100,850
PEG fees	–	–	–	–	–	211,660	211,660
Recreational capital projects	–	–	–	–	–	119,944	119,944
Debt service	–	–	–	–	–	2,100,445	2,100,445
Total restricted	–	–	–	–	–	5,007,682	5,007,682
Committed							
Improvement projects	–	–	125,825	–	–	360,673	486,498
Park improvements	–	–	–	–	–	270,476	270,476
Ice arena capital	–	–	–	–	–	129,665	129,665
Sanitary sewer trunk	–	–	–	–	–	982,918	982,918
Cable communications	–	–	–	–	–	714,761	714,761
Fire capital programs	–	–	–	–	–	214,026	214,026
Storm water trunk	–	–	–	5,368,207	–	–	5,368,207
Capital equipment	–	–	–	–	–	697,570	697,570
Water trunk	–	–	–	–	–	1,027,237	1,027,237
Parking lot projects	–	–	–	–	–	523,005	523,005
Trail maintenance	–	–	–	–	–	309,673	309,673
Building maintenance	–	–	–	–	–	270,386	270,386
Pavement management	–	–	–	–	–	2,196,601	2,196,601
Total committed	–	–	125,825	5,368,207	–	7,696,991	13,191,023
Assigned							
Future debt payments	–	–	–	–	1,598,024	–	1,598,024
Unassigned	8,987,268	(21,960)	–	–	–	(426,146)	8,539,162
Total	$ 8,988,437	$ (7,246)	$ 125,825	$ 5,368,207	$ 1,598,024	$ 12,278,527	$ 28,351,774

C. Minimum Fund Balance Policy

The City's policy is to maintain an unassigned fund balance in the General Fund in the range of 40.0–50.0 percent of the subsequent year's budgeted expenditures and transfers out. At December 31, 2023, the unassigned fund balance of the General Fund was 47.6 percent of the subsequent year's budgeted expenditures and transfers out.

NOTE 13 – TAX INCREMENT PAY-AS-YOU-GO FINANCING REVENUE NOTES

On November 2, 2017, the EDA entered into a private development agreement regarding the Trident Housing tax increment property. Reimbursements to the developer (Legacy Partners of Farmington, LLC) for the Downtown Redevelopment Project were contemplated in the development agreement. The vehicle used for this reimbursement is called a tax increment revenue note.

This note provides for the payment of principal, equal to the developer's costs, plus interest at 3 percent. Payments on the loan will be made at the lesser of the note payment or 90 percent of the actual net tax increment received during specific years as stated in the agreement. Payments are first applied to accrued interest and then to principal balances. The note is cancelled at the end of the agreement term, whether or not it has been repaid. Any additional tax increments received in the years following the term are retained by the EDA.

The City rebated $99,860 of property tax increment in the current year. The remaining principal balance as of December 31, 2023 for this agreement was $1,095,645. This amount is not included in long-term debt because of the nature of this note in that repayment is required only if sufficient tax increments are received. The EDA's position is that these are obligations to assign future and uncertain revenue sources and these obligations are not actual debt in-substance.

NOTE 14 – COMMITMENTS AND CONTINGENCIES

A. Federal and State Funding

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

B. Legal Claims

The City has the usual and customary type of miscellaneous legal claims pending at year-end. Although the outcome of these lawsuits is not presently determinable, the City's management believes that the City will not incur any material monetary loss resulting from these claims. No loss has been recorded on the City's financial statements relating to these claims.

C. Tax Increment Districts

The City's tax increment districts are subject to review by the Minnesota Office of the State Auditor. Any disallowed claims or misuse of tax increments could become a liability of the applicable fund. Management has indicated that it's not aware of any instances of noncompliance, which would have a material effect on the financial statements.

D. Contracts Payable

At December 31, 2023, the City is committed to various construction contracts for the improvement of city property. The City's remaining commitment under these contracts is approximately $717,853 at year-end.

PROPOSAL FORM

TO: City of Farmington, Minnesota
C/O Northland Securities, Inc.
150 South 5th Street, Suite 3300
Minneapolis, Minnesota 55402
Phone: 612-851-5900, Fax: 612-851-5918
Email: PublicSale@northlandsecurities.com

Sale Date: July 15, 2024

For all or none of the $3,360,000* General Obligation Bonds, Series 2024A, in accordance with the Notice of Sale, we will pay you $__________________________, (not less than $3,318,000) plus accrued interest, if any, to date of delivery (estimated to be August 15, 2024) for fully registered Bonds bearing interest rates and maturing on February 1 as follows:

Year	Interest Rate	Yield	Year	Interest Rate	Yield	Year	Interest Rate	Yield
2026	%	%	2031	%	%	2036	%	%
2027	%	%	2032	%	%	2037	%	%
2028	%	%	2033	%	%	2038	%	%
2029	%	%	2034	%	%	2039	%	%
2030	%	%	2035	%	%	2040	%	%

True interest percentage:______________________% Net interest cost: $__________________________

Term Bond Option: Bonds maturing in the years:	To be accumulated into a Term Bond maturing in year:
________ through ________	________.
________ through ________	________.
________ through ________	________.
________ through ________	________.
________ through ________	________.

This bid is a firm offer for the purchase of the Bonds identified in the Notice of Sale, on the terms set forth in the bid form and the Notice of Sale, and is not subject to any conditions, except as permitted by the Notice of Sale. By submitting this bid, we confirm that we have an established industry reputation for underwriting new issuances of municipal bonds.

As set forth in the Notice of Sale, this bid shall not be cancelled in the event that the competitive sale requirements are not satisfied. The City may determine to apply the Hold-the-Offering-Price Rule to the Bonds (such terms are used as described in the Notice of Sale).

We have received and reviewed the Preliminary Official Statement and have submitted our requests for additional information or corrections to the Official Statement. As Syndicate Manager, we agree to provide the City with the reoffering price of the Bonds within 24 hours of the bid acceptance.

A Good Faith Deposit in the amount as stated in the Notice of Sale in the form of a federal wire transfer payable to the order of the City will only be required from the apparent winning bidder, and must be received within two hours after the receipt of the bids. Award of the Bonds will be on the basis of True Interest Cost (TIC).

Account Members:

Account Manager: ______________________________ By: ___________________________________

The foregoing proposal is hereby duly accepted by and on behalf of the City of Farmington, Minnesota at _________ PM on July 15, 2024.

_____________________________________ _____________________________________

Finance Director Mayor

* The City reserves the right to increase or decrease the principal amount of the Bonds. Any such increase or decrease will be made in multiples of $5,000 and may be made in any maturity. If any maturity is adjusted, the purchase price will also be adjusted to maintain the same gross spread.