

INDEPENDENT AUDITOR'S REPORT

**CITY OF RUTHTON
RUTHTON, MINNESOTA 56170**

FOR THE YEAR ENDED DECEMBER 31, 2025

**Meulebroeck, Taubert & Co., PLLP
Certified Public Accountants
PO Box 707
Pipestone, Minnesota 56164**

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City of Ruthton
Ruthton, Minnesota

MEMBERS OF THE CITY COUNCIL AND CITY OFFICIALS

Stan Townsend	Mayor
Darwin Sietsema	Assistant Mayor
Brian Baartman	Council Member
Chris Mccurdy	Council Member
Stewart Peterson	Council Member
Rochelle VanderWoude	City Clerk-Treasurer
Glen Petersen	City Attorney

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PARTNERS

Matthew A. Taubert, CPA
David W. Friedrichsen, CPA
Daryl J. Kanthak, CPA
Blake R. Klinsing, CPA
Amy L. Mollberg, CPA

WITH THE FIRM

Kirk W. Morgan, CPA

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and
Members of the City Council
Ruthton, 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 and each major fund of the City of Ruthton, Ruthton, Minnesota, as of and for the year ended December 31, 2025, and the related notes to the financial statements, which collectively comprise the City of Ruthton, Ruthton, Minnesota's basic financial statements as listed in the table of contents.

Basis for Qualified Opinions

The City has not adopted GASB Statement No. 68, Accounting and Financial Reporting for Pensions, for the Volunteer Firefighters' Relief Association in the governmental activities, business-type activities and each major fund and, accordingly, has not shown activity related to this standard.

Qualified Opinions

In our opinion, except for the possible effects of the matter described in the "Basis for Qualified Opinions", the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the City of Ruthton, Ruthton, Minnesota, as of December 31, 2025, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund and the major special revenue funds (Fire Department Fund, Small Cities Development Program Fund II, and Cemetery Fund), for the year ended in accordance with accounting principles generally accepted in the United States of America.

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 of Ruthton, Ruthton, Minnesota's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with 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 of Ruthton, Ruthton, Minnesota'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 of Ruthton, Ruthton, Minnesota'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.

The Financial statements include partial prior-year comparative information, which does not include all of the information required in a presentation in conformity with accounting principles generally accepted in the United States of America. The prior year partial comparative information has been derived from the City's financial statements for the year ended December 31, 2024, and in our report dated June 4, 2025, we expressed qualified opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information. Accordingly, such information should be read in conjunction with the City's financial statements for the year ended December 31, 2024, from which it was derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and Required Supplementary Information Other than MD&A 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 required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.


Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Ruthton, Ruthton, Minnesota's basic financial statements. The accompanying combining individual fund financial statements, and schedule of Long-Term Debt, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to

the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 26, 2026, on our consideration of the City of Ruthton, Ruthton, Minnesota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 of Ruthton, Ruthton, Minnesota'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 City of Ruthton, Ruthton, Minnesota's internal control over financial reporting and compliance.


Meulebroeck, Taubert & Co., PLLP
Certified Public Accountants
Pipestone, Minnesota

May 26, 2026

MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED DECEMBER 31, 2025

This section of the City of Ruthton's annual financial report presents management's discussion and analysis of the City's financial performance during the fiscal year ended December 31, 2025. Please read it in conjunction with the other components of the City's annual financial report.

The Management's Discussion and Analysis (MD&A) is an element of Required Supplementary Information specified in the Governmental Accounting Standards Board's (GASB) Statement No. 34 --*Basic Financial Statements -- and Management's Discussion and Analysis -- for State and Local Governments*. Certain comparative information between the current year (2025) and the prior year (2024) is required to be presented in the MD&A.

Financial Highlights

Key financial highlights for the 2025 fiscal year include the following:

- Governmental Net position decreased by \$21,311 or 1.8% from December 31, 2024, due primarily to increased general fund expenditures.
- Proprietary Net position increased by \$11,309 or 1.6% from December 31, 2024.
- Total governmental expenditures increased by \$94,946 in comparison to fiscal year 2024, due primarily to the Rehab expenditures passed through, and total governmental revenues increased by \$75,702 in comparison to fiscal year 2024, due to Rehab income being passed through.
- Total proprietary operating expenses decreased by \$5,674 in comparison to fiscal year 2024, and proprietary operating revenues decreased by \$824 in comparison to fiscal year 2024.

Overview of the Financial Statements

The financial section of the annual report consists of four parts -- Independent Auditor's Report, required supplementary information, which includes the management's discussion and analysis (this section), the basic financial statements, and supplemental information. The basic financial statements include government-wide financial statements and fund financial statements and the notes to the financial statements.

Government-Wide Statements

The government-wide statements (statement of net position and statement of activities) report information about the City as a whole using accounting methods similar to those used by private sector companies. The statement of net position includes all of the City's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's net position and how it has changed. Net position -- the difference between the City's assets and liabilities -- is one way to measure the City's financial health or position. Over time, increases or decreases in the City's net position is one indicator of whether its financial health is improving or deteriorating. You also need to consider other nonfinancial factors, however, such as changes in government support to assess the overall health of the City.

City of Ruthton
Ruthton, Minnesota

Fund Financial Statements

The fund financial statements include more detailed information about a City's individual funds. The City maintains two types of funds.

Governmental Funds - The City's services are included in this type of fund, which generally focuses on 1) how cash and other financial assets that can readily be converted to cash flow in and out, and 2) the balances left at year-end that are available for spending. Consequently, the governmental funds provide a detailed short-term view that helps to determine whether there are more or less financial resources that can be spent in the near future to finance the City's activities. Because this information does not encompass the additional long-term focus of the City-wide statements, we provide additional information (reconciliation schedules) immediately following the governmental fund statements that explain the relationship (or differences) between these two types of financial statement presentations.

The City maintains five governmental funds. Information is presented separately in the Governmental Fund Balance Sheet and in the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund, Fire Department Fund, Small Cities Development Program Fund II, and Cemetery Fund. The General Fund, Fire Department Fund, Small Cities Development Program Fund II, and Cemetery Fund are considered to be major funds.

Proprietary Funds – The City of Ruthton maintains three proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Ruthton uses the enterprise funds to account for Water, Sewer, and Garbage Operations. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water, Sewer, and Garbage Funds. These are considered to be major funds of the City of Ruthton.

Financial Analysis of the City as a Whole/Financial Analysis of the City's Funds (Government-Wide Statements)

As noted, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Ruthton, assets exceeded liabilities by \$1,895,109 at the close of the most recent fiscal year. This was a decrease of 0.5% from the previous year total of \$1,905,111.

City of Ruthton
Ruthton, Minnesota

Table 1 is a summarized view of the City’s Statement of Net Position.

Table 1						
Statement of Net Position						
As of December 31, 2025						
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2025</u>	<u>2024</u>	<u>2025</u>	<u>2024</u>	<u>2025</u>	<u>2024</u>
Assets						
Current and other assets	671,191	800,413	267,462	220,476	938,653	1,020,889
Capital assets, net of depreciation	866,780	836,263	465,407	506,269	1,332,187	1,342,532
Total Assets	<u>1,537,971</u>	<u>1,636,676</u>	<u>732,869</u>	<u>726,745</u>	<u>2,270,840</u>	<u>2,363,421</u>
Deferred Outflows of Resources						
Related to Pensions	7,123	3,689	8,196	4,244	15,319	7,933
Total Assets and Deferred Outflows of Resources	<u>1,545,094</u>	<u>1,640,365</u>	<u>741,065</u>	<u>730,989</u>	<u>2,286,159</u>	<u>2,371,354</u>
Liabilities						
Current and other liabilities	23,092	36,471	9,702	9,624	32,794	46,095
Long-Term Liabilities	222,351	236,551	21,341	21,094	243,692	257,645
Total Liabilities	<u>245,443</u>	<u>273,022</u>	<u>31,043</u>	<u>30,718</u>	<u>276,486</u>	<u>303,740</u>
Deferred Inflows of Resources						
Unearned Revenue	89,377	134,403			89,377	134,403
Related to Pensions	11,712	13,067	13,475	15,033	25,187	28,100
Total Deferred Inflows of Resources	<u>101,089</u>	<u>147,470</u>	<u>13,475</u>	<u>15,033</u>	<u>114,564</u>	<u>162,503</u>
Net Position						
Net Investment in Capital Assets	648,563	603,983	465,407	506,269	1,113,970	1,110,252
Restricted	49,635	61,172			49,635	61,172
Unrestricted	500,364	554,718	231,140	178,969	731,504	733,687
Net Position	<u>1,198,562</u>	<u>1,219,873</u>	<u>696,547</u>	<u>685,238</u>	<u>1,895,109</u>	<u>1,905,111</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>1,545,094</u>	<u>1,640,365</u>	<u>741,065</u>	<u>730,989</u>	<u>2,286,159</u>	<u>2,371,354</u>

The City’s financial position is the product of numerous factors. Therefore, it is important to view the net position balance as a starting point to evaluate future years' results, rather than to just focus on the current balance.

Table 2 presents a condensed version of the change in net position of the City.

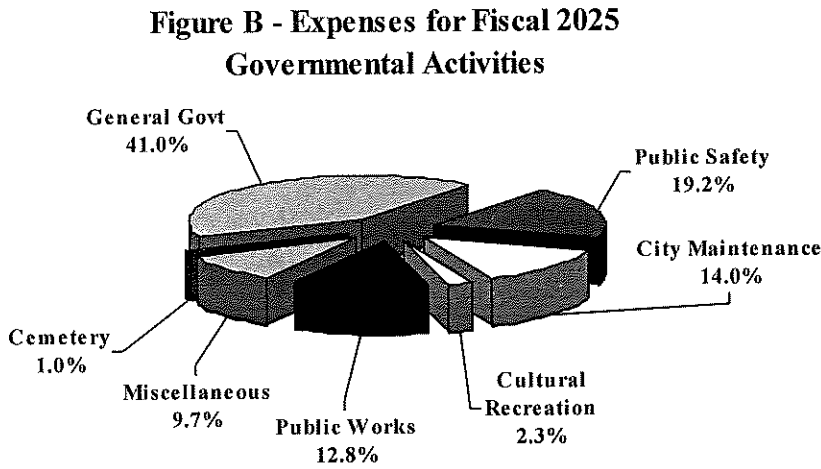
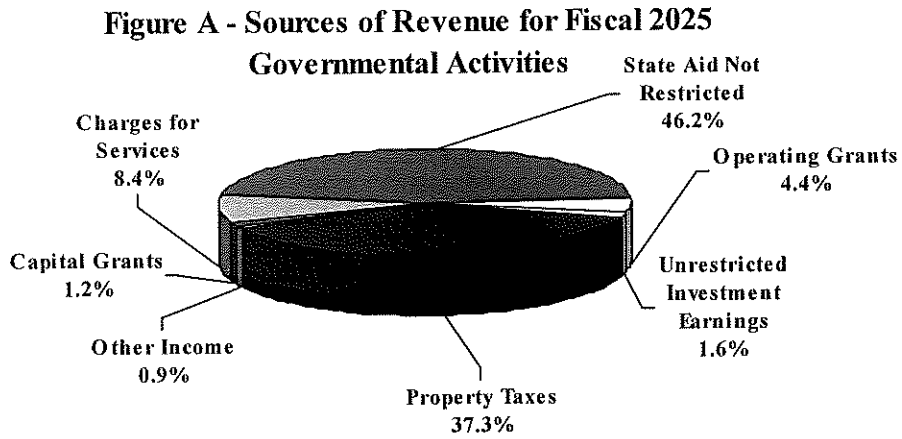
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2025</u>	<u>2024</u>	<u>2025</u>	<u>2024</u>	<u>2025</u>	<u>2024</u>
Revenues						
Program Revenues						
Charges for Services	34,547	42,555	148,298	149,122	182,845	191,677
Operating Grants and Contributions	18,398	14,985			18,398	14,985
Capital Grants and Contributions	5,000	4,000			5,000	4,000
General Revenues						
Property Taxes	154,369	144,034		150	154,369	144,184
State Aid Not Restricted For Specific Purposes	190,866	87,224			190,866	87,224
Unrestricted Investment Earnings	6,785	6,527	3,284	3,681	10,069	10,208
Other Revenues	3,475	37,959	3,403		6,878	37,959
Total Revenues	<u>413,440</u>	<u>337,284</u>	<u>154,985</u>	<u>152,953</u>	<u>568,425</u>	<u>490,237</u>
Expenses						
General Government	178,110	40,850			178,110	40,850
Public Safety	83,474	104,502			83,474	104,502
City Maintenance	60,927	81,000			60,927	81,000
Culture and Recreation	10,058	5,343			10,058	5,343
Public Works	55,473	49,594			55,473	49,594
Miscellaneous	42,188	55,563			42,188	55,563
Cemetery	4,521	4,489			4,521	4,489
Water			64,111	74,191	64,111	74,191
Sewer			55,804	52,776	55,804	52,776
Refuse			23,761	22,383	23,761	22,383
Total Expenses	<u>434,751</u>	<u>341,341</u>	<u>143,676</u>	<u>149,350</u>	<u>578,427</u>	<u>490,691</u>
Change in Net Position	(21,311)	(4,057)	11,309	3,603	(10,002)	(454)
Beginning Net Position						
As Originally Stated	1,219,873	1,227,170	685,238	687,129	1,905,111	1,914,299
Prior Period Adjustment		(3,240)		(5,494)		(8,734)
Beginning Net Position As Restated	<u>1,219,873</u>	<u>1,223,930</u>	<u>685,238</u>	<u>681,635</u>	<u>1,905,111</u>	<u>1,905,565</u>
Ending Net Position	<u>1,198,562</u>	<u>1,219,873</u>	<u>696,547</u>	<u>685,238</u>	<u>1,895,109</u>	<u>1,905,111</u>

The City's total revenue consisted of program revenues of \$206,243, property taxes of \$154,369, state aids of \$190,866, investment earnings of \$10,069 and miscellaneous revenues of \$6,878.

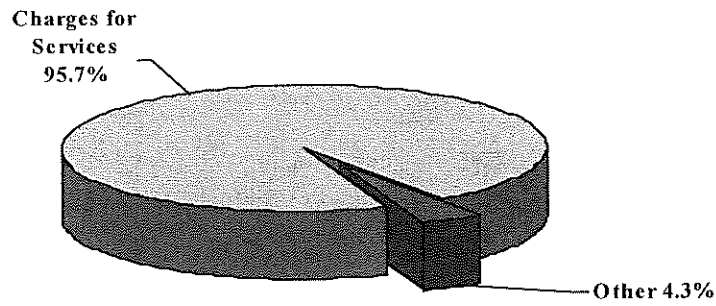
The cost of all governmental and business-type activities this year was \$578,427.

- The users of the city programs paid for 31.6%, or \$182,845, of the costs.
- The state government subsidized certain programs with grants and contributions. This totaled \$190,866, or 33.0%, of the total costs.

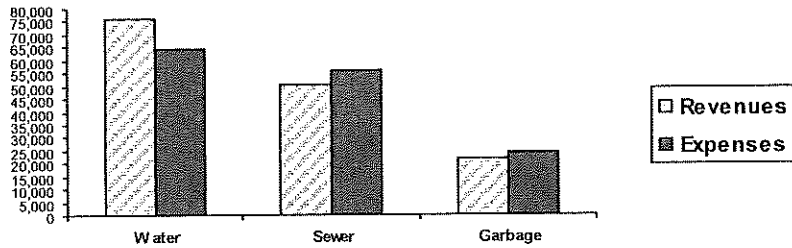
Figure A and Figure B show further analysis of these revenue sources and expenditure functions for Governmental activities. Figure C and D show further analysis of these revenue sources and expenditures functions for Business-Type Activities.



**Figure C - Sources of Revenues for Fiscal Year 2025
Business-Type Activities**



**Figure D - Operating Revenues and Expenses for Fiscal Year 2025
Business-Type Activities**



Financial Analysis of the City's Funds (Fund Financial Statements)

Fund Balance/Net Position

The financial performance of the city as a whole is reflected in its governmental funds as well. As the city completed the year, the governmental funds reported a combined fund balance of \$563,434. The prior year fund balance was \$635,381, which is a decrease of \$71,947. The General Fund decrease of \$69,905 is due to increased expenditures. The Fire Department Fund had an increase of \$9,495, due to decreased expenditures, the Small Cities Development Program Fund II had a decrease of \$14,808, and the Cemetery Fund had an increase of \$3,271.

The proprietary funds completed the year with a combined net position of \$696,547. The prior year net position was \$685,238. The Water Fund increased \$14,386. The Sewer fund decreased \$1,080; the Garbage Fund decrease of \$1,997 was due to expenditures exceeding revenues.

Revenues and Expenditures/Expenses

Revenues of the city's governmental funds totaled \$404,420 while total expenditures were \$483,152. A summary of the revenues and expenditures reported on the governmental financial statements is as follows:

	Revenue	Expenditures	Other Financing Sources (Uses)	Fund Balance Increase (Decrease)
General Fund	356,709	411,966	(14,648)	(69,905)
Fire Department Fund	44,948	53,415	17,962	9,495
Small Cities Development Program Fund II	113	15,000	79	(14,808)
Cemetery Fund	<u>2,650</u>	<u>2,771</u>	<u>3,392</u>	<u>3,271</u>
Total	<u>404,420</u>	<u>483,152</u>	<u>6,785</u>	<u>(71,947)</u>

Revenues of the city's proprietary funds totaled \$148,298, which total expenses were \$143,676. A summary of the revenues and expenses reported on the proprietary funds statements are as follows:

	Revenue	Expenses	Other Financing Sources (Uses)	Net Position Increase (Decrease)
Water Fund	76,167	64,111	2,330	14,386
Sewer Fund	50,367	55,804	4,357	(1,080)
Garbage Fund	<u>21,764</u>	<u>23,761</u>	<u>---</u>	<u>(1,997)</u>
Total	<u>148,298</u>	<u>143,676</u>	<u>6,687</u>	<u>11,309</u>

General Fund Budgetary Highlights

The City is required to adopt an operating budget prior to the beginning of its fiscal year. Once the General Fund budget has been adopted, the City might amend the budget for known changes in circumstances such as legislative funding. During the fiscal year 2025, the City did not revise the original budget. The city’s budget anticipated that expenditures would exceed revenues and other financing sources (uses) by \$119,227. The actual results for the year showed expenditures exceeding revenues by \$69,905.

- Actual revenues were over budget by \$112,989 due to Rehab Housing Aid not budgeted.
- Actual expenditures were over budget by \$65,019 due to Rehab Expenditures not budgeted for.

Capital Assets

Table 3 shows the City’s capital assets, together with changes from the previous year. The table also shows the total depreciation expense for fiscal years ending December 31, 2025 and 2024.

**Table 3
Capital Assets**

	<u>2025</u>	<u>2024</u>	Increase (Decrease)
<u>Governmental Activities</u>			
Land	28,255	28,255	
Buildings	547,310	477,101	70,209
Equipment & Improvements	1,085,176	1,078,407	6,769
Infrastructure	1,221,764	1,180,389	41,375
Less accumulated depreciation	<u>(2,015,725)</u>	<u>(1,927,889)</u>	<u>(87,836)</u>
Total	<u>866,780</u>	<u>836,263</u>	<u>30,517</u>
Depreciation Expense	<u>87,836</u>	<u>91,533</u>	<u>(3,697)</u>
<u>Business-Type Activities</u>			
Land	44,519	44,519	
Water System & Equipment	938,259	938,259	
Sewer System & Equipment	878,528	878,528	
Less accumulated depreciation	<u>(1,395,899)</u>	<u>(1,355,037)</u>	<u>(40,862)</u>
Total	<u>465,407</u>	<u>506,269</u>	<u>(40,862)</u>
Depreciation Expense	<u>40,862</u>	<u>41,265</u>	<u>(403)</u>

Capital asset activity occurring in 2025 included community center concrete, security cameras, community center roof, city sign brick and concrete, ballfield concession stand, 10’ snowplow, and sealcoating and crack filling.

City of Ruthton
Ruthton, Minnesota

Long-Term Liabilities

At the end of the current fiscal year, the City had notes payable of \$218,217.

**Outstanding Debt
As of December 31, 2025**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Notes Payable -USDA Loan	<u>218,217</u>	<u>-0-</u>	<u>218,217</u>
Total Debt	<u>218,217</u>	<u>-0-</u>	<u>218,217</u>

More detailed information about the city's long-term liabilities is presented in Note 4.

Factors bearing on the City's Future

The City is dependent on the State of Minnesota for a significant portion of its funding. The continuation of this funding is dependent on the actions taken by Minnesota legislature in the future.

Contacting the City's Management

This financial report is designed to provide a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information contact the City of Ruthton at PO Box 5, Ruthton, Minnesota, 56170.

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STATEMENT OF NET POSITION
DECEMBER 31, 2025

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	
			2025	2024
<u>Assets</u>				
Cash and Investments	533,738	255,200	788,938	802,102
Accounts Receivable	1,816	11,007	12,823	18,895
Delinquent Taxes / Assessments Receivable	16,439		16,439	15,033
Due from Other Govts				14,660
Notes Receivable	93,293		93,293	139,722
Prepaid Items	25,905	1,255	27,160	30,477
Capital Assets (net of accumulated depreciation)	866,780	465,407	1,332,187	1,342,532
Total Assets	1,537,971	732,869	2,270,840	2,363,421
<u>Deferred Outflows of Resources</u>				
Related to Pensions	7,123	8,196	15,319	7,933
Total Assets and Deferred Outflows of Resources	1,545,094	741,065	2,286,159	2,371,354
<u>Liabilities</u>				
Accounts Payable and Other Current Liabilities	8,677	9,702	18,379	32,032
Noncurrent liabilities				
Due within one year	14,415		14,415	14,063
Due in more than one year	203,802		203,802	218,217
Net Pension Liability	18,549	21,341	39,890	39,428
Total Liabilities	245,443	31,043	276,486	303,740
<u>Deferred Inflows of Resources</u>				
Unearned Revenue	89,377		89,377	134,403
Related to Pensions	11,712	13,475	25,187	28,100
Total Deferred Inflows of Resources	101,089	13,475	114,564	162,503
<u>Net Position</u>				
Net Investment in Capital Assets	648,563	465,407	1,113,970	1,110,252
Restricted for:				
Small Cities Development Program II	33,353		33,353	48,161
Cemetery Fund	16,282		16,282	13,011
Unrestricted	500,364	231,140	731,504	733,687
Total Net Position	1,198,562	696,547	1,895,109	1,905,111
Total Liabilities, Deferred Inflows of Resources and Net Position	1,545,094	741,065	2,286,159	2,371,354

See accompanying notes to the financial statements.

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2025

Functions	Program Revenues				Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	
							2025	2024
Governmental Activities:								
General Government	178,110	11,847			(166,263)		(166,263)	(24,595)
Public Safety	83,474	21,600	18,348	5,000	(38,526)		(38,526)	(60,142)
City Maintenance	60,927				(60,927)		(60,927)	(81,000)
Cultural and Recreation	10,058				(10,058)		(10,058)	(5,343)
Public Works	55,473				(55,473)		(55,473)	(49,594)
Miscellaneous	42,188				(42,188)		(42,188)	(55,563)
Cemetery	4,521	1,100	50		(3,371)		(3,371)	(3,564)
Total Governmental Activities	434,751	34,547	18,398	5,000	(376,806)	-0-	(376,806)	(279,801)
Business-Type Activities								
Water	64,111	76,167				12,056	12,056	3,495
Sewer	55,804	50,367				(5,437)	(5,437)	(1,664)
Garbage	23,761	21,764				(1,997)	(1,997)	(2,059)
Total Business-Type Activities	143,676	148,298	-0-	-0-	-0-	4,622	4,622	(228)
Total Government	578,427	182,845	18,398	5,000	(376,806)	4,622	(372,184)	(280,029)
General Revenues								
Property Taxes					154,369		154,369	144,184
State Aid Not Restricted to Specific Purposes					190,866		190,866	87,224
Unrestricted Investment Earnings					6,785	3,284	10,069	10,208
Gain/(Loss) on Sale of Equipment								2,676
Other Revenues					3,475	3,403	6,878	35,283
Total General Revenues					355,495	6,687	362,182	279,575
Change in Net Position					(21,311)	11,309	(10,002)	(454)
Net Position-Beginning-As Originally Stated					1,219,873	685,238	1,905,111	1,914,299
Prior Period Adjustment								(8,734)
Net Position-Beginning-As Restated					1,219,873	685,238	1,905,111	1,905,565
Net Position - Ending					1,198,562	696,547	1,895,109	1,905,111

See accompanying notes to the financial statements.

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BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2025

<u>Assets</u>	<u>General</u>	<u>Fire Department Fund</u>
Cash	360,737	127,282
Accounts Receivable	1,816	
Delinquent Taxes Receivable	16,439	
Due from Other Govts		
Notes Receivable		
Prepaid Items	22,493	3,412
Total Assets	401,485	130,694
<u>Liabilities, Deferred Inflows of Resources and Fund Balances</u>		
<u>Liabilities</u>		
Accounts Payable	1,566	1,391
Total Liabilities	1,566	1,391
<u>Deferred Inflows of Resources</u>		
Unavailable Revenue	15,423	
<u>Fund Balances</u>		
Fund Balance - Non-Spendable	22,493	3,412
Fund Balance - Committed		125,891
Fund Balance - Unassigned	362,003	
Total Fund Balance	384,496	129,303
Total Liabilities, Deferred Inflows of Resources and Fund Balances	401,485	130,694

See accompanying notes to the financial statements.

Exhibit C

Small Cities Development Program Fund II	Cemetery Fund	Total Governmental Funds	
		2025	2024
29,437	16,282	533,738	596,455
		1,816	5,394
		16,439	15,033
			14,660
93,293		93,293	139,722
		25,905	29,149
<u>122,730</u>	<u>16,282</u>	<u>671,191</u>	<u>800,413</u>
		2,957	17,441
<u>-0-</u>	<u>-0-</u>	<u>2,957</u>	<u>17,441</u>
89,377		104,800	147,591
		25,905	29,149
33,353	16,282	175,526	179,027
		362,003	427,205
<u>33,353</u>	<u>16,282</u>	<u>563,434</u>	<u>635,381</u>
<u>122,730</u>	<u>16,282</u>	<u>671,191</u>	<u>800,413</u>

RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET POSITION
GOVERNMENTAL FUNDS
DECEMBER 31, 2025

	2025	2024
Total Governmental Fund Balances	563,434	635,381
Amounts Reported in Governmental Activities in the Statement of Net Position are Different Because:		
Capital assets used in the governmental activities are not financial resources and therefore are not reported in the funds.		
Cost of Capital Assets	2,882,505	2,764,152
Less: Accumulated Depreciation	<u>(2,015,725)</u>	<u>(1,927,889)</u>
	866,780	836,263
Other long-term assets are not available to pay for current-period expenditures and therefore, are deferred inflows of resources in the funds.		
	15,423	13,188
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.		
Deferred Outflows of Resources - Related to Pensions	7,123	3,689
Deferred Inflows of Resources - Related to Pensions	<u>(11,712)</u>	<u>(13,067)</u>
	(4,589)	(9,378)
Long-term liabilities that pertain to governmental funds are not due and payable in the current period and therefore are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net position. Balances at year-end are:		
Compensated Absences	(5,720)	(4,967)
Notes Payable	(218,217)	(232,280)
Pension Liability	<u>(18,549)</u>	<u>(18,334)</u>
	(242,486)	(255,581)
Total net position - governmental activities	<u><u>1,198,562</u></u>	<u><u>1,219,873</u></u>

See accompanying notes to the financial statements.

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2025

	General Fund	Fire Department Fund	Small Cities Development Program Fund II	Cemetery Fund	Total Governmental Funds	
					2025	2024
Revenues						
Taxes	152,134				152,134	144,671
Licenses and Permits	1,000				1,000	2,050
State Aid	190,866	18,348			209,214	101,884
Charges for Services	7,409	17,900			25,309	28,067
Grants		5,000			5,000	4,000
Fines and Forfeits	122				122	561
Fire Calls		3,700			3,700	7,800
Miscellaneous	1,862				1,862	15,726
Pest Control	3,316				3,316	3,277
Sale of Lots				1,500	1,500	1,500
Donations				50	50	325
Perpetual Care/Fees				1,100	1,100	800
Refunds and Reimbursements						6,997
SCDP Revenue						10,890
Loan Interest Income			113		113	170
Total Revenues	356,709	44,948	113	2,650	404,420	328,718
Expenditures						
General Government	222,843		15,000		237,843	110,208
Public Safety	16,285	36,362			52,647	97,685
City Maintenance	82,622				82,622	62,353
Cultural and Recreation	19,017				19,017	8,775
Public Works	46,064				46,064	50,883
Miscellaneous	25,135	17,053			42,188	55,563
Cemetery				2,771	2,771	2,739
Total Expenditures	411,966	53,415	15,000	2,771	483,152	388,206
Excess of Revenues (Expenditures)	(55,257)	(8,467)	(14,887)	(121)	(78,732)	(59,488)
Other Financing Sources (Uses)						
Gain/(Loss) on Sale of Equipment						2,676
Interest Income	3,352	2,962	79	392	6,785	6,527
Transfers In		15,000		3,000	18,000	17,000
Transfers Out	(18,000)				(18,000)	(17,000)
Total Other Financing Sources (Uses)	(14,648)	17,962	79	3,392	6,785	9,203
Net Change in Fund Balances	(69,905)	9,495	(14,808)	3,271	(71,947)	(50,285)
Fund Balance—Beginning	454,401	119,808	48,161	13,011	635,381	685,666
Fund Balance—Ending	384,496	129,303	33,353	16,282	563,434	635,381

See accompanying notes to the financial statements.

RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE
TO THE STATEMENT OF ACTIVITIES--GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2025

	2025	2024
Net Change in Governmental Fund Balances	(71,947)	(50,285)

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

Governmental funds report capital outlays as expenditures, however, in the statement of activities, assets with an initial, individual cost of more than \$1,000.00 are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.

Capital Outlay	118,353	124,351
Salvage Value		(200)
Depreciation Expense	(87,836)	(91,533)
	30,517	32,618

Governmental funds report long-term debt proceeds as financing sources, while repayment of long-term debt principal is reported as an expenditure. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities and repayment of principal reduces the liability. Interest is recognized as an expenditure in the governmental funds where it is due. In the statement of activities however, interest expense is recognized as it accrues. The net effect of these differences is as follows:

Payment of Bond Principal	14,063	13,720
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Change in Pension Liability	4,574	2,254
Prior Period Adjustment - Compensated Absences		(3,240)
Change in Compensated Absences	(753)	(1,727)
	3,821	(2,713)

Certain revenues are recognized as soon as they are earned. Under the modified accrual basis of accounting certain revenues cannot be recognized until they are available to liquidate liabilities of the current period.

	2,235	(637)
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Change in Net Position of Governmental Activities	(21,311)	(7,297)
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See accompanying notes to the financial statements.

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
-BUDGET AND ACTUAL-
FOR THE YEAR ENDED DECEMBER 31, 2025

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>Amounts</u>	<u>Variance with</u> <u>Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<u>Revenues</u>				
Taxes	153,483	153,483	152,134	(1,349)
Licenses and Permits	2,000	2,000	1,000	(1,000)
State Aid	74,337	74,337	190,866	116,529
Charges for Services	8,500	8,500	7,409	(1,091)
Fines and Forfeits			122	122
Miscellaneous Revenues	5,400	5,400	5,178	(222)
Total Revenues	<u>243,720</u>	<u>243,720</u>	<u>356,709</u>	<u>112,989</u>
<u>Expenditures</u>				
General Government	140,717	140,717	222,843	(82,126)
Public Safety	24,225	24,225	16,285	7,940
City Maintenance	68,950	68,950	82,622	(13,672)
Culture and Recreation	27,300	27,300	19,017	8,283
Public Works	61,755	61,755	46,064	15,691
Miscellaneous	24,000	24,000	25,135	(1,135)
Total Expenditures	<u>346,947</u>	<u>346,947</u>	<u>411,966</u>	<u>(65,019)</u>
Excess of Revenues (Expenditures)	<u>(103,227)</u>	<u>(103,227)</u>	<u>(55,257)</u>	<u>47,970</u>
<u>Other Financing Sources (Uses)</u>				
Interest Income	2,000	2,000	3,352	1,352
Transfers Out	(18,000)	(18,000)	(18,000)	
Total Other Financing Sources (Uses)	<u>(16,000)</u>	<u>(16,000)</u>	<u>(14,648)</u>	<u>1,352</u>
Net Change in Fund Balances	<u>(119,227)</u>	<u>(119,227)</u>	(69,905)	<u>49,322</u>
Fund Balance-Beginning			<u>454,401</u>	
Fund Balance-Ending			<u>384,496</u>	

See accompanying notes to the financial statements.

FIRE DEPARTMENT FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
-BUDGET AND ACTUAL-
FOR THE YEAR ENDED DECEMBER 31, 2025

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>Amounts</u>	<u>Variance with</u> <u>Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<u>Revenues</u>				
Rural Fire Protection	17,900	17,900	17,900	
Firemen's Relief Aid-State	10,250	10,250	18,348	8,098
Fire Calls			3,700	3,700
Grants			5,000	5,000
Miscellaneous Revenues	250	250		(250)
Total Revenues	<u>28,400</u>	<u>28,400</u>	<u>44,948</u>	<u>16,548</u>
<u>Expenditures</u>				
Insurance	1,000	1,000	1,590	(590)
Equipment Operating Expense	5,500	5,500	1,963	3,537
Firemen's Relief Association Contribution	10,250	10,250	17,053	(6,803)
Miscellaneous	1,500	1,500	260	1,240
Capital Outlay	7,000	7,000		7,000
Utilities	3,000	3,000	2,177	823
Training and Travel Expense	3,000	3,000	1,315	1,685
Professional Fees	1,000	1,000	2,110	(1,110)
Salaries	6,000	6,000	5,759	241
First Responders-Supplies, Repairs	1,000	1,000	1,318	(318)
Fire Truck Interest	5,807	5,807	5,807	
Fire Truck Principal	14,063	14,063	14,063	
Total Expenditures	<u>59,120</u>	<u>59,120</u>	<u>53,415</u>	<u>5,705</u>
Excess Revenues (Expenditures)	<u>(30,720)</u>	<u>(30,720)</u>	<u>(8,467)</u>	<u>22,253</u>
<u>Other Financing Sources (Uses)</u>				
Interest Income			2,962	2,962
Transfers In	15,000	15,000	15,000	
Total Other Financing Sources (Uses)	<u>15,000</u>	<u>15,000</u>	<u>17,962</u>	<u>2,962</u>
Net Change in Fund Balance	<u>(15,720)</u>	<u>(15,720)</u>	9,495	<u>25,215</u>
Fund Balance-Beginning			<u>119,808</u>	
Fund Balance-Ending			<u>129,303</u>	

See accompanying notes to the financial statements.

SMALL CITIES DEVELOPMENT PROGRAM FUND II
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
-BUDGET AND ACTUAL-
FOR THE YEAR ENDED DECEMBER 31, 2025

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<u>Revenues</u>				
Loan Interest Income			113	113
Total Revenues	-0-	-0-	113	113
<u>Expenditures</u>				
Admin Fee			15,000	(15,000)
Total Expenditures	-0-	-0-	15,000	(15,000)
Excess of Revenues (Expenditures)	-0-	-0-	(14,887)	(14,887)
<u>Other Financing Sources (Uses)</u>				
Interest Income			79	79
Total Other Financing Sources (Uses)	-0-	-0-	79	79
Net Change in Fund Balance	<u>-0-</u>	<u>-0-</u>	(14,808)	<u>(14,808)</u>
Fund Balance-Beginning			48,161	
Fund Balance-Ending			<u>33,353</u>	

See accompanying notes to the financial statements.

CEMETERY FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
-BUDGET AND ACTUAL-
FOR THE YEAR ENDED DECEMBER 31, 2025

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<u>Revenues</u>				
Donations			50	50
Perpetual Care/Fees			1,100	1,100
Sale of Lots	1,500	1,500	1,500	
Total Revenues	<u>1,500</u>	<u>1,500</u>	<u>2,650</u>	<u>1,150</u>
<u>Expenditures</u>				
Gasoline	500	500	578	(78)
Labor	5,000	5,000	2,193	2,807
Total Expenditures	<u>5,500</u>	<u>5,500</u>	<u>2,771</u>	<u>2,729</u>
Excess of Revenues (Expenditures)	<u>(4,000)</u>	<u>(4,000)</u>	<u>(121)</u>	<u>3,879</u>
<u>Other Financing Sources (Uses)</u>				
Interest Income	50	50	392	342
Transfers In	3,000	3,000	3,000	
Total Other Financing Sources (Uses)	<u>3,050</u>	<u>3,050</u>	<u>3,392</u>	<u>342</u>
Net Change in Fund Balance	<u>(950)</u>	<u>(950)</u>	3,271	<u>4,221</u>
Fund Balance-Beginning			13,011	
Fund Balance-Ending			<u>16,282</u>	

See accompanying notes to the financial statements.

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2025

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Garbage Fund</u>	<u>Total</u>	
				<u>2025</u>	<u>2024</u>
<u>Assets</u>					
<u>Current Assets</u>					
Cash	104,491	147,390	3,319	255,200	205,647
Receivables					
Accounts	5,491	3,936	1,580	11,007	13,501
Prepaid Items	1,255			1,255	1,328
Total Current Assets	<u>111,237</u>	<u>151,326</u>	<u>4,899</u>	<u>267,462</u>	<u>220,476</u>
<u>Noncurrent Assets</u>					
<u>Capital Assets</u>					
Land		44,519		44,519	44,519
Property and Equipment	938,259	878,528		1,816,787	1,816,787
Less: Accumulated Depreciation	<u>(626,301)</u>	<u>(769,598)</u>		<u>(1,395,899)</u>	<u>(1,355,037)</u>
Total Noncurrent Assets	<u>311,958</u>	<u>153,449</u>	<u>-0-</u>	<u>465,407</u>	<u>506,269</u>
Total Assets	<u>423,195</u>	<u>304,775</u>	<u>4,899</u>	<u>732,869</u>	<u>726,745</u>
<u>Deferred Outflows of Resources</u>					
Related to Pensions	<u>3,140</u>	<u>3,539</u>	<u>1,517</u>	<u>8,196</u>	<u>4,244</u>
Total Assets and Deferred Outflows of Resources	<u>426,335</u>	<u>308,314</u>	<u>6,416</u>	<u>741,065</u>	<u>730,989</u>
<u>Liabilities</u>					
<u>Current Liabilities</u>					
Accounts Payable	460	39	648	1,147	2,045
Compensated Absences	3,088	3,517	1,370	7,975	7,012
Sales Tax Payable			580	580	567
Total Current Liabilities	<u>3,548</u>	<u>3,556</u>	<u>2,598</u>	<u>9,702</u>	<u>9,624</u>
<u>Noncurrent Liabilities</u>					
Net Pension Liability	<u>8,177</u>	<u>9,215</u>	<u>3,949</u>	<u>21,341</u>	<u>21,094</u>
Total Noncurrent Liabilities	<u>8,177</u>	<u>9,215</u>	<u>3,949</u>	<u>21,341</u>	<u>21,094</u>
Total Liabilities	<u>11,725</u>	<u>12,771</u>	<u>6,547</u>	<u>31,043</u>	<u>30,718</u>
<u>Deferred Inflows of Resources</u>					
Related to Pensions	<u>5,164</u>	<u>5,818</u>	<u>2,493</u>	<u>13,475</u>	<u>15,033</u>
Total Deferred Inflows of Resources	<u>5,164</u>	<u>5,818</u>	<u>2,493</u>	<u>13,475</u>	<u>15,033</u>
<u>Net Position</u>					
Net Investment in Capital Assets	311,958	153,449		465,407	506,269
Unrestricted	<u>97,488</u>	<u>136,276</u>	<u>(2,624)</u>	<u>231,140</u>	<u>178,969</u>
Total Net Position	<u>409,446</u>	<u>289,725</u>	<u>(2,624)</u>	<u>696,547</u>	<u>685,238</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>426,335</u>	<u>308,314</u>	<u>6,416</u>	<u>741,065</u>	<u>730,989</u>

See accompanying notes to the financial statements.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2025

	<u>Water</u>	<u>Sewer</u>	<u>Garbage</u>	<u>Total</u>	
	<u>Fund</u>	<u>Fund</u>	<u>Fund</u>	<u>2025</u>	<u>2024</u>
<u>Operating Revenues</u>					
Charges for Services	76,167	50,367	21,764	148,298	149,122
Total Revenues/Gross Margin	<u>76,167</u>	<u>50,367</u>	<u>21,764</u>	<u>148,298</u>	<u>149,122</u>
<u>Operating Expenses</u>					
Administration	42,173	36,880	23,761	102,814	108,085
Depreciation	21,938	18,924		40,862	41,265
Total Expenses	<u>64,111</u>	<u>55,804</u>	<u>23,761</u>	<u>143,676</u>	<u>149,350</u>
Operating Income (Loss)	12,056	(5,437)	(1,997)	4,622	(228)
<u>Non-Operating Revenues (Expenses)</u>					
Miscellaneous	1,000	1,000		2,000	
Refunds and Reimbursements		1,403		1,403	
Special Assessment Income					150
Interest Income	1,330	1,954		3,284	3,681
Total Non-Operating Revenues (Expenses)	<u>2,330</u>	<u>4,357</u>	<u>-0-</u>	<u>6,687</u>	<u>3,831</u>
Change in Net Position	14,386	(1,080)	(1,997)	11,309	3,603
Total Net Position-January 1-As Originally Stated	395,060	290,805	(627)	685,238	687,129
Prior Period Adjustment					(5,494)
Total Net Position-January 1-As Restated	<u>395,060</u>	<u>290,805</u>	<u>(627)</u>	<u>685,238</u>	<u>681,635</u>
Total Net Position-December 31	<u><u>409,446</u></u>	<u><u>289,725</u></u>	<u><u>(2,624)</u></u>	<u><u>696,547</u></u>	<u><u>685,238</u></u>

See accompanying notes to the financial statements.

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STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2025

	Business-Type Activities--	
<u>Cash Flows From Operating Activities</u>	Water	Sewer
Receipts from Customers and Users	77,423	51,368
Payments to Vendors and Suppliers	(16,895)	(9,408)
Payments to Employees	(26,901)	(30,280)
Net Cash Provided By Operating Activities	33,627	11,680
<u>Cash Flows From Noncapital Financing Activities</u>		
Receipts From Special Assessments	-	-
Net Cash Provided By Noncapital Financing Activities	-0-	-0-
<u>Cash Flows From Investing Activities</u>		
Miscellaneous	1,000	1,000
Refunds and Reimbursements		1,403
Interest Income	1,330	1,954
Net Cash Provided By Investing Activities	2,330	4,357
Net Increase (Decrease) in Cash and Cash Equivalents	35,957	16,037
Cash and Cash Equivalents, January 1	68,534	131,353
Cash and Cash Equivalents, December 31	104,491	147,390
Reconciliation of Operating Income To Net		
Cash Provided By Operating Activities		
Operating Income (Loss)	12,056	(5,437)
Depreciation	21,938	18,924
(Increase) Decrease in Accounts Receivable	1,183	1,001
(Increase) Decrease in Prepaid Items	73	
Increase (Decrease) in Accounts Payable	23	(956)
Increase (Decrease) in Compensated Absences	371	420
Increase (Decrease) in Sales Tax Payable		
Increase (Decrease) in Pension Liability	(2,017)	(2,272)
Net Cash Provided By Operating Activities	33,627	11,680

See accompanying notes to the financial statements.

--Enterprise Funds

Garbage	Total	
	2025	2024
22,074	150,865	150,153
(9,401)	(35,704)	(48,907)
(15,114)	(72,295)	(61,151)
<u>(2,441)</u>	<u>42,866</u>	<u>40,095</u>
		150
<u>-0-</u>	<u>-0-</u>	<u>150</u>
	2,000	
	1,403	
	<u>3,284</u>	<u>3,681</u>
<u>-0-</u>	<u>6,687</u>	<u>3,681</u>
(2,441)	49,553	43,926
5,760	205,647	161,721
<u>3,319</u>	<u>255,200</u>	<u>205,647</u>
(1,997)	4,622	(228)
	40,862	41,265
310	2,494	(119)
	73	1,150
35	(898)	(896)
172	963	1,518
13	13	
(974)	(5,263)	(2,595)
<u>(2,441)</u>	<u>42,866</u>	<u>40,095</u>

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NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2025

Note 1 Summary of Significant Accounting Policies

A. Basis of Presentation

The financial statements of the City of Ruthton have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

B. Financial Reporting Entity

The City of Ruthton, Ruthton, Minnesota, was formed and operates pursuant to applicable Minnesota laws and statutes. The City of Ruthton operates under an elected Mayor and four member Council form of government. The Council has control over all activities related to the City of Ruthton.

As required by generally accepted accounting principles, these financial statements present the City and its component units, entities for which the government is considered to be financially accountable.

Component units are legally separate entities for which the City (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 include whether or not the primary government appoints the voting majority of the potential component unit's governing body, 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. Based on these criteria, there are no organizations considered to be component units of the City.

C. Basic Financial Statements Presentation

The government-wide financial statements (i.e. the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government. *Governmental activities* which normally are supported by taxes and intergovernmental revenues are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2025

Note 1 **Summary of Significant Accounting Policies - continued**

C. Basic Financial Statements Presentation - continued

Separate fund financial statements are provided for governmental, proprietary and fiduciary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

D. Basis of Accounting and Measurement Focus

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Property taxes are considered to be available if collected within 60 days of fiscal year-end. State revenue is recognized in the year to which it applies according to Minnesota Statutes and U.S. generally accepted accounting principles. Federal revenue is recorded in the year in which the related expenditure is made. Other miscellaneous revenue (except investment earnings) is recorded as revenues when received because they are generally not measurable until then. Investment earnings are recorded when earned because they are measurable and available. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

All major revenues are susceptible to accrual. Property tax revenues for all funds, which are payable by property owners on a calendar-year basis, are recognized as revenues in the fiscal years for which they apply according to Minnesota Statutes. Federal revenues are recorded in the year in which the related expenditure is made. If the amounts of Minnesota or federal revenues cannot be reasonably estimated or realization is not assured, they are not recorded as revenue in the current year.

The City reports unavailable revenue on its balance sheet. Unavailable revenues arise when potential revenue does not meet both the “measurable” and “available” criteria for recognition in the current period. Unavailable revenues also arise when resources are received by the City before it has a legal claim to them, as when grant monies are received prior to the incurring qualified expenditures. In subsequent periods, when both revenue recognition criteria are met or when the City has a legal claim to the resources, the liability for unavailable revenue is removed and revenue is recognized.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2025

Note 1 **Summary of Significant Accounting Policies - continued**

D. **Basis of Accounting and Measurement Focus - continued**

Description of Funds

The City reports the following **major governmental funds**:

General Fund

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

Fire Department Fund

This fund accounts for the activities and expenses related to the City's fire department.

Small Cities Development Program Fund II

This fund accounts for the activity of a new rehab grant/loan program the City started in 2019.

Cemetery Fund

This fund accounts for the activities and expenses related to the City's cemetery.

The government reports the following **major proprietary funds**:

Water Fund

The Water Fund is used to account for the operation, maintenance, and capital improvements of the City's water system.

Sewer Fund

The Sewer Fund is used to account for the operation, maintenance, and capital improvements of the City's sewer system.

Garbage Fund

The garbage fund is used to account for the operation, maintenance, and capital improvement of the City's garbage disposal system.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2025

Note 1 **Summary of Significant Accounting Policies - continued**

D. **Basis of Accounting and Measurement Focus - continued**

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 are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

E. **Budgets and Budgetary Accounting**

The budgeted amounts included in the statement of revenues and expenditures were accounted for and presented on the same basis and using the same accounting practices as are used to account and prepare financial reports for the funds. Budgets presented in this report for comparison to actual amounts are presented in accordance with generally accepted accounting principles. The budgets are prepared by city personnel and approved by the council. Encumbrances are not considered in the budget process or in the regular city accounting.

Once a budget is approved, it can be amended by city personnel with approval by the council. Amendments are made before the fact, are reflected in the official minutes of the Council, and are not made after fiscal year-end as dictated by law. Individual amendments were not material in relation to the original appropriations. All budget appropriations lapse at year-end.

The City has not prepared a budget for the Small Cities Development Program Fund II.

F. **Cash and Temporary Investments**

Cash and temporary 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 pooled investments are allocated to the respective funds on the basis of applicable cash balance participation by each fund.

Short-term, highly liquid debt instruments (including commercial paper, bankers' acceptances, and U.S. Treasury and agency obligations) purchased with a remaining maturity of one year or less is reported at amortized cost. Other investments are reported at fair value.

The City uses the average cash balance method of allocating investment income to the various funds.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2025

Note 1 **Summary of Significant Accounting Policies - continued**

G. **Accounts Receivable**

Represents amounts receivable from individuals, firms, and corporations for goods and services furnished by the City. No substantial losses are anticipated from present receivable balances, therefore, no allowance for uncollectible accounts is deemed necessary.

H. **Assessments Receivable**

Assessments receivable consist of the portion of improvements made by the City and charged against the properties affected. These assessments are payable with interest over a period of years.

I. **Notes Receivable**

Notes Receivable represents amounts receivable from individuals and businesses for funds furnished to them for rehabilitation.

J. **Prepaid Items**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepayments. Prepaid items are reported using the consumption method and recorded as expenditure at the time of consumption.

K. **Compensated Absences**

The City compensates employees who leave City services in good standing for all earned unused vacation, comp, and sick and safe time. Employees can accrue up to 160 hours per year depending on their years of service. The maximum amount of carryover from year-to-year is 1.5 times the vacation hours in a year. In addition, the employees are compensated for unused sick and safe time leave up to a maximum of 240 or 80 hours at varying rates depending on the employee type.

L. **Property Tax Recognition**

The levy certification is made in December of each year. The tax levy is collectible as of January 2nd of the following year and the taxes are due to the county treasurer in May and October of the following year. In Minnesota, counties act as collection agents for all property taxes.

The County spreads all levies over taxable property. Such taxes become a lien on January 1 and are recorded as receivables by the City at that date. Revenues are accrued and recognized in the year collectible, net of delinquencies. The County provides tax settlements to Cities and other taxing districts three times a year in January, June and December. Taxes which remain unpaid at December 31 are classified as delinquent taxes receivable.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2025

Note 1 **Summary of Significant Accounting Policies - continued**

M. **Capital Assets**

Capital assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded at their estimated fair market value at the date of donation. The City defines capital assets as those with an initial, individual cost of \$1,000 or more, which benefit more than one fiscal year. 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. Capital assets are recorded in the government-wide financial statements, but are not reported in the fund financial statements.

Capital assets are depreciated using the straight-line method over their estimated useful lives. Useful lives vary from 20 to 40 years for buildings and improvements, 5 to 20 years for equipment and vehicles, and 20 to 40 years for public domain infrastructure. Land is not depreciated.

N. **Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expenditure/expense) until then. Currently, the City has only one item that qualifies for reporting in this category: "Related to Pensions."

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has two types, which arise only under a modified accrual basis of accounting that qualifies for reporting in this category, Related to Pensions and Unearned Revenue. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. This amount is deferred and recognized as an inflow of resources in the period that the amounts become available.

O. **Long-Term Obligations**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bond issuance costs, if material, are reported as an expense in the period incurred. 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 or discounts on debt issuances are reported as other financing sources or uses, respectively. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2025

Note 1 **Summary of Significant Accounting Policies – continued**

P. **Fund Equity**

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

Non-Spendable Fund Balance

Fund balance amounts that are not in a spendable form or are legally or contractually required to be maintained intact.

Restricted Fund Balance

Fund balance amounts that can be spent only for specific purposes imposed by laws or regulations, external resource providers, constitutional provisions or enabling legislation.

Committed Fund Balance

Fund balance amounts that can be used only for the specific purpose determined by a formal action of the government's highest level of decision making authority.

The City's highest level of decision making authority is the city council. In order to establish, modify or rescind a committed fund balance amount, the council would need to approve the action at a council meeting.

Assigned Fund Balance

Fund balance amounts that are intended to be used by the government for a specific purpose, but do not meet the criteria to be classified as restricted or committed.

The city council has delegated the authority to assign fund balance amounts to the city clerk. Assigned amounts or changes to assigned amounts are presented to the council for review.

Unassigned Fund Balance

Fund balance amounts that are available for any purpose. These amounts represent the remaining fund balance in the General Fund that has not been classified as non-spendable, restricted, committed or assigned. Also for funds other than the general fund, unassigned fund balance is used to report a deficit fund balance.

When both restricted and unrestricted resources are available for use, it is the city's policy to use restricted resources first, then unrestricted resources as they are needed.

When any combination of committed, assigned, and unassigned resources are available for use, it is the city's policy to use committed resources first, then assigned, then unassigned resources as they are needed.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2025

Note 1 **Summary of Significant Accounting Policies – continued**

Q. **Net Position**

Net position represent the difference between assets and liabilities in the government-wide and Fiduciary Fund financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net position is reported as restricted in the government-wide financial statement when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

R. **Certain Comparative Data and Reclassifications**

Certain comparative total data for the prior year have been presented in the government-wide and fund financial statements in order to provide an understanding of the changes in the financial position and operations. Such comparative total data does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the government’s financial statements for the year ended December 31, 2024, from which the summarized information was derived.

S. **Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures.

T. **Pensions**

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA’s fiduciary net position have been determined on the same basis as they are reported by PERA. 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.

U. **Subsequent Events**

Subsequent events have been evaluated through July 6, 2026, which is the date the financial statements were available to be issued.

Note 2 **Deposits and Investments**

A. **Deposits**

Minnesota Stat. 118A.02 and 118A.04 authorize the City to designate a depository for public funds and to invest in certificates of deposit. Minnesota Stat. 118A.03 requires that all City deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit plus accrued interest at the close of the financial institution’s banking day, not covered by insurance or bonds.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2025

Note 2 Deposits and Investments-continued

A. Deposits - continued

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 standby 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.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the City’s deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. As of December 31, 2025, none of the City’s bank balance of \$623,435 was exposed to custodial credit risk because it was insured and properly collateralized with securities held by the pledging financial institution’s trust department or agent in the city’s name.

B. Investments

Minnesota Stat. 118A.04 and 118A.05 generally authorize the following types of investments as available to the City:

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as “high risk” by Minnesota Stat. 118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers’ acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

During the years ended December 31, 2025 and 2024, the City had no investments.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2025

Note 3 Capital Assets

Capital asset activity for the year ended December 31, 2025 was as follows:

Governmental Activities	<u>Balance</u> <u>1/1/25</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>12/31/25</u>
Capital assets not depreciated:				
Land	28,255			28,255
Capital assets depreciated:				
Buildings	477,101	70,209		547,310
Equipment & Improvements	1,078,407	6,769		1,085,176
Infrastructure	<u>1,180,389</u>	<u>41,375</u>		<u>1,221,764</u>
Total capital assets depreciated	2,735,897	118,353	-0-	2,854,250
Less accumulated depreciation for:				
Buildings	(240,929)	(16,455)		(257,384)
Equipment & Improvements	(697,183)	(51,538)		(748,721)
Infrastructure	<u>(989,777)</u>	<u>(19,843)</u>		<u>(1,009,620)</u>
Total accumulated depreciation	<u>(1,927,889)</u>	<u>(87,836)</u>	<u>-0-</u>	<u>(2,015,725)</u>
Total capital assets depreciated-net	<u>808,008</u>	<u>30,517</u>	<u>-0-</u>	<u>838,525</u>
Net Capital Assets	<u>836,263</u>	<u>30,517</u>	<u>-0-</u>	<u>866,780</u>
Business-Type Activities				
Capital assets not depreciated:				
Land	44,519			44,519
Capital assets depreciated:				
Water System & Equipment	938,259			938,259
Sewer System & Equipment	<u>878,528</u>			<u>878,528</u>
Total capital assets depreciated	1,816,787	-0-	-0-	1,816,787
Less accumulated depreciation for:				
Water System & Equipment	(604,363)	(21,938)		(626,301)
Sewer System & Equipment	<u>(750,674)</u>	<u>(18,924)</u>		<u>(769,598)</u>
Total accumulated depreciation	<u>(1,355,037)</u>	<u>(40,862)</u>	<u>-0-</u>	<u>(1,395,899)</u>
Total capital assets depreciated-net	<u>461,750</u>	<u>(40,862)</u>	<u>-0-</u>	<u>420,888</u>
Net Capital Assets	<u>506,269</u>	<u>(40,862)</u>	<u>-0-</u>	<u>465,407</u>

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2025

Note 3 Capital Assets - continued

Depreciation expense of \$128,698 for the year ended December 31, 2025 was charged to the following functions/programs:

Governmental Activities:

General Government	9,339
Public Safety	44,890
City Maintenance, including general infrastructure assets	19,681
Cultural and Recreation	1,667
Public Works	10,509
Cemetery	<u>1,750</u>
Total	<u>87,836</u>

Business-Type Activities:

Water	21,938
Sewer	<u>18,924</u>
Total	<u>40,862</u>

Note 4 Long-Term Debt
General Long-Term Debt

A Note Payable

This note was issued for the purchase of a fire department truck. The debt is a general obligation of the City and will be retired through fire department fund revenues.

	<u>Original</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Issue</u> <u>Date</u>	<u>Maturity</u> <u>Date</u>	<u>Year-End</u> <u>Balance</u>
Loan Payable	\$246,000	2.5%	11/13/23	11/13/38	\$218,217

Annual requirements to maturity for the note are as follows:

<u>Year Ending</u> <u>December 31</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2026	14,415	5,455	19,870
2027	14,775	5,095	19,870
2028	15,144	4,726	19,870
2029	15,523	4,347	19,870
2030	15,911	3,959	19,870
2031 - 2035	85,724	13,626	99,350
2036 - 2038	<u>56,725</u>	<u>2,885</u>	<u>59,610</u>
Total	<u>218,217</u>	<u>40,093</u>	<u>258,310</u>

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2025

Note 5 **Fund Balance Classification**

Non-Spendable Fund Balance

The City has the following non-spendable fund balances as of December 31, 2025:

General Fund	22,493
Fire Department Fund	<u>3,412</u>
Total Non-Spendable	<u>25,905</u>

Restricted Fund Balance

The City has no restricted fund balances as of December 31, 2025.

Committed Fund Balance

The City has the following committed fund balances as of December 31, 2025:

Fire Department Fund	125,891
Small Cities Development Program Fund II	33,353
Cemetery Fund	<u>16,282</u>
Total Committed	<u>175,526</u>

Assigned Fund Balance

The City has no assigned fund balances as of December 31, 2025.

Unassigned Fund Balance

The City has the following unassigned fund balances as of December 31, 2025:

General Fund	<u>362,003</u>
Total Unassigned	<u>362,003</u>

Note 6 **Defined Benefit Pension Plans**

A. Public Employees Retirement Association (PERA)

1. Plan Description

The City participates in the following defined benefit pension plans administered by the Public Employees Retirement Association (PERA). PERA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes, Chapters 353, 353D, 353E, 353G, and 356. Minnesota Statutes chapter 356 defines each plan's financial reporting requirements. PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

1. General Employees Retirement Plan (GERF)

Membership in the General Plan includes employees of counties, cities, townships, schools in non-certified positions, and other governmental entities whose revenues are derived from taxation, fees, or assessments. Plan membership is required for any employee who is expected to earn more than \$425 in a month, unless the employee meets exclusion criteria.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2025

Note 6 **Defined Benefit Pension Plans - continued**

A. **Public Employees Retirement Association (PERA) - continued**

2. Benefits Provided

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature. Vested, terminated employees who are entitled to benefits, but are not receiving them yet, are bound by the provisions in effect at the time they last terminated their public service. When a member is “vested,” they have earned enough service credit to receive a lifetime monthly benefit after leaving public service and reaching an eligible retirement age. Members who retire at or over their Social Security full retirement age with at least one year of service qualify for a retirement benefit.

GERF Benefits

General Employees Plan requires three years of service to vest. Benefits are based on a member’s highest average salary for any give successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for General Plan members. Members hired prior to July 1, 1989, receive the higher of the Step or Level formulas. Only the Level formula is used for members hired after June 30, 1989. Under the Step formula, General Plan members receive 1.2 percent of the highest average salary for each of the first 10 years of service and 1.7 percent for each additional year. Under the Level formula, General Plan members receive 1.7 percent of highest average salary for all years of service. For members hired prior to July 1, 1989 a full retirement benefit is available when age plus years of service equal 90 and normal retirement age is 65. Members can receive a reduced requirement benefit as early as age 55 if they have three or more years of service. Early retirement benefits are reduced by .25 percent for each month under age 65. Members with 30 or more years of service can retire at any age with a reduction of .25 percent for each month the member is younger than age 62. The Level formula allows General Plan members to receive a full retirement benefit at age 65 if they were first hired before July 1, 1989 or at age 66 if they were hired on or after July 1, 1989. Early retirement begins at age 55 with an actuarial reduction applied to the benefit.

Benefit increases are provided to benefit recipients each January. The postretirement increase is equal to 50 percent of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1 percent and a maximum of 1.5 percent. The 2025 annual increase was 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 prorated increase.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2025

Note 6 Defined Benefit Pension Plans - continued

A. Public Employees Retirement Association (PERA) - continued

3. Contributions

Minnesota Statutes chapters 353, 353E, 353G, and 356 set the rates for employer and employee contributions. Contribution rates can only be modified by state Legislature.

GERF Contributions

General Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2025 and the City was required to contribute 7.50 percent for General Plan members. The City's contributions to the General Employees Fund for the year ended December 31, 2025 were \$8,722. The City's contributions were equal to the required contributions as set by state statute.

4. Pension Costs

At December 31, 2025, the City reported a liability of \$39,890 for its proportionate share of the General Employees Fund's net pension liability. The City's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million to the fund. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the City totaled \$962. The net pension liability was measured as of June 30, 2025, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportionate share of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2024 through June 30, 2025, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2025, the City's proportionate share was .0012% which was .0001% higher than the proportionate share measured as of June 30, 2024.

City's Proportionate share of the net pension liability	\$39,890
State of Minnesota's proportionate share of the net pension Liability associated with the City	\$ <u>962</u>
Total	<u>\$40,852</u>

For the year ended December 31, 2025, the City recognized pension expense of (\$9,642) for its proportionate share of the General Employees Plan's pension expense. In addition, the City recognized an additional \$193 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2025

Note 6 **Defined Benefit Pension Plans - continued**

A. **Public Employees Retirement Association (PERA) - continued**

4. Pension Costs - continued

At December 31, 2025, the City reported its proportionate share of GERF's deferred outflows of resources and deferred inflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$3,801	-
Changes in actuarial assumptions	\$961	\$9,179
Difference between projected and actual investment earnings	-	\$15,873
Changes in proportion	\$6,022	\$135
Contributions paid to PERA subsequent to the measurement date	\$4,535	
Total	\$15,319	\$25,187

\$4,535 reported as deferred outflows of resources related to pensions resulting from City contributions to GERF subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2026. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	Pension Expense Amount
2026	(\$2,501)
2027	(\$5,589)
2028	(\$3,479)
2029	(\$2,834)

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2025

Note 6 Defined Benefit Pension Plans - continued

Public Employees Retirement Association (PERA) - continued

5. Long-Term Expected Return on Investment

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	33.5%	5.10%
International Equity	16.5%	5.30%
Fixed Income	25.0%	0.75%
Private Markets	<u>25.0%</u>	5.90%
Total	100%	

6. Actuarial Methods and Assumptions

The total pension liability for each of the cost-sharing defined benefit plans was determined by an actuarial valuation as of June 30, 2025, using the entry age normal actuarial cost method. The long-term rate of return on pension plan investments used to determine the total liability is 7%. The 7% assumption is based on a review of inflation and investment return assumptions from a number of national investment consulting firms. The review provided a range of investment return rates considered reasonable by the actuary. An investment return of 7% is within that range.

- Inflation is assumed to be 2.25% for the General Employees Plan
- Benefit increases after retirement are assumed to be 1.5% for the General Employees Plan..

Salary growth assumptions in the General Employees Plan range in annual increments from 11.5 percent after one year of service to 3.0 percent after 27 years of service

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

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2025

Note 6 Defined Benefit Pension Plans - continued

Public Employees Retirement Association (PERA) - continued

6. Actuarial Methods and Assumptions - continued

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

The following changes in actuarial assumptions and plan provisions occurred in 2025:

General Employees Fund

Changes in Actuarial Assumptions

- The combined service annuity loading factors increased from 15% to 19% for vested terminated members and from 3% to 44% for non-vested, terminated members.

Changes in plan provisions:

- The post-retirement benefit increase formula changed to 100% of the Social Security annual increase, between 1% and 1.75%, beginning January 1, 2026. If the funded ratio (on a market value of assets basis) is less than 85% for the last two consecutive annual valuations or is less than 80% in the most recent actuarial valuation, the maximum is reduced to 1.5%. Previously, the benefit increase was 50% of the Social Security annual increase, between 1% and 1.5%.
- The 1% additional employer contribution is eliminated when the plan reaches 98% funded states (on an actuarial of assets basis); this contribution was previously scheduled to stop when the plan reached 100% funded status.

7. Discount Rate

The discount rate used to measure the total pension liability in 2025 was 7.0%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2025

Note 6 **Defined Benefit Pension Plans - continued**

Public Employees Retirement Association (PERA) - continued

8. Pension Liability Sensitivity

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

	1% Decrease in Discount Rate (6.0%)	Discount Rate (7.0%)	1% Increase in Discount Rate (8.0%)
City's proportionate share of the GERP net pension liability:	\$96,888	\$39,890	(\$6,347)

9. Pension Plan Fiduciary Net Position

Detailed information about each defined benefit pension plan's fiduciary net position is available in a separately-issued PERA financial report. That report may be obtained on the Internet at www.mnpera.org; by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088; or by calling (651) 296-7460 or 1-800-652-9026.

Note 7 **Postemployment Benefits Other Than Pension Benefits (OPEB)**

The city has no liability for postemployment benefits other than pension benefits.

Note 8 **Excess of Expenditures Over Appropriations**

The following funds had excess expenditures over budget appropriations:

General	\$ 65,019
Small Cities Development Program Fund II	\$ 15,000

The excess was attributed to General Fund rehab and Small Cities admin expenses not budgeted for.

Note 9 **Interfund Transfers**

The following interfund transfers occurred during 2025:

	<u>Transfer Out</u>	<u>Transfer In</u>
General Fund	\$ 18,000	
Fire Department Fund		\$ 15,000
Cemetery		\$ 3,000

Transfers are primarily used to move funds to finance various programs in accordance with budgetary authorizations.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2025

Note 10 **Risk Management**

The City is exposed to various risk of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employee health and dental; and natural disasters. Risks of loss associated with workers' compensation claims are insured through participation in the League of Minnesota Cities Insurance Trust. All other risks of loss are insured by the purchase of commercial insurance. There were no significant reductions in insurance coverage from the previous year. There were no settlements in excess of insurance for any of the past three fiscal years.

Note 11 **Deficit Fund Balance/Net Position**

The following funds had deficit fund balance/net position at December 31, 2025:

Garbage Fund	2,624
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The City intends to fund these deficits through future price increase, and various other sources.

Note 12 **Prior Period Adjustment/Restatement of Fund Equity**

During 2024 the City applied the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 101, Compensated Absences. This statement provides guidance on the recognition measurement and disclosure requirements for compensated absences. The provision was effective for fiscal years beginning after December 15, 2023. The City has not restated the activity in fiscal year 2023 and is bringing in the cumulative change in the outstanding liability at December 31, 2023 as a prior-period adjustment which resulted in a restatement of the January 1, 2024 fund equity.

Beginning governmental activities net position as of January 1, 2024 was restated from \$1,227,170 to \$1,223,930, a decrease of \$3,240, and proprietary funds net position as of January 1, 2024 was restated from \$687,129 to \$681,635, a decrease of \$5,494.

REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MD & A

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER'S SHARE OF NET PENSION LIABILITY
DEFINED BENEFIT PENSION PLANS
DECEMBER 31, 2025

Fiscal Year Ending	Employer's Proportion Share (Percentage) of the Net Pension Liability (Asset)	Employer's Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)	State's Proportionate Share (Amount) of the Net Pension Liability Associated with the City of Ruthton (b)	Employer's Proportionate Share of the Net Pension Liability and the State's Proportionate Share of the Net Pension Liability Associated With the City of Ruthton (a+b)	Employer's Covered- Employee Payroll (c)	Employer's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll (a+b)/c	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
<u>PERA:</u>							
June 30, 2016	0.0010%	\$81,195	\$1,047	\$82,242	\$66,413	123.8%	78.2%
June 30, 2017	0.0010%	\$63,839	\$816	\$64,655	\$55,920	115.6%	75.9%
June 30, 2018	0.0010%	\$55,476	\$1,762	\$57,238	\$68,027	81.5%	79.5%
June 30, 2019	0.0010%	\$55,288	\$1,667	\$56,955	\$68,307	80.9%	80.2%
June 30, 2020	0.0010%	\$59,955	\$1,793	\$61,748	\$71,853	83.4%	79.0%
June 30, 2021	0.0011%	\$46,975	\$1,392	\$48,367	\$75,907	61.9%	87.0%
June 30, 2022	0.0011%	\$87,120	\$2,481	\$89,601	\$78,353	111.2%	76.7%
June 30, 2023	0.0011%	\$61,511	\$1,650	\$63,161	\$85,147	72.2%	83.1%
June 30, 2024	0.0011%	\$39,428	\$1,020	\$40,448	\$90,267	43.7%	89.1%
June 30, 2025	0.0012%	\$39,890	\$962	\$40,852	\$109,013	36.6%	90.8%

See Note 6, Defined Benefit Pension Plans, for more information.

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER'S CONTRIBUTIONS
DEFINED BENEFIT PENSION PLANS
DECEMBER 31, 2025

Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered- Employee Payroll (d)	Contributions as a Percentage of Covered-Employee Payroll (b/d)
<u>PERA:</u>					
December 31, 2016	\$4,981	\$4,981	\$0	\$66,413	7.50%
December 31, 2017	\$4,194	\$4,194	\$0	\$55,920	7.50%
December 31, 2018	\$5,102	\$5,102	\$0	\$68,027	7.50%
December 31, 2019	\$5,123	\$5,123	\$0	\$68,307	7.50%
December 31, 2020	\$5,389	\$5,389	\$0	\$71,853	7.50%
December 31, 2021	\$5,813	\$5,813	\$0	\$77,507	7.50%
December 31, 2022	\$6,170	\$6,170	\$0	\$82,267	7.50%
December 31, 2023	\$6,620	\$6,620	\$0	\$88,267	7.50%
December 31, 2024	\$7,440	\$7,440	\$0	\$99,200	7.50%
December 31, 2025	\$8,722	\$8,722	\$0	\$116,293	7.50%

See Note 6, Defined Benefit Pension Plans, for more information.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MD&A
DECEMBER 31, 2025

Note 1 **Defined Benefit Pension Plan – Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions**

The following changes were reflected in the valuation performed on behalf of the Public Employees Retirement Association for the year ended June 30:

A. General Employees Fund

2025 Changes

Changes in Actuarial Assumptions

- The combined service annuity loading factors increased from 15% to 19% for vested terminated members and from 3% to 44% for non-vested, terminated members.
- The assumed post-retirement benefit increase changed from 1.25% to 1.5%

Changes in Plan Provisions

- The post-retirement benefit increase formula changed to 100% of the Social Security annual increase, between 1% and 1.75%, beginning January 1, 2026. If the funded ratio (on a market value of assets basis) is less than 85% for the last two consecutive annual valuations or is less than 80% in the most recent actuarial valuation, the maximum is reduced to 1.5%. Previously, the benefit increase was 50% of the Social Security annual increase, between 1% and 1.5%.
- The 1% additional employer contribution is eliminated when the plan reaches 98% funded status (on an actuarial value of assets basis); this contribution was previously scheduled to stop when the plan reached 100% funded status.

2024 Changes

Changes in Actuarial Assumptions

- Rates of merit and seniority were adjusted, resulting in slightly higher rates
- Assumed rates of retirement were adjusted as follows: increase the rate of assumed unreduced retirements, slight adjustments to Rule of 90 retirement rates, and slight adjustments to early retirement rates for Tier 1 and Tier 2 members.
- Minor increase in assumed withdrawals for males and females.
- Lower rates of disability.
- Continued use of Pub-2010 general mortality table with slight rate adjustments as recommended in the most recent experience study.
- Minor changes to form of payment assumptions for male and female retirees.
- Minor changes to assumptions made with respect to missing participant data.

Changes in Plan Provisions

- The workers' compensation offset for disability benefits was eliminated. The actuarial equivalent factors updated to reflect the changes in assumptions.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MD&A
DECEMBER 31, 2025

Note 1 **Defined Benefit Pension Plan – Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions - continued**

A. General Employees Fund - continued

2023 Changes

Changes in Actuarial Assumptions

- The investment return assumption and single discount rate were changed from 6.5 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, non-compounding benefit increase of 2.5 percent minus the actual 2024 adjustment will be payable in a lump sum for calendar year 2024 by March 31, 2024.

2022 Changes

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

2021 Changes

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

2020 Changes

Changes in Actuarial Assumptions

- The price inflation assumption was decreased from 2.50% to 2.25%.
- The payroll growth assumption was decreased from 3.25% to 3.00%.
- Assumed salary increase rates were changed as recommended in the June 30, 2019 experience study. The net effect is assumed rates that average 0.25% less than previous rates.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MD&A
DECEMBER 31, 2025

Note 1 **Defined Benefit Pension Plan – Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions - continued**

A. General Employees Fund - continued

2020 Changes - continued

Changes in Actuarial Assumptions - continued

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

Changes in Plan Provisions

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

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MD&A
DECEMBER 31, 2025

Note 1 Defined Benefit Pension Plan – Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions - continued

A. General Employees Fund - continued

2019 Changes

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

2018 Changes

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MD&A
DECEMBER 31, 2025

Note 1 Defined Benefit Pension Plan – Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions - continued

A. General Employees Fund - continued

2017 Changes

Changes in Actuarial Assumptions

- The combined service annuity (CSA) loads were changed from 0.80 percent for active members and 60.00 percent for vested and non-vested deferred members. The revised CSA load are now 0.00 percent for active member liability, 15.00 percent for vested deferred member liability, and 3.00 percent for non-vested deferred member liability.
- The assumed postretirement benefit increase rate was changed for 1.00 percent per year for all years to 1.00 percent per year through 2044 and 2.50 percent per year thereafter.

Changes in Plan Provisions

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

2016 Changes:

Changes in Actuarial Assumptions

- The assumed postretirement benefit increase rate was changed from 1.00 percent per year through 2035 and 2.50 percent per year thereafter to 1.00 percent per year for all years.
- The assumed investment return was changed from 7.90 percent to 7.50 percent. The single discount rate changed from 7.90 percent to 7.50 percent.
- Other assumptions were changed pursuant to the experience study June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

Changes in Plan Provisions

- There have been no changes since the prior valuation.

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GENERAL FUND
BALANCE SHEET
DECEMBER 31, 2025

<u>Assets</u>	<u>2025</u>	<u>2024</u>
Cash	360,737	425,270
Accounts Receivable	1,816	1,569
Delinquent Taxes Receivable	16,439	15,033
Prepaid Items	22,493	27,196
Total Assets	<u>401,485</u>	<u>469,068</u>
<u>Liabilities, Deferred Inflows of Resources</u>		
<u>and Fund Balances</u>		
<u>Liabilities</u>		
Accounts Payable	1,566	1,479
Total Liabilities	<u>1,566</u>	<u>1,479</u>
<u>Deferred Inflows of Resources</u>		
Unearned Revenue	15,423	13,188
<u>Fund Balance</u>		
Fund Balance - Non-Spendable	22,493	27,196
Fund Balance - Unassigned	362,003	427,205
Total Fund Balance	<u>384,496</u>	<u>454,401</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>401,485</u>	<u>469,068</u>

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2025

	For The Years Ending December 31			
	2025		Variance with Budget	2024
	Budget	Actual		Actual
<u>Revenues</u>				
<u>Taxes</u>				
General Property Taxes	153,483	152,134	(1,349)	144,671
Total Taxes	<u>153,483</u>	<u>152,134</u>	<u>(1,349)</u>	<u>144,671</u>
<u>Licenses and Permits</u>	2,000	1,000	(1,000)	2,050
<u>State Aid</u>				
Local Government Aid	70,337	70,337		70,274
Market Value Credit		698	698	654
Rehab Income		106,270	106,270	
State Police Aid	4,000	6,677	2,677	5,636
Small City Assistance		6,884	6,884	10,660
Total State Aid	<u>74,337</u>	<u>190,866</u>	<u>116,529</u>	<u>87,224</u>
<u>Service Charges and Fines</u>				
Community Building Rent	5,700	6,335	635	5,795
Other Rental	300	165	(135)	2,920
Building and Other Permits	1,500	909	(591)	1,452
Interfund Service Charges	1,000		(1,000)	
Court Fines		122	122	561
Total Service Charges and Fines	<u>8,500</u>	<u>7,531</u>	<u>(969)</u>	<u>10,728</u>
<u>Miscellaneous Revenues</u>				
Donations				200
Pest Control	3,400	3,316	(84)	3,277
Other Miscellaneous	2,000	1,862	(138)	4,963
Refunds and Reimbursements				6,997
Total Miscellaneous Revenues	<u>5,400</u>	<u>5,178</u>	<u>(222)</u>	<u>15,437</u>
Total Revenues	<u>243,720</u>	<u>356,709</u>	<u>112,989</u>	<u>260,110</u>

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2025

	For The Years Ending December 31			2024
	2025	2025	Variance	
<u>Expenditures</u>	<u>Budget</u>	<u>Actual</u>	<u>with Budget</u>	<u>Actual</u>
<u>General Government</u>				
Mayor and Council Salaries	7,500	7,700	(200)	7,925
Mayor and Council	1,300	755	545	390
Clerk-Treasurer Salary	35,817	40,335	(4,518)	35,414
Clerk-Treasurer Training and Travel	1,000	50	950	712
Assessor	3,100	3,013	87	3,057
Capital Outlay	5,000	2,230	2,770	
Dues		2,685	(2,685)	2,016
Legal and Auditing	37,000	8,950	28,050	37,324
Payroll Taxes and Benefits	7,000	6,700	300	5,971
Printing and Publishing	1,000	97	903	907
Rehab Expense		106,270	(106,270)	
Repairs and Maintenance		13,086	(13,086)	3,099
City Office Supplies	3,500	4,449	(949)	4,468
City Office Utilities	7,500	5,521	1,979	4,104
City Office Miscellaneous	31,000	21,002	9,998	4,821
Total General Government	140,717	222,843	(82,126)	110,208
<u>Public Safety</u>				
Police Protection	15,000	14,560	440	14,560
Firemen's Relief Contribution	425	425		425
First Responders-Annual Contribution	1,300	1,300		1,300
Real Estate Rehabilitation	7,500		7,500	
Total Public Safety	24,225	16,285	7,940	16,285
<u>City Maintenance</u>				
Street Lighting	8,000	6,776	1,224	3,528
Snow Removal	200		200	300
Street Improvements	60,000	74,647	(14,647)	57,413
Street Supplies	750	1,199	(449)	1,112
Total City Maintenance	68,950	82,622	(13,672)	62,353

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2025

	For The Years Ending December 31			2024
	2025		Variance with Budget	
<u>Expenditures - continued</u>	<u>Budget</u>	<u>Actual</u>		
<u>Culture and Recreation</u>				
Park Contracted Services				1,443
Park Capital Outlay		7,837	(7,837)	2,500
Park Utilities	800	745	55	510
Park Repairs and Maintenance	26,000	7,635	18,365	4,210
Park Miscellaneous	500	2,800	(2,300)	112
Total Culture and Recreation	<u>27,300</u>	<u>19,017</u>	<u>8,283</u>	<u>8,775</u>
<u>Public Works</u>				
Public Works Salary	12,755	14,667	(1,912)	12,152
Payroll Taxes and Benefits	3,500	2,222	1,278	1,841
Insurance		89	(89)	1,558
Utilities	10,000	8,525	1,475	6,760
Repairs and Maintenance	20,000	18,293	1,707	10,435
Miscellaneous	500		500	258
Capital Outlay	15,000	2,268	12,732	17,879
Total Public Works	<u>61,755</u>	<u>46,064</u>	<u>15,691</u>	<u>50,883</u>
<u>Miscellaneous</u>				
Insurance	21,000	24,318	(3,318)	19,713
Maintenance		198	(198)	20,543
Miscellaneous	3,000	619	2,381	620
Supplies				27
Total Miscellaneous	<u>24,000</u>	<u>25,135</u>	<u>(1,135)</u>	<u>40,903</u>
Total Expenditures	<u>346,947</u>	<u>411,966</u>	<u>(65,019)</u>	<u>289,407</u>
Excess Revenues (Expenditures)	(103,227)	(55,257)	47,970	(29,297)

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2025

	For The Years Ending December 31			2024
	2025		Variance with Budget	
<u>Other Financing Sources (Uses)</u>	<u>Budget</u>	<u>Actual</u>		
Interest Income	2,000	3,352	1,352	3,260
Transfers Out	(18,000)	(18,000)		(17,000)
Total Other Financing Sources (Uses)	(16,000)	(14,648)	1,352	(13,740)
Net Change in Fund Balance	(119,227)	(69,905)	49,322	(43,037)
Fund Balance-January 1		454,401		497,438
Fund Balance-December 31		384,496		454,401

SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2025

	Fire Department Fund	Small Cities Development Program Fund II	Cemetery Fund	Totals	
				2025	2024
<u>Assets</u>					
Cash	127,282	29,437	16,282	173,001	171,185
Prepaid Items	3,412			3,412	1,953
Due from Other Govts					14,660
Accounts Receivable					3,825
Notes Receivable		93,293		93,293	139,722
Total Assets	<u>130,694</u>	<u>122,730</u>	<u>16,282</u>	<u>269,706</u>	<u>331,345</u>
<u>Liabilities, Deferred Inflows of Resources and Fund Balances</u>					
<u>Liabilities</u>					
Accounts Payable	1,391			1,391	15,962
Total Liabilities	<u>1,391</u>	<u>-0-</u>	<u>-0-</u>	<u>1,391</u>	<u>15,962</u>
<u>Deferred Inflows of Resources</u>					
Unavailable Revenue		89,377		89,377	134,403
<u>Fund Balance</u>					
Fund Balance - Non-Spendable	3,412			3,412	1,953
Fund Balance - Committed	125,891	33,353	16,282	175,526	179,027
Total Fund Balance	<u>129,303</u>	<u>33,353</u>	<u>16,282</u>	<u>178,938</u>	<u>180,980</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>130,694</u>	<u>122,730</u>	<u>16,282</u>	<u>269,706</u>	<u>331,345</u>

SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2025

	Fire Department Fund	Small Cities Development Program Fund II	Cemetery Fund	Totals	
				2025	2024
Revenues					
Rural Fire Protection	17,900			17,900	17,900
Firemen's Relief Aid-State	18,348			18,348	14,660
Fire Calls	3,700			3,700	7,800
Grants	5,000			5,000	4,000
Donations			50	50	125
Sale of Lots			1,500	1,500	1,500
Perpetual Care/Fees			1,100	1,100	800
Miscellaneous Revenues					10,763
SCDP Revenue					10,890
Loan Interest Income		113		113	170
Total Revenues	<u>44,948</u>	<u>113</u>	<u>2,650</u>	<u>47,711</u>	<u>68,608</u>
Expenditures					
Admin Fee		15,000		15,000	
Public Safety	36,362			36,362	81,400
Firemen's Relief Association	17,053			17,053	14,660
Cemetery			2,771	2,771	2,739
Total Expenditures	<u>53,415</u>	<u>15,000</u>	<u>2,771</u>	<u>71,186</u>	<u>98,799</u>
Excess Revenues (Expenditures)	(8,467)	(14,887)	(121)	(23,475)	(30,191)
Other Financing Sources (Uses)					
Gain/(Loss) on Sale of Equipment					2,676
Interest Income	2,962	79	392	3,433	3,267
Transfers In	15,000		3,000	18,000	17,000
Total Other Financing Sources (Uses)	<u>17,962</u>	<u>79</u>	<u>3,392</u>	<u>21,433</u>	<u>22,943</u>
Net Change in Fund Balances	9,495	(14,808)	3,271	(2,042)	(7,248)
Fund Balance-January 1	119,808	48,161	13,011	180,980	188,228
Fund Balance-December 31	<u>129,303</u>	<u>33,353</u>	<u>16,282</u>	<u>178,938</u>	<u>180,980</u>

FIRE DEPARTMENT FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2025

	<u>For The Years Ending December 31</u>			
	<u>2025</u>		<u>Variance with Budget</u>	<u>2024</u>
<u>Revenues</u>	<u>Budget</u>	<u>Actual</u>		
Rural Fire Protection	17,900	17,900		17,900
Firemen's Relief Aid-State	10,250	18,348	8,098	14,660
Grants		5,000	5,000	4,000
Fire Calls		3,700	3,700	7,800
Miscellaneous Revenues	250		(250)	10,763
Total Revenues	<u>28,400</u>	<u>44,948</u>	<u>16,548</u>	<u>55,123</u>
 <u>Expenditures</u>				
Insurance	1,000	1,590	(590)	1,661
Equipment Operating Expense	5,500	1,963	3,537	5,706
Firemen's Relief Association Contributions	10,250	17,053	(6,803)	14,660
Miscellaneous	1,500	260	1,240	150
Capital Outlay	7,000		7,000	39,721
Utilities	3,000	2,177	823	4,642
Training and Travel Expense	3,000	1,315	1,685	75
Professional Fees	1,000	2,110	(1,110)	3,070
Salaries	6,000	5,759	241	5,393
First Responders-Supplies, Repairs	1,000	1,318	(318)	1,112
Fire Truck Interest	5,807	5,807		6,150
Fire Truck Principal	14,063	14,063		13,720
Total Expenditures	<u>59,120</u>	<u>53,415</u>	<u>5,705</u>	<u>96,060</u>
Excess Revenues (Expenditures)	(30,720)	(8,467)	22,253	(40,937)
 <u>Other Financing Sources (Uses)</u>				
Gain/(Loss) on Sale of Equipment				2,676
Interest Income		2,962	2,962	2,872
Transfers In	15,000	15,000		15,000
Total Other Financing Sources (Uses)	<u>15,000</u>	<u>17,962</u>	<u>2,962</u>	<u>20,548</u>
Net Change in Fund Balance	<u>(15,720)</u>	9,495	<u>25,215</u>	(20,389)
Fund Balance-January 1		<u>119,808</u>		<u>140,197</u>
Fund Balance-December 31		<u>129,303</u>		<u>119,808</u>

SMALL CITIES DEVELOPMENT PROGRAM FUND II
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2025

	<u>For The Years Ending December 31</u>			<u>2024</u>
	<u>2025</u>		<u>Variance</u>	
	<u>Budget</u>	<u>Actual</u>		
<u>Revenues</u>				
Loan Interest Income		113	113	170
SCDP Revenue				10,890
Total Revenues	-0-	113	113	11,060
<u>Expenditures</u>				
Admin Fee		15,000	(15,000)	
Total Expenditures	-0-	15,000	(15,000)	-0-
Excess Revenues (Expenditures)	-0-	(14,887)	(14,887)	11,060
<u>Other Financing Sources (Uses)</u>				
Interest Income		79	79	88
Total Other Financing Sources (Uses)	-0-	79	79	88
Net Change in Fund Balance	-0-	(14,808)	(14,808)	11,148
Fund Balance-January 1		48,161		37,013
Fund Balance-December 31		33,353		48,161

CEMETERY FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2025

	For The Years Ending December 31			
	2025		Variance with Budget	2024
	Budget	Actual		Actual
<u>Revenues</u>				
Donations		50	50	125
Perpetual Care/Fees		1,100	1,100	800
Sale of Lots	1,500	1,500		1,500
Total Revenues	<u>1,500</u>	<u>2,650</u>	<u>1,150</u>	<u>2,425</u>
 <u>Expenditures</u>				
Gasoline	500	578	(78)	711
Labor	5,000	2,193	2,807	1,989
Repairs and Maintenance				39
Total Expenditures	<u>5,500</u>	<u>2,771</u>	<u>2,729</u>	<u>2,739</u>
Excess Revenues (Expenditures)	<u>(4,000)</u>	<u>(121)</u>	<u>3,879</u>	<u>(314)</u>
 <u>Other Financing Sources (Uses)</u>				
Interest Income	50	392	342	307
Transfers In	3,000	3,000		2,000
Total Other Financing Sources (Uses)	<u>3,050</u>	<u>3,392</u>	<u>342</u>	<u>2,307</u>
 Net Change in Fund Balance	<u>(950)</u>	3,271	<u>4,221</u>	1,993
Fund Balance-January 1		<u>13,011</u>		<u>11,018</u>
Fund Balance-December 31		<u>16,282</u>		<u>13,011</u>

PROPRIETARY FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2025

<u>Assets</u>	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Garbage Fund</u>	<u>Totals</u>	
				<u>2025</u>	<u>2024</u>
Cash	104,491	147,390	3,319	255,200	205,647
Accounts Receivable	5,491	3,936	1,580	11,007	13,501
Prepaid Items	1,255			1,255	1,328
Water System and Equipment	938,259			938,259	938,259
Accumulated Depreciation	(626,301)			(626,301)	(604,363)
Sewer System and Improvements		878,528		878,528	878,528
Accumulated Depreciation		(769,598)		(769,598)	(750,674)
Land		44,519		44,519	44,519
Related to Pensions	3,140	3,539	1,517	8,196	4,244
Total Assets	<u>426,335</u>	<u>308,314</u>	<u>6,416</u>	<u>741,065</u>	<u>730,989</u>
<u>Liabilities and Fund Equity</u>					
<u>Liabilities</u>					
Accounts Payable	460	39	648	1,147	2,045
Sales Tax Payable			580	580	567
Compensated Absences	3,088	3,517	1,370	7,975	7,012
Related to Pensions	5,164	5,818	2,493	13,475	15,033
Net Pension Liability	8,177	9,215	3,949	21,341	21,094
Total Liabilities	<u>16,889</u>	<u>18,589</u>	<u>9,040</u>	<u>44,518</u>	<u>45,751</u>
<u>Fund Equity</u>					
Retained Earnings	409,446	289,725	(2,624)	696,547	685,238
Total Liabilities and Fund Equity	<u>426,335</u>	<u>308,314</u>	<u>6,416</u>	<u>741,065</u>	<u>730,989</u>

PROPRIETARY FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 2025

	<u>Water</u>	<u>Sewer</u>	<u>Garbage</u>	<u>Totals</u>	
	<u>Fund</u>	<u>Fund</u>	<u>Fund</u>	<u>2025</u>	<u>2024</u>
<u>Revenues</u>					
Sewer Charge		50,367		50,367	51,112
Water and Garbage Collection	76,167		21,764	97,931	98,010
Total Operating Revenues	<u>76,167</u>	<u>50,367</u>	<u>21,764</u>	<u>148,298</u>	<u>149,122</u>
<u>Expenses</u>					
Garbage Collection Fees			6,755	6,755	6,885
Maintenance and Operational	12,782	2,841	10	15,633	27,753
Dues	450			450	420
Insurance	1,578			1,578	2,743
Special Fees and Taxes	2,042		2,223	4,265	4,249
Salaries	23,733	26,716	13,524	63,973	54,846
Payroll Taxes and Benefits	1,522	1,712	788	4,022	5,228
City Clean-Up			50	50	
Utilities		5,611	15	5,626	5,906
Supplies			396	396	
Miscellaneous	66			66	55
Depreciation	21,938	18,924		40,862	41,265
Total Operating Expense	<u>64,111</u>	<u>55,804</u>	<u>23,761</u>	<u>143,676</u>	<u>149,350</u>
Operating Income (Loss)	12,056	(5,437)	(1,997)	4,622	(228)
<u>Non-Operating Revenues (Expenses)</u>					
Miscellaneous	1,000	1,000		2,000	
Refunds and Reimbursements		1,403		1,403	
Special Assessment Income					150
Interest Income	1,330	1,954		3,284	3,681
Total Non-Operating Revenues (Expenses)	<u>2,330</u>	<u>4,357</u>	<u>-0-</u>	<u>6,687</u>	<u>3,831</u>
Net Income (Loss)	14,386	(1,080)	(1,997)	11,309	3,603
Retained Earnings-January 1-As Originally Stated	395,060	290,805	(627)	685,238	687,129
Prior Period Adjustment					(5,494)
Retained Earnings-January 1-As Restated	<u>395,060</u>	<u>290,805</u>	<u>(627)</u>	<u>685,238</u>	<u>681,635</u>
Retained Earnings-December 31	<u>409,446</u>	<u>289,725</u>	<u>(2,624)</u>	<u>696,547</u>	<u>685,238</u>

WATER FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 2025

<u>Revenues</u>	<u>2025</u>	<u>2024</u>
Water Collection	76,167	77,686
Total Operating Revenues	<u>76,167</u>	<u>77,686</u>
<u>Expenses</u>		
Maintenance and Operational	12,782	24,950
Dues	450	420
Insurance	1,578	2,743
Special Fees and Taxes	2,042	1,712
Salaries	23,733	20,208
Payroll Taxes and Benefits	1,522	1,982
Miscellaneous	66	55
Depreciation	21,938	22,121
Total Operating Expense	<u>64,111</u>	<u>74,191</u>
Operating Income (Loss)	12,056	3,495
<u>Non-Operating Revenues (Expenses)</u>		
Miscellaneous	1,000	
Special Assessment Income		150
Interest Income	1,330	1,245
Total Non-Operating Revenues (Expenses)	<u>2,330</u>	<u>1,395</u>
Net Income (Loss)	14,386	4,890
Retained Earnings-January 1-As Originally Stated	395,060	392,321
Prior Period Adjustment		(2,151)
Retained Earnings-January 1-As Restated	<u>395,060</u>	<u>390,170</u>
Retained Earnings-December 31	<u><u>409,446</u></u>	<u><u>395,060</u></u>

SEWER FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 2025

<u>Revenues</u>	<u>2025</u>	<u>2024</u>
Sewer Charge	<u>50,367</u>	<u>51,112</u>
Total Operating Revenues	<u>50,367</u>	<u>51,112</u>
<u>Expenses</u>		
Maintenance and Operational	2,841	2,803
Utilities	5,611	5,906
Salaries	26,716	22,700
Payroll Taxes and Benefits	1,712	2,223
Depreciation	<u>18,924</u>	<u>19,144</u>
Total Operating Expense	<u>55,804</u>	<u>52,776</u>
Operating Income (Loss)	(5,437)	(1,664)
<u>Non-Operating Revenues (Expenses)</u>		
Miscellaneous	1,000	
Refunds and Reimbursements	1,403	
Interest Income	<u>1,954</u>	<u>2,436</u>
Total Non-Operating Revenues (Expenses)	<u>4,357</u>	<u>2,436</u>
Net Income (Loss)	(1,080)	772
Retained Earnings-January 1-As Originally Stated	290,805	292,503
Prior Period Adjustment		<u>(2,470)</u>
Retained Earnings-January 1-As Restated	<u>290,805</u>	<u>290,033</u>
Retained Earnings-December 31	<u><u>289,725</u></u>	<u><u>290,805</u></u>

GARBAGE FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 2025

<u>Revenues</u>	<u>2025</u>	<u>2024</u>
Garbage Collection	21,764	20,324
Total Operating Revenues	21,764	20,324
<u>Expenses</u>		
Garbage Collection Fees	6,755	6,885
Special Fees and Taxes	2,223	2,537
Salaries	13,524	11,938
Payroll Taxes and Benefits	788	1,023
Repairs and Maintenance	10	
Supplies	396	
Utilities	15	
City Clean-Up	50	
Total Operating Expense	23,761	22,383
Net Income	(1,997)	(2,059)
Retained Earnings-January 1-As Originally Stated	(627)	2,305
Prior Period Adjustment		(873)
Retained Earnings-January 1-As Restated	(627)	1,432
Retained Earnings-December 31	(2,624)	(627)

GENERAL LONG-TERM DEBT
USDA PROMISSORY NOTE

The following schedule represents the amount of interest and principal that is due November 13 of each year. Interest is 2.5% throughout the term of the note.

<u>Due Date</u>	<u>Interest Rate</u>	<u>Principal Payment</u>	<u>Interest Payment</u>	<u>Total Payment</u>	<u>Balance Due</u>
					218,217
11/13/2026	2.50%	14,415	5,455	19,870	203,802
11/13/2027	2.50%	14,775	5,095	19,870	189,027
11/13/2028	2.50%	15,144	4,726	19,870	173,883
11/13/2029	2.50%	15,523	4,347	19,870	158,360
11/13/2030	2.50%	15,911	3,959	19,870	142,449
11/13/2031	2.50%	16,309	3,561	19,870	126,140
11/13/2032	2.50%	16,716	3,154	19,870	109,424
11/13/2033	2.50%	17,134	2,736	19,870	92,290
11/13/2034	2.50%	17,563	2,307	19,870	74,727
11/13/2035	2.50%	18,002	1,868	19,870	56,725
11/13/2036	2.50%	18,452	1,418	19,870	38,273
11/13/2037	2.50%	18,913	957	19,870	19,360
11/13/2038	2.50%	19,360	510	19,870	
Totals		<u>218,217</u>	<u>40,093</u>	<u>258,310</u>	

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WITH THE FIRM

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INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable Mayor and
Members of the City Council
Ruthton, Minnesota

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, and each major fund of the City of Ruthton, Ruthton, Minnesota as of and for the year ended December 31, 2025, and the related notes to the financial statements, which collectively comprise the City of Ruthton, Ruthton, Minnesota's basic financial statements, and have issued our report thereon dated May 26, 2026.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Ruthton, Ruthton, Minnesota's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Ruthton's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Ruthton, Ruthton, Minnesota's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be material weaknesses (2025-I and 2025-II).

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Ruthton, Ruthton, Minnesota's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Minnesota Legal Compliance

The *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minn. Stat. §6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories.


In connection with our audit, nothing came to our attention that caused us to believe that the City of Ruthton, Ruthton, Minnesota failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Cities*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City of Ruthton, Ruthton, Minnesota's noncompliance with the above reference provisions.

City of Ruthton, Ruthton, Minnesota's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the City of Ruthton, Ruthton, Minnesota's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. City of Ruthton, Ruthton, Minnesota's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


Meulebroeck, Taubert & Co., PLLP
Certified Public Accountants
Pipestone, Minnesota

May 26, 2026

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2025

2025-I Lack of segregation of duties.

Condition: The City has limited personnel available to perform accounting duties.

Criteria: Internal controls should be in place that provide reasonable assurance that a proper segregation of duties has been established.

Effect: As a result of the lack of segregation, personnel are performing duties which for internal control purposes should be performed by separate individuals.

Recommendation: The City should design internal controls to provide for proper segregation of duties.

Response: This is not unusual in a City of this size. The City has studied the situation and found that it is economically infeasible to design the system of internal control to adequately provide for the segregation of duties. The Council will monitor personnel duties.

2025-II Lack of expertise by City personnel to prepare financial statements in accordance with generally accepted accounting principles.

Condition: The City personnel lack the expertise to prepare financial statements in accordance with generally accepted accounting principles.

Criteria: Internal controls should be in place that provide reasonable assurance that financial statements are prepared in accordance with generally accepted accounting principles.

Effect: City personnel that lack the necessary expertise are responsible for financial statements required to be prepared in accordance with generally accepted accounting principles.

Recommendation: The City should provide personnel with adequate training to develop expertise to prepare financial statements in accordance with generally accepted accounting principles.

Response: This is not unusual in a City of this size. It is economically infeasible for the City to provide the necessary training for personnel to acquire and maintain this expertise. The City will continue to have the auditing firm prepare the financial statements and will have a review of the statements with the auditor.