CITY OF KIESTER
KIESTER, MINNESOTA

AUDITED FINANCIAL STATEMENTS

For The Year Ended December 31, 2025

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SINGLE AUDIT AND OTHER REQUIRED REPORTS:

CITY OF KIESTER, MINNESOTA

ELECTED AND APPOINTED OFFICIALS

FOR THE YEAR ENDED December 31, 2025

ELECTED

Name	Title	Term Expires
Hope Bauman	Mayor	December 31, 2026
Brandon Hagenson	Council Member	December 31, 2028
Paul Martin	Council Member	December 31, 2028
Marcia Dahleen – Appointed	Council Member	December 31, 2026
Jason Kleunder	Council Member	December 31, 2026

APPOINTED

Name	Title
Doris Troll	City Clerk-Treasurer
Gary Skartland	Public Works Superintendent
Brandon Hagenson	Fire Chief
David Frundt	City Attorney

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and
Members of the City Council
Kiester, Minnesota

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Kiester, Minnesota (the City), as of and for the year ended December 31, 2025, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of December 31, 2025, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

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

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

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Auditor's Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS 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 GAAS and *Government Auditing Standards*, we:

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

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

Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the required supplementary information, such as the pension liability schedules as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by 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. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The supplemental information, as listed in the table of contents under supplemental section and the schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* 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.

Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental information and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Prior Year Comparative Information

We have previously audited the City's 2024 financial statements, and we expressed unmodified audit opinions on the respective financial statements of the governmental activities, business-type activities, and each major fund in our report dated May 1, 2025. In our opinion, the partial comparative information presented herein as of and for the year ended December 31, 2024, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2026, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Carlson SV LLP

Mankato, Minnesota
March 31, 2026

BASIC FINANCIAL STATEMENTS

STATEMENT OF NET POSITION
December 31, 2025

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and investments	$ 4,754,965	$ 923,868	$ 5,678,833
Receivables:			
Property taxes	42,384	-	42,384
Accounts, net	-	75,444	75,444
Notes, net	12,080	-	12,080
Lease	7,906	-	7,906
Due from other governments	30,000	3,000	33,000
Capital assets:			
Assets not being depreciated/amortized	8,773,473	-	8,773,473
Other capital assets, net of depreciation/amortization	80,001	107,660	187,661
Net pension asset	184,343	-	184,343
Total Assets	13,885,152	1,109,972	14,995,124
Deferred Outflows of Resources			
Pension plan deferments	80,683	6,681	87,364
Liabilities			
Accounts payable	948,950	2,165	951,115
Accrued expenses	139,324	11,555	150,879
Unearned Revenue	-	446	446
Noncurrent Liabilities:			
Due within one year	20,427	2,680	23,107
Due in more than one year	9,833,408	2,582	9,835,990
Net pension liability	22,899	14,052	36,951
Total Liabilities	10,965,008	33,480	10,998,488
Deferred Inflows of Resources			
Pension plan deferments	90,864	22,551	113,415
Lease deferments	7,585	-	7,585
Total Deferred Inflows of Resources	98,449	22,551	121,000
Net Position			
Net investment in capital assets	1,617,755	107,660	1,725,415
Restricted	236,334	-	236,334
Unrestricted	1,048,289	952,962	2,001,251
TOTAL NET POSITION	$ 2,902,378	$ 1,060,622	$ 3,963,000

CITY OF KIESTER, MINNESOTA

STATEMENT OF ACTIVITIES
Year Ended December 31, 2025

		Program Revenues			Net (Expenses) Revenue and Changes in Net Position		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
GOVERNMENTAL ACTIVITIES							
General government	$ 130,732	$ 3,028	$ -	$ -	$ (127,704)	$ -	$ (127,704)
Public safety	45,977	16,836	89,762	-	60,621	-	60,621
Public works	599,149	-	8,602	1,249,254	658,707	-	658,707
Sanitation	11,551	7,609	-	-	(3,942)	-	(3,942)
Culture and recreation	24,799	-	345	-	(24,454)	-	(24,454)
Economic development	30,992	3,105	-	-	(27,887)	-	(27,887)
Interest and fees on long-term debt	393,151	-	-	-	(393,151)	-	(393,151)
Total Governmental Activities	1,236,351	30,578	98,709	1,249,254	142,190	-	142,190
BUSINESS-TYPE ACTIVITIES							
Water	73,388	127,241	-	-	-	53,853	53,853
Sewer	45,905	115,034	-	-	-	69,129	69,129
Ambulance	99,575	23,605	16,052	-	-	(59,918)	(59,918)
Municipal liquor	52,035	34,237	-	-	-	(17,798)	(17,798)
Total Business-type Activities	270,903	300,117	16,052	-	-	45,266	45,266
Total	$ 1,507,254	$ 330,695	$ 114,761	$ 1,249,254	142,190	45,266	187,456
General Revenues							
Taxes							
Property taxes, levied for general purposes					66,443	-	66,443
Property taxes, levied for specific purposes					209,728	47,554	257,282
Grants and contributions not restricted to specific programs					216,179	-	216,179
Unrestricted investment earnings					132,313	2,636	134,949
Other Revenues					4,813	10,368	15,181
Transfers					(13,049)	13,049	-
Total General Revenues					616,427	73,607	690,034
Change in Net Position					758,617	118,873	877,490
Net Position - Beginning					2,143,761	941,749	3,085,510
NET POSITION - ENDING					$ 2,902,378	$ 1,060,622	$ 3,963,000

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

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CITY OF KIESTER, MINNESOTA

BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2025

	General	Debt Service	2024 Street Improvement
Assets			
Cash and investments	$ 1,054,917	$ 367,245	$ 2,839,924
Receivables:			
Property taxes	42,384	-	-
Notes	-	-	-
Lease	-	-	-
Due from other governments	-	-	30,000
Advances to other funds	500,000	-	-
TOTAL ASSETS	$ 1,597,301	$ 367,245	$ 2,869,924
Liabilities			
Accounts payable	$ 1,843	$ -	$ 10,519
Accrued expenses	6,896	-	934,865
Advances from other funds	-	-	500,000
Total Liabilities	8,739	-	1,445,384
Deferred Inflows of Resources			
Unavailable revenue	41,556	-	-
Lease deferments	-	-	-
Total Deferred Inflows of Resources	41,556	-	-
Fund Balances			
Nonspendable	500,000	-	-
Restricted	-	367,245	1,424,540
Commited	-	-	-
Assigned	-	-	-
Unassigned	1,047,006	-	-
Total Fund Balances	1,547,006	367,245	1,424,540
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	$ 1,597,301	$ 367,245	$ 2,869,924

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

Other Governmental Funds	Total Governmental Funds
$ 492,879	$ 4,754,965
-	42,384
12,080	12,080
7,906	7,906
-	30,000
-	500,000
$ 512,865	$ 5,347,335
$ 1,725	$ 14,087
1,517	943,278
-	500,000
3,242	1,457,365
-	41,556
7,585	7,585
7,585	49,141
-	500,000
-	1,791,785
457,038	457,038
45,000	45,000
-	1,047,006
502,038	3,840,829
$ 512,865	$ 5,347,335

CITY OF KIESTER, MINNESOTA

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

Total Fund Balances - Governmental Funds	$	3,840,829
Amounts reported for Governmental Activities in the Statement of Net Position are different because:		
Capital assets are not financial resources and, therefore, are not reported as assets in the governmental funds. In the Statement of Net Position, capital assets are reported as assets.		
Cost of capital assets		9,161,360
Less accumulated depreciation		(307,886)
Long-term liabilities, including compensated absences, are not due and payable from current financial resources and, therefore, are not reported as liabilities in the governmental funds.		
Bonds and notes payable		(9,800,000)
Financed purchases		(16,977)
Compensated absences		(7,083)
Bond premiums and discounts are not reported in the governmental funds. In the Statement of Net Position, they are reported as adjustments to the carrying amount of the related debt.		(29,775)
Long-term receivables are reported as deferred inflows of resources in the governmental funds because they are not available to pay for current period expenditures. In the Statement of Net Position, the receivables are recognized and the deferred inflows are eliminated.		
Delinquent property taxes		41,556
Net pension liabilities are not due and payable from current financial resources and, therefore, are not reported as liabilities in the governmental funds.		
Net pension liability - general employees retirement pension fund		(22,899)
Net pension asset - volunteer firemen's relief pension fund		184,343
Deferred outflows of resources and deferred inflows of resources related to pensions are not due and payable from current financial resources and, therefore, are not reported in the governmental funds.		
Deferred outflows of resources related to pensions		80,683
Deferred inflows of resources related to pensions		(90,864)
Accrued interest payable is not due and payable from current financial resources and, therefore, is not reported as a liability in the governmental funds.		(130,911)
Total Net Position - Governmental Activities	$	2,902,378

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

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STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended December 31, 2025

	General	Debt Service	Formerly Major Fund Economic Development Authority
Revenues			
Taxes	$ 58,863	$ 140,000	$ -
Licenses and permits	2,218	-	-
Intergovernmental	211,781	-	-
Charges for services	8,059	-	-
Fines and forfeitures	360	-	-
Other revenues	14,431	-	-
Total Revenues	295,712	140,000	-
Expenditures			
Current			
General government	116,141	-	-
Public safety	12,000	-	-
Public works	70,271	-	-
Sanitation	11,551	-	-
Culture and recreation	7,964	-	-
Economic development	-	-	-
Capital Outlay			
General government	8,511	-	-
Public safety	-	-	-
Public works	3,641	-	-
Culture and recreation	3,635	-	-
Debt Service			
Principal	16,302	-	-
Interest and fees	1,527	214,097	-
Total Expenditures	251,543	214,097	-
Excess (Deficiency) of Revenues Over (Under) Expenditures	44,169	(74,097)	-
Other Financing Sources (Uses)			
Transfers out	(13,049)	-	-
Issuance of long-term debt	-	227,740	-
Bond premium	-	-	-
Total Other Financing Sources (Uses)	(13,049)	227,740	-
Net Change in Fund Balances	31,120	153,643	-
Fund Balances - Beginning	1,515,886	213,602	137,386
Change Within Financial Reporting Entity	-	-	(137,386)
Fund Balances - Beginning (Restated)	1,515,886	213,602	-
FUND BALANCES - ENDING	$ 1,547,006	$ 367,245	$ -

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

Formerly Major Fund Fire Department	2024 Street Improvement	Other Governmental Funds	Total Governmental Funds
$ -	$ -	$ 69,728	$ 268,591
-	-	-	2,218
-	1,249,254	34,824	1,495,859
-	-	19,941	28,000
-	-	-	360
-	111,443	79,535	205,409
-	1,360,697	204,028	2,000,437
-	-	-	116,141
-	-	43,962	55,962
-	-	-	70,271
-	-	-	11,551
-	-	10,966	18,930
-	-	30,992	30,992
-	-	-	8,511
-	-	104,857	104,857
-	5,294,889	-	5,298,530
-	-	1,554	5,189
-	-	-	16,302
-	131,740	-	347,364
-	5,426,629	192,331	6,084,600
-	(4,065,932)	11,697	(4,084,163)
-	-	-	(13,049)
-	5,562,260	-	5,790,000
-	43,309	-	43,309
-	5,605,569	-	5,820,260
-	1,539,637	11,697	1,736,097
288,403	(115,097)	64,552	2,104,732
(288,403)	-	425,789	-
-	(115,097)	490,341	2,104,732
$ -	$ 1,424,540	$ 502,038	$ 3,840,829

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT
GOVERNMENTAL FUNDS
Year Ended December 31, 2025

Total Net Change in Fund Balances - Governmental Funds	$ 1,736,097
Amounts reported for Governmental Activities in the Statement of Net Position are different because:	
Governmental funds report capital outlays as expenditures. In the Statement of Activities, those costs are allocated over the assets' estimated useful lives and reported as depreciation expense.	
Capital outlay	4,895,033
Depreciation expense	(30,314)
The issuance of long-term debt provides current financial resources to governmental funds, and bond premiums and deferred refunding losses are reported as other financing sources and uses. Repayment of bond principal is reported as an expenditure. In the Statement of Activities, these amounts are reported as changes in long-term liabilities.	
Principal payments	16,302
Issuance of long-term debt	(5,833,309)
Amortization of bond premiums/discounts	13,534
Interest on long-term debt reported in the Statement of Activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the governmental funds when it is due. In the Statement of Activities, interest expense is recognized as it accrues, regardless of when it is due.	(59,321)
Certain revenues reported in the Statement of Activities do not provide current financial resources and, therefore, are not reported as revenues in the governmental funds.	
Delinquent property taxes	7,580
Pension expense reported in the Statement of Activities includes changes in the net pension liability and the amortization of related deferred outflows of resources and deferred inflows of resources. These amounts do not require the use of current financial resources and, therefore, are not reported in the governmental funds.	
Pension expense	12,535
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.	
Compensated absences	478
Change in Net Position - Governmental Activities	$ 758,617

CITY OF KIESTER, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
Year Ended December 31, 2025

	Budget		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 68,028	$ 68,028	$ 58,863	$ (9,165)
Licenses and permits	600	600	2,218	1,618
Intergovernmental	203,179	203,179	211,781	8,602
Charges for services	6,400	6,400	8,059	1,659
Fines and forfeitures	-	-	360	360
Other revenues	11,200	11,200	14,431	3,231
Total Revenues	289,407	289,407	295,712	6,305
Expenditures				
Current				
General government	135,045	135,045	116,141	(18,904)
Public safety	12,000	12,000	12,000	-
Public works	90,647	90,647	70,271	(20,376)
Sanitation	8,000	8,000	11,551	3,551
Culture and recreation	4,465	4,465	7,964	3,499
Capital Outlay				
General government	6,000	6,000	8,511	2,511
Public works	16,000	16,000	3,641	(12,359)
Culture and recreation	-	-	3,635	3,635
Debt Service				
Principal	15,000	15,000	16,302	1,302
Interest and fees	2,250	2,250	1,527	(723)
Total Expenditures	289,407	289,407	251,543	(37,864)
Excess (Deficiency) of Revenues Over (Under) Expenditures	-	-	44,169	44,169
Other Financing Sources (Uses)				
Transfers Out	-	-	(13,049)	(13,049)
Net Change in Fund Balances	$ -	$ -	31,120	$ 31,120
Fund Balances - Beginning			1,515,886	
FUND BALANCES - ENDING			$ 1,547,006	

CITY OF KIESTER, MINNESOTA

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
December 31, 2025

	Business-type Activities - Enterprise Funds		
	Water	Sewer	Ambulance
Assets			
Current Assets			
Cash and investments	$ 303,376	$ 502,874	$ 117,618
Receivables:			
Accounts, net	841	776	73,827
Due from other governments	-	-	3,000
Total Current Assets	304,217	503,650	194,445
Noncurrent Assets			
Capital assets			
Machinery and equipment	7,750	22,855	161,789
Accumulated depreciation	(4,908)	(16,925)	(62,901)
Total Noncurrent Assets	2,842	5,930	98,888
Total Assets	307,059	509,580	293,333
Deferred Outflows of Resources			
Pension plan deferments	3,343	3,338	-
Liabilities			
Current Liabilities			
Accounts payable	704	340	1,120
Accrued expenses	664	664	9,661
Due to other governments	566	-	-
Unearned Revenue	446	-	-
Compensated absences	1,340	1,340	-
Total Current Liabilities	3,720	2,344	10,781
Noncurrent Liabilities			
Compensated absences	1,291	1,291	-
Net pension liability	7,032	7,020	-
Total Noncurrent Liabilities	8,323	8,311	-
Total Liabilities	12,043	10,655	10,781
Deferred Inflows of Resources			
Pension plan deferments	11,285	11,266	-
Net Position			
Net investment in capital assets	2,842	5,930	98,888
Unrestricted	284,232	485,067	183,664
TOTAL NET POSITION	$ 287,074	$ 490,997	$ 282,552

Business-type Activities	
Liquor	Totals
$ -	$ 923,868
-	75,444
-	3,000
-	1,002,312
-	192,394
-	(84,734)
-	107,660
-	1,109,972
-	6,681
-	2,164
-	10,989
-	566
-	446
-	2,680
-	16,845
-	2,582
-	14,052
-	16,634
-	33,479
-	22,551
-	107,660
-	952,963
$ -	$ 1,060,623

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

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
Year Ended December 31, 2025

	Business-type Activities - Enterprise Funds		
	Water	Sewer	Ambulance
Operating Revenues			
Sales	$ -	$ -	$ -
Cost of sales	-	-	-
Gross Profit	-	-	-
Charges for services	127,241	115,034	23,605
Total Operating Revenues	127,241	115,034	23,605
Operating Expenses			
Salaries	15,907	15,880	35,893
Employee benefits	11,355	11,326	6,642
Supplies	3,633	6,747	20,546
Services	7,230	3,945	7,980
Insurance	2,358	1,156	713
Utilities	7,939	2,093	2,427
Repairs and maintenance	22,156	991	9,953
Other expenses	685	141	3,026
Depreciation	1,550	3,061	12,395
Total Operating Expenses	72,813	45,340	99,575
Operating Income (Loss)	54,428	69,694	(75,970)
Nonoperating Revenues (Expenses)			
Investment earnings	573	1,165	898
Property taxes	-	-	47,554
Sale of capital assets	-	-	-
Other revenues	-	-	16,702
Interest and fiscal expenses	(575)	(565)	-
Total Nonoperating Revenues (Expenses)	(2)	600	65,154
Income (Loss) Before Transfers and Other Items	54,426	70,294	(10,816)
Transfers in	-	-	-
Change in Net Position	54,426	70,294	(10,816)
Net Position - Beginning	232,648	420,703	293,368
NET POSITION - ENDING	$ 287,074	$ 490,997	$ 282,552

Business-type Activities	
Liquor	Totals
$ 34,237	$ 34,237
(23,975)	(23,975)
10,262	10,262
-	265,880
10,262	276,142
9,782	77,462
2,117	31,440
468	31,394
8,380	27,535
1,482	5,709
2,557	15,016
1,054	34,154
610	4,462
1,041	18,047
27,491	245,219
(17,229)	30,923
-	2,636
-	47,554
(10,223)	(10,223)
19,941	36,643
(568)	(1,708)
9,150	74,902
(8,079)	105,825
13,049	13,049
4,970	118,874
(4,970)	941,749
$ -	$ 1,060,623

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

CITY OF KIESTER, MINNESOTA

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended December 31, 2025

	Business-type Activities - Enterprise Funds		
	Water	Sewer	Ambulance
Cash Flows from Operating Activities			
Receipts from customers and users	$ 127,985	$ 115,289	$ 47,187
Payments to supplies	(55,360)	(17,262)	(47,302)
Payments to and on behalf of employees	(24,484)	(24,454)	(42,765)
Other receipts (payments) related to operating activities	-	-	16,702
Net Cash from Operating Activities	48,141	73,573	(26,177)
Cash Flows from Noncapital Financing Activities			
Payments received (paid) on interfund loans	-	-	-
Transfers in	-	-	-
Property taxes received	-	-	47,554
Net Cash from Noncapital Financing Activities	-	-	47,554
Cash Flows from Capital and Related Financing Activities			
Interest paid on debt	(575)	(565)	-
Government grants received	-	-	(500)
Sales of capital assets	-	-	-
Acquisition and construction of capital assets	-	-	(67,014)
Net Cash from Capital and Related Financing Activities	(575)	(565)	(67,514)
Cash Flows from Investing Activities			
Interest and dividends received	573	1,165	898
Net Change in Cash and Investments	48,139	74,173	(45,239)
Cash and Investments - Beginning	255,237	428,701	162,858
CASH AND INVESTMENTS - ENDING	$ 303,376	$ 502,874	$ 117,618
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities			
Income (Loss) from Operations	$ 54,428	$ 69,694	$ (75,970)
Adjustments to reconcile operating income (loss) to net cash from operating activities:			
Other receipts (payments) related to operating activities	-	-	16,702
Depreciation	1,550	3,061	12,395
(Increase) decrease in assets:			
Accounts receivable	299	255	23,581
Inventory	-	-	-
Pension resources	(279)	(274)	-
Increase (decrease) in liabilities:			
Accounts payable	(11,455)	(2,189)	(2,657)
Unearned revenue	446	-	-
Salaries and benefits payable	(559)	(559)	(230)
Pension liability	1,231	1,219	-
Pension resources	2,385	2,366	-
Due to other governments	97	-	-
Net Cash from Operating Activities	$ 48,141	$ 73,573	$ (26,177)

	Business-type Activities	
	Liquor	Totals
	$ 34,220	$ 324,681
	(4,121)	(124,045)
	(36,646)	(128,349)
	19,941	36,643
	13,394	108,931
	(50,000)	(50,000)
	13,049	13,049
	-	47,554
	(36,951)	10,603
	(568)	(1,708)
	-	(500)
	20,433	20,433
	-	(67,014)
	19,865	(48,789)
	-	2,636
	(3,692)	73,381
	3,692	850,488
	$ -	$ 923,868
	$ (17,229)	$ 30,923
	19,941	36,643
	1,041	18,047
	-	24,135
	35,997	35,997
	6,106	5,553
	(505)	(16,806)
	(17)	429
	(1,556)	(2,904)
	(11,561)	(9,110)
	(17,737)	(12,985)
	(1,087)	(991)
	$ 13,394	$ 108,931

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting entity

The City of Kiester, Minnesota (the City), operates under the "Optional Plan A" form of government as defined in Minnesota statutes. Under this plan, the government of the City is directed by a City Council composed of an elected Mayor and four elected City Council Members. The City Council exercises legislative authority and determines all matters of policy. The City Council appoints personnel responsible for the proper administration of all affairs relating to the City.

The City has considered all the potential units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the primary government to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the primary government. As required by accounting principles generally accepted in the United States of America, these financial statements present the City and its component units, entities for which the City is financially accountable.

Component units for which the City has been determined to be financially accountable can be blended with the primary government or be included as a discrete presentation. Blended component units, although legally separate entities, are in substance part of the City's operations and so data from these units are combined with data of the City. Each discretely presented component unit, on the other hand, is reported in a separate column in the financial statements to emphasize it is legally separate from the City. Included in the City's reporting entity, based upon the application of these criteria, is the following blended component unit. The blended component unit presented has a December 31 year-end.

Economic Development Authority. The Economic Development Authority (the EDA) was created pursuant to Minnesota statutes 469.090 through 469.108. The five-member Board of Directors carries out economic and industrial development and redevelopment within the City in accordance with policies established by the City. Separate financial statements are not issued for this component unit.

Kiester Public Library. The Kiester Public Library (the Library) was created pursuant to Minnesota statutes 134.07 through 134.50. The five-member Board of Directors provides for governance of the Library and conduct of its business and has exclusive control of expenditures of all money collected. Separate financial statements are not issued for this component unit.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

B. Government-wide and fund financial statements

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

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Interest on general long-term debt is considered an indirect expense and is reported separately in the Statement of Activities. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues. Internally dedicated revenues are reported as general revenues rather than as program revenues.

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

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting,* as are the proprietary fund financial statements and the fiduciary 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 *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Property taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is susceptible to accrual as revenue of the current period. All other revenue items are considered measurable and available only when cash is received by the City.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on an accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the year for which the tax is levied. Revenue from grants, entitlements, and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are also recorded as unearned revenue. On the modified accrual basis, receivables that will not be collected within the available period have also been reported as deferred inflows of resources in the fund financial statements.

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

The City reports the following major governmental funds:

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

The *Debt Service fund* accounts for the servicing of general long-term debt not being financed by proprietary funds.

The *2024 Street Improvement fund* is used to accumulate necessary resources and expenditures related to the street and utility project.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

The City reports the following major proprietary funds:

The *Water fund* accounts for the costs associated with the City's water utility system and ensures that user charges are sufficient to meet those costs.

The *Sewer fund* accounts for the costs associated with the City's sewer utility system and ensures that user charges are sufficient to meet those costs.

The *Liquor fund* accounts for the costs associated with the City's municipal liquor store.

The *Ambulance fund* accounts for the costs associated with the City's ambulance service.

As a general rule, the effect of interfund activity has been eliminated from government-wide financial statements. Exceptions to this general rule are charges between the City's utility functions and various other functions of the City. 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.

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

D. Assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position/fund balance

Deposits and investments
The City's cash and cash equivalents are cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Cash balances from all funds are pooled and invested, to the extent available, in certificates of deposit and other authorized investments. Earnings from such investments are allocated based on applicable participation by each of the funds.

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

1. Direct obligations or obligations guaranteed by the United States or its agencies.

2. Shares of investment companies registered under the Federal Investment Company Act of 1940 and received the highest credit rating, rated in one of the two highest rating categories by a statistical rating agency, and have a final maturity of thirteen months or less.

3. General obligations of a state or local government with taxing powers rated "A" or better; revenue obligations rated "AA" or better.

4. General obligations of the Minnesota Housing Finance Agency rated "A" or better.

5. Bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System.

6. Commercial paper issued by United States banks, corporations, or their Canadian subsidiaries, of highest quality category by at least two nationally recognized rating agencies and maturing in 270 days or less.

7. Repurchase or reverse repurchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding $10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.

8. Guaranteed Investment Contracts (GIC's) issued or guaranteed by a United States commercial bank, a domestic branch of a foreign bank, or a United States insurance company or its Canadian subsidiary whose similar debt obligations were rated in one of the top two rating categories by a nationally recognized rating agency.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Investments are generally stated at fair value, except for investments in certain external investment pools, which are stated at amortized cost. Short-term, highly liquid debt instruments (including commercial paper, bankers' acceptance, and U.S. treasury and agency obligations) purchased with a remaining maturity of one year or less are also reported at amortized cost. Investment income is accrued at the Balance Sheet date.

The City categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument. Financial assets and liabilities recorded on the combined statements of financial position are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Financial assets and liabilities are valued using inputs that are unadjusted quoted prices in active markets accessible at the measurement date of identical financial assets and liabilities.

Level 2 – Financial assets and liabilities are valued based on quoted prices for similar assets, or inputs that are observable, either directly or indirectly for substantially the full term through corroboration with observable market data.

Level 3 – Financial assets and liabilities are valued using pricing inputs which are unobservable for the asset, inputs that reflect the reporting entity's own assumptions about the assumptions market participants and would use in pricing the asset.

Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

See Note 3 for the City's recurring fair value measurements as of December 31, 2025. The City has adopted a formal investment policy.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Property taxes

The City Council annually adopts a tax levy and certifies it to the County in December for collection in the following year. The County is responsible for collecting all property taxes for the City. These taxes attach an enforceable lien on taxable property within the City on January 1 and are payable by the property owners in two installments. The taxes are collected by the County Treasurer and tax settlements are made to the City during January, June, and December each year.

Taxes payable on homestead property, as defined by Minnesota statutes, were partially reduced by a market value credit aid. The credit is paid to the City by the State in lieu of taxes levied against the homestead property. The State remits this credit in two equal installments in October and December each year.

Delinquent taxes receivable includes the past six years' uncollected taxes. Delinquent taxes have been offset by a deferred inflow of resources for delinquent taxes not received within 60 days after year end in the fund financial statements.

Accounts receivable

Accounts receivable include amounts billed for services provided before year end. Unbilled utility enterprise fund receivables are also included for services provided in 2025. The City annually certifies delinquent water and sewer accounts to the County for collection in the following year. Therefore, there has been no allowance for doubtful accounts established.

Special assessments

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

Notes receivable

Notes receivable represents loans made to various commercial entities throughout the City. An allowance has not been established and was determined based on historical bad debt experience related to the nature of the receivable balance.

Interfund receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than the thresholds below (amount not rounded) and an estimated useful life in excess of one year. For financial statement purposes only, a capitalization threshold is established for each capital asset category as follows:

Assets	Capitalization Threshold
Land improvements	$ 10,000
Buildings and improvements	25,000
Infrastructure	100,000
Machinery and equipment	5,000

As the City constructs or acquires capital assets each period, including infrastructure assets, they are capitalized and reported at acquisition cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations, the City values these capital assets at the acquisition value of the item at the date of its donation.

Property, plant, and equipment of the City, as well as component units, are depreciated using the straight-line method over the following estimated useful lives:

Assets	Useful Lives in Years
Buildings and improvements	15 to 75
Infrastructure	20 to 60
Machinery and equipment	3 to 15

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Compensated absences

The City provides paid leave benefits to employees, including vacation, sick leave, and other compensated absences, in accordance with its personnel policies. Employees earn leave based on the number of months worked during the year. Upon termination, employees are entitled to receive compensation for unused leave balances based on the City's policy. Employees accrue one day of sick leave per month of employment, with a maximum accrual limit of 21 days. The liability for compensated absences is recognized when earned and measured using an expected payout approach, considering historical usage patterns and projected future payments.

Postemployment benefits other than pensions (OPEB)

Minnesota Statutes require the City to allow retired employees to stay on the health care plan with the retiree responsible to pay the entire premium for continuation coverage. Employees of the City pay health care premiums based on level of coverage, without consideration to age. The City's personnel policy does not provide for any contributions upon employee retirement; thus, the City does not expect any future retirees to elect to continue coverage and has no experience with past retirees electing coverage. The implicit rate subsidy factor in postemployment health care expenses is considered immaterial, therefore, no liability is accrued for OPEB.

Deferred outflows/inflows of resources

In addition to assets, the statement of financial position and fund financial statements will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of resources that is applicable to future reporting period(s) and so will not be recognized as an outflow of resources (expense) until that time.

In addition to liabilities, the statement of financial position and fund financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Long-term obligations

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

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), Kiester Volunteer Fire Relief Association (VFRA) and additions to/deductions from PERA's fiduciary net position and VFRA's fiduciary net position have been determined on the same basis as they are reported by PERA and VFRA, except that PERA's fiscal year end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Leases

Lease receivables

The City determines if an arrangement is a lease at inception. Leases are included in lease receivables and deferred inflows of resources in the statements of net position and fund financial statements.

Lease receivables represent the City's claim to receive lease payments over the lease term, as specified in the contract, in an exchange or exchange-like transaction. Lease receivables are recognized at commencement date based on the present value of expected lease payments over the lease term, reduced by any provision for estimated uncollectible amounts. Interest revenue is recognized ratably over the contract term.

Deferred inflows of resources related to leases are recognized at the commencement date based on the initial measurement of the lease receivable, plus any payments received from the lessee at or before the commencement of the lease term that relates to future periods, less any lease incentives paid to, or on behalf of, the lessee at or before the commencement of the lease term. The deferred inflows related to leases are recognized as lease revenue in a systematic and rational manner over the lease term.

The City has elected to recognize payments received for short-term leases with a lease term of 12 months or less as revenue as the payments are received. These leases are not included as lease receivables or deferred inflows on the statements of net position and fund financial statements.

Lease liabilities

The City determines if an arrangement is a lease at inception. Leases are included in lease assets and lease liabilities in the statements of net position.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Lease assets represent the City's control of the right to use an underlying asset for the lease term, as specified in the contract, in an exchange or exchange-like transaction. Lease assets are recognized at the commencement date based on the initial measurement of the lease liability, plus any payments made to the lessor at or before the commencement of the lease term and certain direct costs. Lease assets are amortized in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying asset.

Lease liabilities represent the City's obligation to make lease payments arising from the lease. Lease liabilities are recognized at the commencement date based on the present value of expected lease payments over the lease term, less any lease incentives. Interest expense is recognized ratably over the contract term.

The lease term may include options to extend or terminate the lease when it is reasonably certain that the Entity will exercise that option.

The City has elected to recognize payments for short-term leases with a lease term of 12 months or less as expenses as incurred, and these leases are not included as lease liabilities or right-to-use lease assets on the statements of net position.

Significant lease terms are disclosed in note 3.

Net position

In the government-wide financial statements, net position represents the difference between assets and liabilities. Net position is displayed in three components:

a. Net investment in capital assets - Consists of capital assets, net of accumulated depreciation reduced by any outstanding debt attributable to acquire capital assets.

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

c. Unrestricted net position - All other net position balances that do not meet the definition of "restricted" or "net investment in capital assets".

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Fund balance

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

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

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

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

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

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

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

The City has formally adopted a fund balance policy for the General fund. The City's policy is to maintain a minimum unassigned fund balance of 40-50 percent of budgeted operating expenditures cash needs.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General fund. All annual appropriations lapse at fiscal year-end. The City does not use encumbrance accounting.

On or before July 1 of each year, all departments of the City submit requests for appropriations to the City Clerk-Treasurer so that a budget may be prepared. Before September 30, the proposed budget is presented to the City Council for review. The City Council holds public hearings, and a final budget is prepared and adopted in December.

The appropriated budget is prepared by fund, function, and department. The City's department heads, with the approval of the City Clerk-Treasurer, may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the City Council. The legal level of budgetary control is the department level. Budgeted amounts are as originally adopted or as amended by the City Council. There were budget amendments during the year to account for additional expenditures that were approved by the Council.

B. Excess of Expenditures over Appropriations

For the year ended December 31, 2025, no funds had expenditures over appropriations.

C. Deficit Fund Equity

No funds reported a deficit fund equity at year-end.

NOTE 3 – DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

Deposits

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

Minnesota statutes require that all City deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds.

Authorized collateral in lieu of a corporate surety bond includes:

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

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

NOTE 3 – DETAILED NOTES ON ALL FUNDS – (Continued)

On December 31, 2025, the carrying amount of deposits was $3,017,022 and the bank balance was $3,025,638. Of the bank balance, $500,000 was covered by federal depository insurance. An additional $1,470,000 was collateralized by securities held by the City's agent in the City's name. The remaining $1,010,188 of deposits was under-collateralized and therefore subject to custodial credit risk.

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

Custodial Credit Risk – For investments, this is the risk that in the event of a failure of the counterparty to an investment transaction (typically a broker-dealer) the City would not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investments in investment pools and money markets are not evidenced by securities that exist in physical or book entry form and, therefore, are not subject to custodial credit risk disclosures. Although the City's investment policies do not directly address custodial credit risk, it typically limits its exposure by purchasing insured or registered investments, or by the control of who holds the securities.

Credit Risk – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Minnesota Statute 118A.07 limits the City's investments.

Concentration Risk – This is the risk associated with investing a significant portion of the City's investments (considered 5 percent or more) in the securities of a single issuer, excluding U.S. guaranteed investments (such as treasuries), investment pools, and mutual funds. The City's investment policies address concentration risk by diversifying the investment portfolio so the City does not invest all its funds into one type of investment.

Interest Rate Risk – This is the risk of potential variability in the fair value of fixed rate investments resulting from changes in interest rates (the longer the period for which an interest rate is fixed, the greater the risk). The City's investment policies do address this risk by minimizing the City's exposure by investing in both short-term and long-term investments to evenly time cash flows from maturities.

NOTE 3 – DETAILED NOTES ON ALL FUNDS – (Continued)

As of December 31, 2025, the City had the following investments that are insured or registered, or securities held by the City's agent in the City's name:

Type of Investments	Credit Quality Rating (1)	Segmented Time Distribution (2)	Amount	Fair Value Measurement Level 1	Fair Value Measurement Level 2
Pooled Investments at amortized cost					
Minnesota municipal multi-class fund	AAAm	< 1 year	$ 2,661,033	$ -	$ -
Total investments					

(1) Ratings are provided by Standard & Poor's agency where applicable to indicate credit risk
(2) Interest rate risk is disclosed using the segmented time distribution method
N/A Indicates not applicable or available

A reconciliation of cash and investments as shown on the Statement of Net Position for the City follows:

	Governmental Funds	Proprietary Funds
Deposits		
Carrying amount of demand deposits	$ 1,699,905	$ 796,973
Cash on hnad	-	-
Time deposits	-	-
Certificates of deposit	394,027	126,895
Total cash and Cash Equivalents	2,093,932	923,868
Investments	2,661,033	-
Total cash and investments as shown on the Statement of Net Position	$ 4,754,965	$ 923,868

B. Receivables

Taxes receivable as of the year end for the City are reported on the Statement of Net Position. There are no estimates for allowances for uncollectible property tax and special assessment receivables.

Notes receivable represents loans made to various commercial entities throughout the City. These loans all carry an interest rate of 4.00% and are collectible in monthly installments with varying maturities. There is no collateral securing these notes. The amount shown on the Statement of Net Position is net of an allowance of $0. The allowance was determined based on historical bad debt experience related to the nature of the receivable balance.

NOTE 3 – DETAILED NOTES ON ALL FUNDS – (Continued)

Governmental funds report *deferred inflows of resources* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of *deferred inflows* and *unearned revenue* reported in the governmental funds were as follows:

	DIR	Unearned
Delinquent property taxes	$ 41,556	$ -
Leases	7,585	-
Prepaid service revenue	-	446
Total deferring inflows of resources/unearned revenue	$ 49,141	$ 446

The only receivables not expected to be collectible within one year are the following: General fund: $25,000 of delinquent taxes and lease revenue of 6,598.

C. Lease Receivables

The City, acting as lessor, leases certain real property under a long-term, noncancelable lease agreement. The lease contains discount rates of 3.50% and expires on June 30, 2033. It does not provide renewal options. During the year ending December 31, 2025, the City recognized $875 and $325 in lease and interest revenue, respectively, pursuant to these contracts.

Total future minimum lease payments to be received under lease agreements are as follows:

Year Ending	Governmental Activities	
December 31	Principal	Interest
2026	$ 938	$ 262
2027	973	228
2028	1,006	194
2029	1,042	158
2030	1,079	121
Thereafter	2,868	132
Total lease payments	$ 7,906	$ 1,095

NOTE 3 – DETAILED NOTES ON ALL FUNDS – (Continued)

D. Capital assets

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Construction in progress	$ 3,878,440	$4,895,033	-	$ 8,773,473
Total capital assets not being depreciated	3,878,440	4,895,033	-	8,773,473
Capital assets being depreciated				
Buildings and improvements	46,623	-	-	46,623
Machinery and equipment	341,264	-	-	341,264
Total capital assets being depreciated	387,887	-	-	387,887
Less accumulated depreciation for				
Buildings and improvements	(24,477)	(2,331)	-	(26,808)
Machinery and equipment	(253,095)	(27,983)	-	(281,078)
Total accumulated depreciation	(277,573)	(30,314)	-	(307,886)
Total capital assets being depreciated, net	110,315	(30,314)	-	80,001
Governmental activities capital assets, net	$ 3,988,754	$4,864,719	$ -	$ 8,853,474

NOTE 3 – DETAILED NOTES ON ALL FUNDS – (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities				
Capital assets being depreciated				
Buildings and improvements	$ 35,650	$ -	$ (35,650)	$ -
Machinery and equipment	133,722	67,014	(8,342)	192,394
Total capital assets being depreciated	169,372	67,014	(43,992)	192,394
Less accumulated depreciation for				
Buildings and improvements	(5,288)	(446)	5,734	-
Machinery and equipment	(74,735)	(17,601)	7,602	(84,734)
Total accumulated depreciation	(80,024)	(18,047)	13,336	(84,734)
Total capital assets being depreciated, net	89,348	48,967	(30,656)	107,660
Business-type activities capital assets, net	$ 89,348	$ 48,967	$ (30,656)	$ 107,660

Depreciation/amortization expense was charged to functions/programs of the City as follows:

Governmental activities	
General government	$ 1,232
Public safety	13,350
Public works	15,052
Culture and recreation	680
Total depreciation expense - governmental activities	$ 30,314
Business-type activities	
Water	$ 1,550
Sewer	3,061
Ambulance	12,395
Liquor	1,041
Total depreciation expense - business-type activities	$ 18,047

NOTE 3 – DETAILED NOTES ON ALL FUNDS – (Continued)

E. Interfund receivables, payables, and transfers

Interfund Transfers

For the year ended December 31, 2025, there were no interfund transfers.

Transferred From	Transferred To	Amount
General	Liquor	$ 13,049

During the year, the City transferred $13,049 from the General Fund to the Municipal Liquor Store Fund to close out remaining fund activity following the City Council's decision to cease liquor operations. The transfer was used to eliminate residual deficits and facilitate the orderly closure of the liquor store fund. No further liquor store operations are expected.

Internal Balances

Receivable fund	Payable fund	Amount
General	2024 Street Improvement	$ 500,000

In 2022, the General Fund loaned $500,000 to the 2024 Street Improvement Fund to provide working capital for a street and utility improvement project. The project has commenced and financing has been obtained. The City intends to settle the outstanding interfund loan balance in 2026.

NOTE 3 – DETAILED NOTES ON ALL FUNDS – (Continued)

F. Long-term debt

General Obligation Revenue Bonds

The City issued general obligation revenue bonds, where the government pledges income derived from the acquired or constructed assets to pay debt service requirements. The City is obligated to levy ad valorem taxes in the event that anticipated income from the acquired or constructed assets will not be sufficient to cover debt service requirements. Revenue obligations currently outstanding are as follows:

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
G.O. Revenue Portion					
Bonds of 2024A	$ 4,010,000	3.63%	6/12/24	12/1/26	$ 4,010,000
G.O. Revenue Portion					
Bonds of 2025A	5,790,000	4.00%	8/7/25	12/1/26	5,790,000
Total general obligation revenue bonds					$ 9,800,000

Annual debt service requirements to maturity for general obligation revenue bonds are as follows:

Year Ending December 31	Governmental Activities Principal	Interest	Total
2026	$ 9,800,000	$ 450,303	$ 10,250,303

Financed Purchases

The City has purchased assets through a capitalized financed purchase agreement. The annual principal and interest in this lease will be paid from the General Fund.

Assets Leased	Asset Value Capitalized	Interest Rate	Lease Date	Final Maturity	Principal Outstanding
JD Frontend Loader	$ 119,520	4.00%	2/14/18	2/14/26	$ 16,997

Amortization of assets capitalized through this lease-purchase agreement is included in depreciation expense in the government-wide financial statements. The amount charged as depreciation for the year ended December 31, 2025, was $11,952.

NOTE 3 – DETAILED NOTES ON ALL FUNDS – (Continued)

The asset acquired through this financed purchase is reported as follows:

Asset	Amount
Equipment	$ 119,520
Less accumulated depreciation	(89,640)
Total	$ 29,880

The annual debt service requirements to maturity for financed purchases are as follows:

Year Ending December 31	Governmental Activities Principal	Governmental Activities Interest
2026	$ 16,997	$ 691

Changes in long-term liabilities
During the year ended December 31, 2025, the following changes occurred in long-term liabilities.

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Governmental activities					
G.O. bonds/certificates	$ 4,010,000	$ 5,790,000	$ -	$ 9,800,000	$ -
Bond discounts/premiums	-	43,309	(13,534)	29,775	-
Total G.O. debt	4,010,000	5,833,309	(13,534)	9,829,775	-
Financed purchases	33,279	-	(16,302)	16,977	16,977
Compensated absences	7,561	- *	(478)	7,083	3,450
Govermental activity long-term liabilites	$ 4,050,840	$ 5,833,309	$ (30,314)	$ 9,853,835	$ 20,427

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Business-type activities					
Compensated absences	$ 7,000	$ - *	$ (1,738)	$ 5,262	$ 2,680
Business-type activity long-term liabilities	$ 7,000	$ -	$ (1,738)	$ 5,262	$ 2,680

* The change in the compensated absences liability is presented as a net change.

NOTE 3 – DETAILED NOTES ON ALL FUNDS – (Continued)

Outstanding non-exchange financial guaranteed obligations

On June 12, 2024, the City issued $4,010,000 of General Obligation Temporary Utility Revenue Bonds. The bonds mature on December 1, 2026, with semiannual interest payments. The State of Minnesota, through the Public Facilities Authority (PFA), has guaranteed to make all required debt service payments that the City is unable to make. The City is required to repay the PFA, with interest, for any payments made by the PFA pursuant to the guarantee. As of December 31, 2025, the City had made all required debt service payments on the guaranteed debt, and the outstanding principal balance was $4,010,000.

On August 7, 2025, the City issued $5,790,000 of General Obligation Temporary Utility Revenue Bonds, Series 2025A. The Series 2025A bonds are similarly guaranteed by the State of Minnesota through the Public Facilities Authority. As of December 31, 2025, the City had made all required debt service payments on the guaranteed debt, and the outstanding principal balance was $5,790,000.

NOTE 3 – DETAILED NOTES ON ALL FUNDS – (Continued)

G. Net Position/Fund Balance

Governmental Fund Balances

Governmental fund balances reported on the Governmental Funds Balance Sheet on December 31, 2025, includes the following:

	General	Debt Service	2024 Street Improvement	Other Governmental Funds	Total Fund Balance
Nonspendable					
Advances	$ 500,000	$ -	$ -	$ -	$ 500,000
Restricted					
Capital Projects	-	-	1,424,540	-	1,424,540
Debt service	-	367,245	-	-	367,245
Total restricted	-	367,245	1,424,540	-	1,791,785
Committed					
Public safety	-	-	-	278,982	278,982
Library	-	-	-	18,142	18,142
Economic development	-	-	-	159,914	159,914
Total committed	-		-	457,038	457,038
Assigned					
Public works	-	-	-	45,000	45,000
Total assigned	-	-	-	45,000	45,000
Unassigned					
General	1,047,006	-	-	-	1,047,006
Total fund balance	$ 1,547,006	$ 367,245	$ 1,424,540	$ 502,038	$ 3,840,829

NOTE 3 – DETAILED NOTES ON ALL FUNDS – (Continued)

Governmental Activities Net Position

Governmental activities net position reported on the government-wide statement of net position on December 31, 2025, includes the following:

Net Investment in Capital Assets:	
Construction in progress	$ 8,773,473
Buildings and improvements	46,623
Machinery and equipment	341,264
Less: accumulated depreciation	(307,886)
Less: long-term debt outstanding	(9,846,752)
Add: Unspent bond proceeds	2,611,033
Total Net Investment in Capital Assets	1,617,755
Restricted for:	
Debt service	236,334
Unrestricted	1,048,289
Total Governmental Activities Net Position	$ 2,902,378

Business-type Activities Net Position

Business-type activities net position reported on the government-wide statement of net position on December 31, 2025, includes the following:

Net Investment in Capital Assets:	
Machinery and equipment	$ 192,394
Less: accumulated depreciation	(84,734)
Total Net Investment in Capital Assets	107,660
Unrestricted	952,962
Total Business-type Activities Net Position	$ 1,060,622

NOTE 4 – DEFINED BENEFIT PENSION PLANS – STATEWIDE

PUBLIC EMPLOYEES' RETIREMENT ASSOCIATION

A. *Plan Description*

The City participates in the following cost-sharing multiple-employer defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). These plan provisions are established and administered according to 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.

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.

B. *Benefits Provided*

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

General Employees Plan requires three years of service to vest. Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for 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.

NOTE 4 – DEFINED BENEFIT PENSION PLANS – (Continued)

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 1.25 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.

C. Contributions

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

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 $7,246. The City's contributions were equal to the required contributions as set by state statute.

D. Pension Costs

On December 31, 2025, the City reported a liability of $36,951 for its proportionate share of the GERP's net pension liability. The City's net pension liability reflected a reduction due to the State of Minnesota's contribution of $16 million. 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 $891.

City's proportionate share of the net pension liability	$	36,951
State of Minnesota's proportionate share of the net pension liability associated with the city		891
Total	$	37,842

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 proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2024, through June 30, 2025, relative to the total employer contributions received from all of PERA's participating employers. On June 30, 2025, the City's proportion was 0.0011% which was unchanged from its proportion measured as of June 30, 2024.

For the year ended December 31, 2025, the City recognized pension expense of $(5,745) for its proportionate share of GERP's pension expense. In addition, the City recognized an additional $137 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.

NOTE 4 – DEFINED BENEFIT PENSION PLANS – (Continued)

On December 31, 2025, the City reported its proportionate share of GERP'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	$ 5,751	$ 9
Differences between projected and actual investment earnings	7,478	29,913
Changes in actuarial assumptions	680	18,102
Changes in proportion	-	11,276
City's contribution subsequent to the measurement date	3,659	-
Total	$ 17,568	$ 59,300

The $3,659 reported as deferred outflows of resources related to pensions resulting from City contributions to GERP 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 inflows of resources related to GERP pensions will be recognized in pension expense as follows:

Year Ended December	Pension Expense Amount
2026	$ (16,658)
2027	(14,505)
2028	(10,551)
2029	(3,677)
2030	-
Thereafter	-
Total	$ (45,391)

NOTE 4 – DEFINED BENEFIT PENSION PLANS – (Continued)

E. *Actuarial Assumptions*

The total pension liability in the June 30, 2025, actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	July 1, 2025
Actuarial cost method	Entry Age Normal
Amortization method	Level Dollar Closed
Actuarial Assumptions	
Discount rate	7.00 %
Investment rate of return	7.00 %
Inflation	2.25 %

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.

Actuarial assumptions for the General Employees Plan are reviewed every four years. The General Employees Plan was last reviewed in 2022. The assumption changes were adopted by the board and became effective with the July 1, 2023 actuarial valuation. The assumption changes were adopted by the board and became effective with the July 1, 2025 actuarial valuation.

The following changes in actuarial assumptions 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.
- 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.

NOTE 4 – DEFINED BENEFIT PENSION PLANS – (Continued)

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	33.50%	5.10%
International Stocks	16.50%	5.30%
Bonds	25.00%	0.75%
Alternative Assets	25.00%	5.90%
Total	100.00%	

F. Discount Rate

The discount rate used to measure the total pension liability in 2025 was 7.00. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

G. Pension Liability Sensitivity

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

	City's proportionate share of NPL		
Plan	1% Decrease in Discount Rate (6.00%)	Current Discount Rate (7.00%)	1% Increase in Discount Rate (8.00%)
General Employees Retirement	$ 89,745	$ 36,951	$ (5,879)

NOTE 4 – DEFINED BENEFIT PENSION PLANS – (Continued)

H. *Pension Plan Fiduciary Net Position*
Detailed information about each pension plan's fiduciary net position is available in a separately issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at www.mnpera.org.

VOLUNTEER FIRE RELIEF ASSOCIATION

A. *Plan Description*
The Kiester Fire Department (the Department) participates in the Statewide Volunteer Firefighter Retirement Plan (Volunteer Firefighter Plan accounted for in the Volunteer Firefighter Fund), an agent multiple-employer lump-sum defined benefit pension plan administered by the Public Employees Retirement Association of Minnesota (PERA). The Volunteer Firefighter Plan covers volunteer firefighters of municipal fire departments or independent nonprofit firefighting corporations that have elected to join the plan. As of December 31, 2024, the plan covered 19 active firefighters and 4 vested terminated firefighters whose pension benefits are deferred. The plan is established and administered in accordance with *Minnesota Statutes*, Chapter 353 G.

B. *Benefits Provided*
The Volunteer Firefighter Plan provides retirement, death, and supplemental benefits to covered firefighters and survivors. Benefits are paid based on the number of years of service multiplied by a benefit level approved by the City. Members are eligible for a lump-sum retirement benefit at 50 years of age with five years of service. Plan provisions include a pro-rated vesting schedule that increases from 5 years at 40 percent through 20 years at 100 percent.

C. *Contributions*
The Volunteer Firefighter Plan is funded by fire state aid, investment earnings and, if necessary, employer contributions as specified in Minnesota Statutes, and voluntary City contributions. The State of Minnesota contributed $20,144 in fire state aid to the fund for the year ended December 31, 2025. Required employer contributions are calculated annually based on statutory provisions. The City made no statutorily required contributions to the Volunteer Firefighter Fund for the year ended December 31, 2025. The City's contributions were equal to the required contributions as set by state statute, if applicable. In addition, the City made no voluntary contributions to the plan.

NOTE 4 – DEFINED BENEFIT PENSION PLANS – (Continued)

D. ***Pension Costs***

On December 31, 2024, the Volunteer Firefighter Fund reported a net pension asset of $184,343. The net pension asset was measured as of December 31, 2024. The total pension liability used to calculate the net pension asset in accordance with GASB 68 was determined by PERA applying an actuarial formula to specific census data certified by the fire department. The following table presents the changes in net pension liability during the year.

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

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a - b)
Beginning Balance January 1, 2024	$ 121,382	$ 299,055	$ (177,673)
Changes for the year			
Service Cost	3,023	-	3,023
Interest	7,464	-	7,464
Differences between expected and actual experience	29,927	-	29,927
Changes in assumptions	-	-	-
Changes in benefit terms	-	-	-
Contributions - state and local	-	17,904	(17,904)
Contributions - member	-	-	-
Net investment income	-	18,424	(18,424)
Other additions (e.g. receivables)	-	12,646	(12,646)
Benefit Payments	-	-	-
Administrative expense	-	(1,890)	1,890
Total net changes	40,414	47,084	(6,670)
Ending Balance December 31, 2024	$ 161,796	$ 346,139	$ (184,343)

During the measurement period, there were no plan provision changes.

For the year ended December 31, 2025, the City recognized pension expense of $(28,008).

NOTE 4 – DEFINED BENEFIT PENSION PLANS – (Continued)

On December 31, 2024, the Association reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ -	$ 30,622
Differences between projected and actual investment earnings	23,050	23,493
Changes in actuarial assumptions	26,602	-
City contributions subsequent to the measurement date	20,144	-
Total	$ 69,796	$ 54,115

The $20,144 reported as deferred outflows of resources related to pensions resulting from contributions 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 inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December	Pension Expense Amount
2026	$ 2,856
2027	2,856
2028	(7,784)
2029	(3,326)
2030	(797)
Thereafter	1,732
Total	$ (4,463)

NOTE 4 – DEFINED BENEFIT PENSION PLANS – (Continued)

E. Actuarial Assumptions

The total pension liability in the December 31, 2024, actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	December 31, 2024
Actuarial cost method	Entry Age Normal
Amortization method	Level Dollar Closed
Actuarial Assumptions	
Discount rate	6.00
Investment rate of return	6.00
Inflation	2.50 %
Lump sum benefit increase	N/A

F. Discount Rate

The discount rate used to measure the total pension liability was 6.00 percent. The projection of cash flows used to determine the discount rate assumed that contributions to the Volunteer Firefighter Fund will be made as specified in statute. Based on that assumption and considering the funding ratio of the plan, the fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

G. *Pension Liability Sensitivity*

The following presents the City's net pension asset for the Volunteer Firefighter Fund, calculated using the assumed discount rate as well as what the City's net pension asset would be if it were calculated using a discount rate one percent lower or one percent higher than the current discount rate:

City's proportionate share of NPL	1% Decrease in Discount Rate (5.00%)	Current Discount Rate (6.00%)	1% Increase in Discount Rate (7.00%)
Net pension liability (asset)	$ (182,118)	(184,343)	$ (186,483)

H. Investment Policy

The Minnesota State Board of Investment (SBI) is established by Article XI of the Minnesota Constitution to invest all state funds. Its membership as specified in the Constitution is comprised of the governor (who is designated as chair of the board), state auditor, secretary of state and state attorney general.

NOTE 4 – DEFINED BENEFIT PENSION PLANS – (Continued)

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

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return	Long-Term Expected Nominal Rate of Return
Domestic Stocks	35.00%	4.60%	7.10%
International Stocks	9.00%	4.95%	7.45%
Fixed Income	26.00%	2.70%	5.20%
Real Estate and Alternatives	2.00%	3.98%	6.48%
Cash and Equivalents	28.00%	1.19%	3.69%
Total	100.00%		6.40%
Reduced for assumed investment expense			(0.40%)
Net assumed investment return			6.00%

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

I. Plan Information

Detailed information about the Volunteer Firefighter Fund's fiduciary net position as of December 31, 2024, is available in a separately issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained at www.mnpera.org.

NOTE 5 – Public Employees Defined Contribution Plan

A. Plan Description

There are fifteen ambulance service personnel who are covered by the Defined Contribution Plan, a multiple-employer deferred compensation plan administered by PERA. The Defined Contribution Plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

Plan benefits depend solely on the amounts contributed to the plan plus investment earnings, less administrative expenses. *Minnesota Statutes*, Chapter 353D.03, specifies plan provisions, including the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes five percent of the salary which is matched by the elected official's employer. For ambulance service personnel, employer contributions are determined by the employer, and for salaried employees' contributions must be a fixed percentage of salary. Employer contributions for volunteer personnel may be a unit value for each call or period of alert duty. Employees who are paid for their services may elect to make member contributions in an amount not to exceed the employer share. Employer and employee contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives two percent of employer contributions and twenty-five hundredths of one percent (0.25 percent) of the assets in each member's account annually.

Total contributions made by the City during fiscal year 2025 were:

Contribution rate		Percentage of covered payroll		Required
Employee	Employer	Employee	Employer	Rate
$ 2,626	$ 2,626	5%	5%	5%

NOTE 6 – OTHER INFORMATION

A. Risk management

The City is exposed to various risks of loss related to torts; theft of damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which the City carries insurance. The City obtains insurance through participation in the League of Minnesota Cities Insurance Trust (LMCIT), which is a risk sharing pool with approximately 800 other governmental units.

The City pays an annual premium to LMCIT for its workers compensation and property and casualty insurance. The LMCIT is self-sustaining through member premiums and will reinsure for claims above a prescribed dollar amount for each insurance event. Settled claims have not exceeded the City's coverage in any of the past three fiscal years.

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

NOTE 6 – OTHER INFORMATION – (Continued)

B. Legal debt margin

In accordance with Minnesota statutes, the City may not incur or be subject to net debt in excess of 3 percent of the market value of taxable property within the City. Net debt is payable solely from ad valorem taxes and therefore excludes debt financed partially or entirely by special assessments, enterprise fund revenues, or tax increments. The City has no debt outstanding on December 31, 2025, subject to this limit.

C. Concentrations

The City receives a significant amount of its annual General fund revenues from the State of Minnesota from the Local Government Aid (LGA). The amount received in 2025 was $203,179 for LGA which accounted for 69 percent of General fund revenues.

***D.* Commitments**

Construction commitments

As of December 31, 2025, the City had one signed contract in place for a construction project. The following summarizes this commitment:

Project	Spent to Date	Remaining Commitment
2024 street and utility improvement	$ 6,833,613	$ 4,826,785

NOTE 7 – CHANGE TO OR WITHIN THE FINANCIAL REPORTING ENTITY

During 2025, the Fire Department and Economic Development Authority Funds no longer met the criteria for major fund classification based on its revenues and expenditures and was reclassified from a major fund to a nonmajor governmental fund. As a result, the beginning fund balances of the major funds were decreased by $425,789.

The effects of these changes on the governmental funds are presented in the table below. Total governmental fund balances were not affected by these reclassifications.

	12/31/2024 As Previously Stated	Change to or within the financial reporting entity	12/31/2024 As restated
Governmental funds			
General	$ 1,515,886	$ -	$ 1,515,886
Debt service	213,602	-	213,602
Economic development authority	137,386	(137,386)	-
Fire department	288,403	(288,403)	-
2024 Street improvement	(115,097)	-	(115,097)
Other Governmental Funds	64,552	425,789	490,341
Total governmental funds	$ 2,104,732	$ -	$ 2,104,732

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF KIESTER, MINNESOTA

SCHEDULE OF CITY'S PROPORTIONARE SHARE OF NET PENSION LIABILITY
GENERAL EMPLOYEE RETIREMENT FUND PENSION PLAN
(Last 10 Fiscal Years)

City Fiscal Year-End Date	PERA Fiscal Year-End Date (Measurement Date)	City's Proportion of the Net Pension Liability	City's Proportionate Share of the Net Pension Liability	State's Proportionate Share of the Net Pension Liability Associated with the City	Total	City's Covered Payroll	City's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
12/31/2025	6/30/2025	0.0011%	$ 36,950	$ 891	$ 37,841	$ 83,588	45.3%	90.8%
12/31/2024	6/30/2024	0.0011%	42,086	1,088	43,174	117,637	36.7%	89.1%
12/31/2023	6/30/2023	0.0012%	67,103	1,800	68,903	113,216	60.9%	83.1%
12/31/2022	6/30/2022	0.0014%	110,880	3,158	114,038	115,893	98.4%	76.7%
12/31/2021	6/30/2021	0.0015%	64,057	1,898	65,955	112,901	58.4%	87.0%
12/31/2020	6/30/2020	0.0011%	65,950	1,973	67,923	127,403	53.3%	79.1%
12/31/2019	6/30/2019	0.0013%	71,874	2,167	74,041	107,352	69.0%	80.2%
12/31/2018	6/30/2018	0.0014%	77,666	2,643	80,309	109,750	73.2%	79.5%
12/31/2017	6/30/2017	0.0015%	95,759	1,169	96,928	110,428	87.8%	75.9%
12/31/2016	6/30/2016	0.0014%	113,673	1,570	115,243	110,450	104.3%	68.9%

SCHEDULE OF CITY CONTRIBUTIONS
GENERAL EMPLOYEE RETIREMENT FUND PENSION PLAN
(Last 10 Fiscal Years)

City Fiscal Year-end Date	PERA Fiscal Year-end Date (Measurement Date)	Statutorily Required Contributions	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	City's Covered Payroll	Contributions as a Percentage of Covered Payroll
12/31/2025	6/30/2025	$ 7,574	$ 7,574	$ -	$ 100,987	7.50%
12/31/2024	6/30/2024	7,226	7,226	-	96,347	7.50%
12/31/2023	6/30/2023	7,199	7,199	-	95,987	7.50%
12/31/2022	6/30/2022	7,751	7,751	-	103,347	7.50%
12/31/2021	6/30/2021	7,845	7,845	-	104,600	7.50%
12/31/2020	6/30/2020	5,905	5,905	-	78,733	7.50%
12/31/2019	6/30/2019	6,665	6,665	-	88,867	7.50%
12/31/2018	6/30/2018	7,219	7,219	-	96,253	7.50%
12/31/2017	6/30/2017	7,034	7,034	-	93,787	7.50%
12/31/2016	6/30/2016	6,693	6,693	-	89,240	7.50%

CITY OF KIESTER, MINNESOTA

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
FIREFIGHTERS' RELIEF ASSOCIATION
(Last 10 Fiscal Years)

	2024	2023	2022
Total Pension Liability			
Service Cost	$ 3,023	$ 2,935	$ 2,935
Interest	7,464	8,970	8,666
Difference between expected and actual experience	29,927	(37,097)	(4,422)
Changes of assumptions	-	-	-
Changes in benefit terms	-	-	-
Benefit payments, including member contribution refunds	-	-	(4,200)
Net change in total pension liability	40,414	(25,192)	2,979
Total pension liability - beginning	121,382	146,574	143,595
Total pension liability - end	$ 161,796	$ 121,382	$ 146,574
Plan Fiduciary Net Position			
Contributions - State and local	$ 17,904	$ 16,448	$ 14,952
Contributions - Donation and other income	-	-	-
Contributions - Member	-	-	-
Net investment incomes	18,424	15,200	(41,052)
Other additions (e.g. receivables)	12,646	22,293	-
Benefit Payments, including member contribution refunds	-	-	(4,200)
Administrative expense	(1,890)	-	(797)
Other deductions (e.g. payables)	-	-	-
Net change in plan fiduciary net position	47,084	53,941	(31,097)
Plan Fiduciary Net Position - beginning	299,055	245,114	276,211
Plan Fiduciary Net Position - end	$ 346,139	$ 299,055	$ 245,114
Net Pension (Asset) Liability - end	$ (184,343)	$ (177,673)	$ (98,540)
FNP as a percentage of TPL	213.94%	246.38%	167.23%

SCHEDULE OF CONTRIBUTIONS AND NET PENSION LIABILITY AS A PERCENT OF PAYROLL
FIREFIGHTERS' RELIEF ASSOCIATION
(Last 10 Fiscal Years)

Fiscal Year Ending	Actuarilally determined contribution	Contributions in relation to the ADC	Contribtuion deficiency (excess)	Payroll	Contributions as a precentage of payroll	NPL as a percent of payroll
December 31, 2024	$ -	$ -	$ -	$ -	$ -	$ -
December 31, 2023	-	-	-	-	-	-
December 31, 2022	-	-	-	-	-	-

NOTE 1 – CHANGE IN ACTUARIAL ASSUMPTIONS AND PLAN PROVISIONS

A. Public Employees Retirement Association – General Employees Retirement 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: an increase in 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. A minor increase in assumed withdrawals for males and females and 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 the 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 are updated to reflect the changes in assumptions.

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.

NOTE 1 – CHANGE IN ACTUARIAL ASSUMPTIONS AND PLAN PROVISIONS

A. Public Employees Retirement Association – General Employees Retirement Fund

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. 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.

NOTE 1 – CHANGE IN ACTUARIAL ASSUMPTIONS AND PLAN PROVISIONS (Continued)

A. Public Employees Retirement Association – General Employees Retirement Fund (Continued)

2019 Changes:

Changes in Actuarial Assumptions. The mortality 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:

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

2017 Changes:

Change of Assumptions. The Combined Service Annuity (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and non-vested deferred members. The revised CSA loads are now 0.0 percent for active member liability, 15.0 percent for vested deferred member liability and 3.0 percent for non-vested deferred member liability. 2) The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044 and 2.5 percent per year thereafter.

2016 Changes:

Changes in Actuarial Assumptions: 1) the assumed post-retirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all future years. 2) The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%. 3) Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

2015 Changes:

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

NOTE 1 – CHANGE IN ACTUARIAL ASSUMPTIONS AND PLAN PROVISIONS (Continued)

A. Public Employees Retirement Association – General Employees Retirement Fund (Continued)

Changes in Actuarial Assumptions: The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2030 and 2.5% per year thereafter to 1.0% per year through 2035 and 2.5% per year thereafter.

B. Volunteer Fire Relief Association

2024 Changes:

Relief Association has its retirement fund invested with the Statewide Volunteer Firefighter Retirement Fund that is invested by Public Employees Retirement Association.

2023 Changes:

Relief Association has its retirement fund invested with the Statewide Volunteer Firefighter Retirement Fund that is invested by Public Employees Retirement Association.

2022 Changes:

Relief Association has its retirement fund invested with the Statewide Volunteer Firefighter Retirement Fund that is invested by Public Employees Retirement Association.

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SUPPLEMENTARY INFORMATION SECTION

CITY OF KIESTER, MINNESOTA

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
December 31, 2025

	Special Revenue		
	Kiester Public Library	Economic Development Authority	Fire Department
Assets			
Cash and investments	$ 18,932	$ 147,513	$ 281,434
Receivables:			
Notes	-	12,080	-
Lease	-	7,906	-
TOTAL ASSETS	$ 18,932	$ 167,499	$ 281,434
Liabilities			
Accounts payable	$ 655	$ -	$ 1,070
Accrued expenses	135	-	1,382
Total Liabilities	790	-	2,452
Deferred Inflows of Resources			
Lease deferments	-	7,585	-
Fund Balances			
Commited	18,142	159,914	278,982
Assigned	-	-	-
Total Fund Balances	18,142	159,914	278,982
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	$ 18,932	$ 167,499	$ 281,434

Capital Projects	
Equipment Replacement	Total Nonmajor Governmental Funds
$ 45,000	$ 492,879
-	12,080
-	7,906
$ 45,000	$ 512,865
$ -	$ 1,725
-	1,517
-	3,242
-	7,585
-	457,038
45,000	45,000
45,000	502,038
$ 45,000	$ 512,865

CITY OF KIESTER, MINNESOTA

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
Year Ended December 31, 2025

	Special Revenue		
	Kiester Public Library	Economic Development Authority	Fire Department
Revenues			
Taxes	$ 10,765	$ 33,456	$ 25,507
Intergovernmental	300	13,000	21,524
Charges for services	-	3,105	16,836
Other revenues	45	3,959	75,531
Total Revenues	11,110	53,520	139,398
Expenditures			
Current			
Public safety	-	-	43,962
Culture and recreation	10,966	-	-
Economic development	-	30,992	-
Capital Outlay			
Public safety	-	-	104,857
Culture and recreation	1,554	-	-
Total Expenditures	12,520	30,992	148,819
Net Change in Fund Balances	(1,410)	22,528	(9,421)
Fund Balances - Beginning	19,552	-	-
Change Within Financial Reporting Entity	-	137,386	288,403
Fund Balances - Beginning (Restated)	19,552	137,386	288,403
FUND BALANCES - ENDING	$ 18,142	$ 159,914	$ 278,982

Capital Projects	
Equipment Replacement	Total Nonmajor Governmental Funds
$ -	$ 69,728
-	34,824
-	19,941
-	79,535
-	204,028
-	43,962
-	10,966
-	30,992
-	104,857
-	1,554
-	192,331
-	11,697
45,000	64,552
-	425,789
45,000	490,341
$ 45,000	$ 502,038

COMBINING BALANCE SHEET
DEBT SERVICE FUNDS
December 31, 2025

	G.O. Temporary Revenue Bond, 2024A	G.O. Temporary Revenue Bond, 2025A	Total Debt Service Funds
Assets			
Cash and investments	$ 139,505	$ 227,740	$ 367,245
Fund Balances			
Restricted	$ 139,505	$ 227,740	$ 367,245

CITY OF KIESTER, MINNESOTA

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
DEBT SERVICE FUNDS
Year Ended December 31, 2025

	G.O. Temporary Revenue Bond, 2024A	G.O. Temporary Revenue Bond, 2025A	Total Debt Service Funds
Revenues			
Taxes	$ 140,000	$ -	$ 140,000
Expenditures			
Debt Service			
Interest and fees	214,097	-	214,097
Total Expenditures	214,097	-	214,097
Excess (Deficiency) of Revenues Over (Under) Expenditures	(74,097)	-	(74,097)
Other Financing Sources (Uses)			
Issuance of long-term debt	-	227,740	227,740
Net Change in Fund Balances	(74,097)	227,740	153,643
Fund Balances - Beginning	213,602	-	213,602
FUND BALANCES - ENDING	$ 139,505	$ 227,740	$ 367,245

CITY OF KIESTER, MINNESOTA

BALANCE SHEET
GENERAL FUND
December 31, 2025
(With Comparative Amounts for December 31, 2024)

	2025	2024
Assets		
Cash and investments	$ 1,054,917	$ 972,253
Receivables:		
Property taxes	42,384	37,333
Advances to other funds	500,000	550,000
TOTAL ASSETS	$ 1,597,301	$ 1,559,587
Liabilities		
Accounts payable	$ 1,843	$ 3,129
Accrued expenses	6,896	6,596
Total Liabilities	8,739	9,725
Deferred Inflows of Resources		
Unavailable revenue	41,556	33,976
Fund Balances		
Nonspendable	500,000	550,000
Unassigned	1,047,006	965,886
Total Fund Balances	1,547,006	1,515,886
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	$ 1,597,301	$ 1,559,587

CITY OF KIESTER, MINNESOTA

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
Year Ended December 31, 2025
(With Comparative Amounts for the Year Ended December 31, 2024)

	Budget		2025		2024
	Original	Final	Actual Amounts	Variance with Final Budget	Actual Amounts
Revenues					
Taxes					
Property	$ 68,028	$ 68,028	$ 58,863	$ (9,165)	$ 148,983
Total Taxes	68,028	68,028	58,863	(9,165)	148,983
Licenses and permits	600	600	2,218	1,618	1,910
Intergovernmental					
Local government aid	203,179	203,179	203,179	-	202,960
Small city road assistance	-	-	8,602	8,602	13,265
Total Intergovernmental	203,179	203,179	211,781	8,602	216,225
Charges for services					
Municipal building rental	400	400	450	50	900
Refuse collection charges	6,000	6,000	7,609	1,609	5,900
Total charges for services	6,400	6,400	8,059	1,659	6,800
Fines and forfeitures	-	-	360	360	627
Other Revenues					
Miscellaneous	6,500	6,500	3,813	(2,687)	7,281
Interest earnings	4,700	4,700	10,618	5,918	10,841
Total other revenues	11,200	11,200	14,431	3,231	18,122
Total Revenues	289,407	289,407	295,712	6,305	392,667
Expenditures					
Current					
General Government					
Mayor and council					
Personal services	4,650	4,650	3,219	(1,431)	3,671
Supplies	430	430	-	(430)	-
Other	-	-	30	30	20
Administration and Finance					
Personal services	38,645	38,645	36,251	(2,394)	34,122
Supplies	11,820	11,820	6,035	(5,785)	6,508
Services	70,000	70,000	67,855	(2,145)	50,292
Repairs and maintenance	2,500	2,500	600	(1,900)	13,474
Other	7,000	7,000	2,151	(4,849)	10,771
Total General Government	135,045	135,045	116,141	(18,904)	118,858
Public Safety					
Police					
Services	12,000	12,000	12,000	-	12,000
Total Public Safety	12,000	12,000	12,000	-	12,000
Public Works					
Highway and Streets					
Personal services	44,375	44,375	38,573	(5,802)	38,300
Supplies	11,950	11,950	7,707	(4,243)	8,346
Services	22,100	22,100	17,079	(5,021)	18,397
Repairs and maintenance	11,422	11,422	6,917	(4,505)	8,619
Other	800	800	(5)	(805)	200
Sanitation					
Services	8,000	8,000	11,551	3,551	10,072
Total Public Works	98,647	98,647	81,822	(16,825)	83,934

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
Year Ended December 31, 2025
(With Comparative Amounts for the Year Ended December 31, 2024)

	Budget		2025		2024
	Original	Final	Actual Amounts	Variance with Final Budget	Actual Amounts
Expenditures					
Culture and Recreation					
Parks					
Personal services	$ 965	$ 965	$ 1,066	$ 101	$ 985
Supplies	500	500	870	370	1,806
Services	3,000	3,000	3,213	213	3,219
Repairs and maintenance	-	-	2,815	2,815	1,450
Total Culture and Recreation	4,465	4,465	7,964	3,499	7,459
Capital Outlay					
General government	6,000	6,000	8,511	2,511	12,567
Public works	16,000	16,000	3,641	(12,359)	7,598
Parks and recreation	-	-	3,635	3,635	1,113
Total Capital Outlay	22,000	22,000	15,787	(6,213)	21,279
Debt Service					
Principal	15,000	15,000	16,302	1,302	15,654
Interest and fees	2,250	2,250	1,527	(723)	1,994
Total Debt Service	17,250	17,250	17,829	579	17,647
Total Expenditures	289,407	289,407	251,543	(37,864)	261,177
Excess (Deficiency) of Revenues Over (Under) Expenditures	-	-	44,169	44,169	131,490
Other Financing Sources (Uses)					
Transfers Out	-	-	(13,049)	(13,049)	-
Net Change in Fund Balances	$ -	$ -	31,120	$ 31,120	131,490
Fund Balances - Beginning			1,515,886		1,384,397
FUND BALANCES - ENDING			$ 1,547,006		$ 1,515,886

CITY OF KIESTER, MINNESOTA

SCHEDULE OF NET POSITION - WATER FUND
December 31, 2025
(With Comparative Amounts for December 31, 2024)

	2025	2024
Assets		
Current Assets		
Cash and investments	$ 303,376	$ 255,237
Receivables:		
Accounts, net	841	1,140
Total Current Assets	304,217	256,376
Noncurrent Assets		
Capital assets		
Machinery and equipment	7,750	7,750
Accumulated depreciation	(4,908)	(3,358)
Total Noncurrent Assets	2,842	4,391
Total Assets	307,059	260,768
Deferred Outflows of Resources		
Pension plan deferments	3,343	3,064
Liabilities		
Current Liabilities		
Accounts payable	704	12,160
Accrued expenses	664	654
Due to other governments	566	469
Unearned Revenue	446	-
Compensated absences	1,340	1,935
Total Current Liabilities	3,720	15,218
Noncurrent Liabilities		
Compensated absences	1,291	1,266
Net pension liability	7,032	5,801
Total Noncurrent Liabilities	8,323	7,067
Total Liabilities	12,043	22,285
Deferred Inflows of Resources		
Pension plan deferments	11,285	8,900
Net Position		
Net investment in capital assets	2,842	4,391
Unrestricted	284,232	228,256
TOTAL NET POSITION	$ 287,074	$ 232,648

CITY OF KIESTER, MINNESOTA

SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION - WATER FUND
Year Ended December 31, 2025
(With Comparative Amounts for the Year Ended December 31, 2024)

	2025	2024
Operating Revenues		
Charges for services	$ 127,241	$ 120,853
Operating Expenses		
Salaries	15,907	16,487
Employee benefits	11,355	6,940
Supplies	3,633	4,835
Services	7,230	17,827
Insurance	2,358	2,713
Utilities	7,939	6,314
Repairs and maintenance	22,156	11,409
Other expenses	685	1,666
Depreciation	1,550	1,550
Total Operating Expenses	72,813	69,741
Operating Income (Loss)	54,428	51,112
Nonoperating Revenues (Expenses)		
Investment earnings	573	552
Other revenues	-	25
Interest and fiscal expenses	(575)	(150)
Total Nonoperating Revenues (Expenses)	(2)	427
Change in Net Position	54,426	51,540
Net Position - Beginning	232,648	181,108
NET POSITION - ENDING	$ 287,074	$ 232,648

CITY OF KIESTER, MINNESOTA

SCHEDULE OF NET POSITION - SEWER FUND
December 31, 2025
(With Comparative Amounts for December 31, 2024)

	2025	2024
Assets		
Current Assets		
Cash and investments	$ 502,874	$ 428,701
Receivables:		
Accounts, net	776	1,031
Total Current Assets	503,650	429,732
Noncurrent Assets		
Capital assets		
Machinery and equipment	22,855	22,855
Accumulated depreciation	(16,925)	(13,865)
Total Noncurrent Assets	5,930	8,991
Total Assets	509,580	438,722
Deferred Outflows of Resources		
Pension plan deferments	3,338	3,064
Liabilities		
Current Liabilities		
Accounts payable	340	2,529
Accrued expenses	664	654
Compensated absences	1,340	1,935
Total Current Liabilities	2,344	5,117
Noncurrent Liabilities		
Compensated absences	1,291	1,266
Net pension liability	7,020	5,801
Total Noncurrent Liabilities	8,311	7,067
Total Liabilities	10,655	12,184
Deferred Inflows of Resources		
Pension plan deferments	11,266	8,900
Net Position		
Net investment in capital assets	5,930	8,991
Unrestricted	485,067	411,712
TOTAL NET POSITION	$ 490,997	$ 420,703

CITY OF KIESTER, MINNESOTA

SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION - SEWER FUND
Year Ended December 31, 2025
(With Comparative Amounts for the Year Ended December 31, 2024)

	2025	2024
Operating Revenues		
Charges for services	$ 115,034	$ 109,328
Operating Expenses		
Salaries	15,880	16,487
Employee benefits	11,326	6,940
Supplies	6,747	4,227
Services	3,945	4,811
Insurance	1,156	1,330
Utilities	2,093	3,650
Repairs and maintenance	991	11,741
Other expenses	141	1,210
Depreciation	3,061	3,061
Total Operating Expenses	45,340	53,456
Operating Income (Loss)	69,694	55,872
Nonoperating Revenues (Expenses)		
Investment earnings	1,165	1,113
Interest and fiscal expenses	(565)	(495)
Total Nonoperating Revenues (Expenses)	600	618
Change in Net Position	70,294	56,490
Net Position - Beginning	420,703	364,213
NET POSITION - ENDING	$ 490,997	$ 420,703

CITY OF KIESTER, MINNESOTA

SCHEDULE OF NET POSITION - AMBULANCE FUND
December 31, 2025
(With Comparative Amounts for December 31, 2024)

	2025	2024
Assets		
Current Assets		
Cash and investments	$ 117,618	$ 162,858
Receivables:		
Accounts, net	73,827	97,408
Due from other governments	3,000	2,500
Total Current Assets	194,445	262,766
Noncurrent Assets		
Capital assets		
Machinery and equipment	161,789	94,775
Accumulated depreciation	(62,901)	(50,506)
Total Noncurrent Assets	98,888	44,269
Total Assets	293,333	307,035
Liabilities		
Current Liabilities		
Accounts payable	1,120	3,776
Accrued expenses	9,661	9,778
Total Current Liabilities	10,781	13,554
Net Position		
Net investment in capital assets	98,888	44,269
Unrestricted	183,664	249,098
TOTAL NET POSITION	$ 282,552	$ 293,368

CITY OF KIESTER, MINNESOTA

SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION - AMBULANCE FUND
Year Ended December 31, 2025
(With Comparative Amounts for the Year Ended December 31, 2024)

	2025	2024
Operating Revenues		
Charges for services	$ 23,605	$ 37,222
Operating Expenses		
Salaries	35,893	48,033
Employee benefits	6,642	6,493
Supplies	20,546	15,359
Services	7,980	13,579
Insurance	713	820
Utilities	2,427	1,399
Repairs and maintenance	9,953	4,573
Other expenses	3,026	15,061
Depreciation	12,395	9,477
Total Operating Expenses	99,575	114,793
Operating Income (Loss)	(75,970)	(77,571)
Nonoperating Revenues (Expenses)		
Investment earnings	898	1,129
Property taxes	47,554	46,169
Government grants	-	53,948
Other revenues	16,702	17,675
Total Nonoperating Revenues (Expenses)	65,154	118,921
Change in Net Position	(10,816)	41,350
Net Position - Beginning	293,368	252,018
NET POSITION - ENDING	$ 282,552	$ 293,368

CITY OF KIESTER, MINNESOTA

SCHEDULE OF NET POSITION - LIQUOR FUND
December 31, 2025
(With Comparative Amounts for December 31, 2024)

	2025	2024
Assets		
Current Assets		
Cash and investments	$ -	$ 3,692
Inventory	-	35,997
Total Current Assets	-	39,689
Noncurrent Assets		
Capital assets		
Buildings	-	35,650
Machinery and equipment	-	8,342
Accumulated depreciation	-	(12,295)
Total Noncurrent Assets	-	31,697
Total Assets	-	71,386
Deferred Outflows of Resources		
Pension plan deferments	-	6,106
Liabilities		
Current Liabilities		
Accounts payable	-	505
Accrued expenses	-	1,070
Due to other governments	-	1,087
Unearned Revenue	-	17
Compensated absences	-	117
Total Current Liabilities	-	2,796
Noncurrent Liabilities		
Advances from other funds	-	50,000
Compensated absences	-	369
Net pension liability	-	11,561
Total Noncurrent Liabilities	-	61,930
Total Liabilities	-	64,726
Deferred Inflows of Resources		
Pension plan deferments	-	17,737
Net Position		
Net investment in capital assets	-	31,697
Unrestricted	-	(36,667)
TOTAL NET POSITION	$ -	$ (4,970)

SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION - LIQUOR FUND
Year Ended December 31, 2025
(With Comparative Amounts for the Year Ended December 31, 2024)

	2025	2024
Operating Revenues		
Beer	$ 18,121	$ 94,708
Liquor and wine	13,276	62,191
Other sales	2,840	11,813
Total Operating Revenues	34,237	168,713
Cost of Revenues		
Beer	11,923	68,602
Liquor and wine	9,409	39,670
Other cost of revenues	2,643	11,049
Total Cost of Revenues	23,975	119,320
Gross Profit	10,262	49,393
Operating Expenses		
Salaries	9,782	32,766
Employee benefits	2,117	258
Supplies	468	432
Services	8,380	2,463
Insurance	1,482	1,434
Utilities	2,557	7,483
Repairs and maintenance	1,054	610
Other expenses	610	6,059
Depreciation	1,041	2,083
Total Operating Expenses	27,491	53,588
Operating Income (Loss)	(17,229)	(4,195)
Nonoperating Revenues (Expenses)		
Sale of capital assets	(10,223)	-
Other revenues	19,941	3,824
Interest and fiscal expenses	(568)	(500)
Total Nonoperating Revenues (Expenses)	9,150	3,324
Income (Loss) Before Transfers and Other Items	(8,079)	(871)
Transfers in	13,049	-
Change in Net Position	4,970	(871)
Net Position - Beginning	(4,970)	(4,099)
NET POSITION - ENDING	$ -	$ (4,970)

SINGLE AUDIT AND OTHER REQUIRED REPORTS

CITY OF KIESTER, MINNESOTA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended December 31, 2025

Federal Grantor Pass-through Grantor Grant Program Title	Pass-Through Grant Numbers	Federal ALN Number	Total Federal Expenditures	Passed Through to Subrecipients
United States Department of Agriculture				
Water and Waste Disposal Systems for Rural Communities	N/A	10.760	$ 4,191,445	$ -
Department of Transportation				
Passed through State of Minnesota				
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	B22DC270001	14.228	600,000	-
TOTAL FEDERAL EXPENDITURES			$ 4,791,445	$ -

CITY OF KIESTER, MINNESOTA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
December 31, 2025

NOTE 1 – REPORTING ENTITY

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by the City of Kiester, Minnesota (the City). The City's reporting entity is defined in Note 1 of the financial statements.

NOTE 2 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal grant activity of the City under programs of the federal government for the year ended December 31, 2025. The information is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position or changes in net position of the City.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported in the schedule are reported on the modified accrual basis of accounting. When applicable, such expenditures are recognized following the cost principles contained in Title 2 *U.S. Code of Federal Regulations* Part 200, Subpart E – Cost Principles, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

NOTE 4 – SUBRECIPIENTS

No federal financial assistance has been provided to a subrecipient.

NOTE 5 – DE MINIMIS COST RATE

The City elected not to charge the de minimis indirect cost rate of 15% to federal programs.

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Honorable Mayor and
Members of the City Council
Kiester, Minnesota

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the City of Kiester, Minnesota, (the City)'s compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2025. The City's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2025.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the City's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the City's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on City's compliance based on our audit. 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, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about City's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

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

- Identify and assess the risks of material noncompliance, 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 City's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.

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

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Carlson SV LLP

Mankato, Minnesota
March 31, 2026

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CARLSONSV
CPAs & ADVISORS

MINNESOTA LEGAL COMPLIANCE
Independent Auditor's Report

Honorable Mayor and
Members of the City Council
Kiester, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Kiester, Minnesota (the City), as of and for the year ended December 31, 2025, and the related notes to the financial statements, and have issued our report thereon dated March 31, 2026.

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 the listed categories, except for tax increment financing because the city has no tax increment districts.

In connection with our audit, nothing came to our attention that caused us to believe that the City failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Cities*, except as noted in the schedule of findings and questioned costs as items 2025-004 and 2025-005. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City's noncompliance with the above-referenced provisions.

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

Carlson SV LLP

Mankato, Minnesota
March 31, 2026

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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
City of Kiester
Kiester, 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, each major fund, and the aggregate remaining fund information of the City of Kiester, Minnesota (the City), as of and for the year ended December 31, 2025, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 31, 2026.

Internal Control Over Financial Reporting
In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) as a basis for designing 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's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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. Given these limitations, during our audit we did identify a deficiency in internal control that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

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 City's financial statements will not be prevented or detected and corrected on a timely basis. As described in the accompanying schedule of findings and responses, we consider the following deficiency in internal control to be a material weakness as item 2025-001.

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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses, that we consider to be significant deficiencies, as items 2025-002 and 2025-003.

Compliance and Other Matters
As part of obtaining reasonable assurance about whether the City'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 financial statements. 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*.

City's Response to Findings
The City's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 result of that testing, and not to provide an opinion on the effectiveness of the City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Carlson SV LLP

Mankato, Minnesota
March 31, 2026

CITY OF KIESTER, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
December 31, 2025

Part I Summary of Audit Results

1. The auditor's report expresses an unmodified opinion on the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City.

2. One material weakness and two significant deficiencies were disclosed during the audit of the basic financial statements of the City.

3. No instances of noncompliance material to the basic financial statements of the City were disclosed during the audit.

4. The auditor's report on compliance for the major federal programs of the City expresses an unmodified opinion.

5. Audit findings relative to the major federal programs for the City are reported in Part III of this schedule.

6. The following was tested as a major program:

    a. Water and Waste Disposal Loans and Grants – Federal Assistance Listing Number 10.760.

7. The dollar threshold for distinguishing between Type A and Type B programs was $1,000,000.

8. The City does not qualify as a low-risk auditee.

Part II Findings - Financial Statements Audit

CURRENT YEAR FINANCIAL STATEMENT FINDINGS

MATERIAL WEAKNESS

Finding 2025-001. Material Audit Adjustments

Condition: The audit firm proposed, and the City approved corrections of certain misstatements.

Criteria The City should have controls in place to prevent and detect a material misstatement in the financial statements in a timely manner. Management is responsible for the accuracy and completeness of all financial records and related information. Their responsibility includes adjusting the financial statements to correct material misstatements.

Cause: The City has not established controls to ensure that all accounts are adjusted to their appropriate year-end balances in accordance with GAAP.

Finding 2025-001. Material Audit Adjustments (Continued)

Effect:	The design of internal control over completeness and accuracy of financial records could adversely affect the City's ability to detect misstatements in amounts that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned functions.
Recommendation:	The City should continue to evaluate its internal controls processes to determine if additional internal control procedures should be implemented to ensure that accounts are adjusted to their appropriate year end balances in accordance with GAAP.

Corrective Action Plan (CAP)

Disagreement with Audit Finding:

None

Actions Planned in Response to Finding:

The City will continue to review and approve adjusting journal entries as proposed by the auditor, as well as taking responsibility for the audited financial statements.

Official Responsible for Ensuring CAP:

Doris Troll, City Clerk/Treasurer

Planned Completion Date for CAP:

December 31, 2026

Plan to Monitor Completion of CAP:

City Council

CITY OF KIESTER, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
December 31, 2025

SIGNIFICANT DEFICIENCIES

Finding 2025-002. Auditor Prepared Financial Statements and Related Footnotes

Condition:	The City does have an internal control in place for the review of the drafted financial statements, however, the City does not have an internal control system designed to provide for the preparation of the related notes being audited. Based on the degree of complexity and level of detail needed to prepare the financial statement disclosures in accordance with accounting principles generally accepted in the United States of America (GAAP), the City has requested the auditors prepare them.
Criteria	The preparation of the financial statements and the related notes are the responsibility of management.
Cause:	The City has informed us they do not have the expertise to prepare the annual financial statement disclosures, although the City has reviewed and approved the annual financial statements as prepared by the audit firm.
Effect:	This could result in a material omission of a disclosure that would not be prevented or detected and corrected as a result of the City's current internal control.
Recommendation:	The City should continue to request assistance to draft the financial statements and related notes and thoroughly review these financial statements after they have been prepared so the City can take responsibility for them.

Corrective Action Plan (CAP)

Disagreement with Audit Finding:

None

Actions Planned in Response to Finding:

The City is aware of the lack of expertise to ensure all disclosures required by GAAP are included in the financial statements, however, the City will review the notes for accuracy and compare balances in the financial report to the general ledger and other City reports prior to issuance of the financial statements.

Official Responsible for Ensuring CAP:

Doris Troll, City Clerk/Treasurer

Corrective Action Plan (CAP) (Continued)

Planned Completion Date for CAP:

December 31, 2026

Plan to Monitor Completion of CAP:

City Council

Finding 2025-003. Limited Segregation of Duties

Condition:	There is an absence of appropriate segregation of duties consistent with appropriate control objectives due to a limited number of employees.
Criteria	There are four general categories of duties: authorization, custody, record keeping, and reconciliation. No one person should have control over more than two of these four responsibilities.
Cause:	The City has assigned duties to staff based on a cost-benefit relationship to the City and the practicality of the level of staffing the City maintains.
Effect:	The lack of adequate segregation of duties could adversely affect the City's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements.
Recommendation:	The City should continue to monitor and evaluate the job responsibilities assigned to staff to determine whether there is an unacceptable risk.

Corrective Action Plan (CAP)

Disagreement with Audit Finding:

None

Actions Planned in Response to Finding:

The City is aware of the limited segregation of duties and will continue to review internal controls and make changes when they can be made.

Corrective Action Plan (CAP) (Continued)

Official Responsible for Ensuring CAP:

Doris Troll, City Clerk/Treasurer

Planned Completion Date for CAP:

December 31, 2026

Plan to Monitor Completion of CAP:

City Council

Part III Findings and Questioned Costs - Major Federal Programs Audit

None reported.

Part IV Minnesota Legal Compliance

Finding 2025-004. Insufficient Collateral Pledged on Bank Deposits

Minnesota Statutes § 118A.03 subd. 3, requires local governments to obtain collateral equal to at least ten percent more than the uninsured and unbonded amount on deposit at the close of the banking day. If irrevocable standby letters of credit from Federal Home Loan Banks are used, the amount must be equal to the excess deposit at the close of the banking day. At its discretion, the depository may furnish both a bond and collateral aggregating the required amount.

In 2025, the collateral the city obtained was insufficient to meet the requirements of Minnesota Statutes § 118A.03 sub. 3.

Corrective Action Plan (CAP)

Disagreement with Audit Finding:

None

Actions Planned in Response to Finding:

The City will develop a policy to ensure that collateral obtained from the depository is sufficient at all times during the year.

Corrective Action Plan (CAP) (Continued)

Official Responsible for Ensuring CAP:

Doris Troll, City Clerk/Treasurer

Planned Completion Date for CAP:

December 31, 2026

Plan to Monitor Completion of CAP:

City Council

Finding 2025-005. Late Submission of Report of Outstanding Indebtedness

MSA 471.70 requires the principal accounting officer of the city to report, on or before February 1 of each year, to the auditor of each county in which the city is situated, the total amount of outstanding obligations and the purpose for which issued, as of December 31 of the preceding year.

The City did not report outstanding obligations to the county by February 1, 2026.

Corrective Action Plan (CAP)

Explanation of Disagreement with Audit Finding:

None

Actions Planned in Response to Finding:

The City is aware of this reporting requirement and will ensure the outstanding obligations form is submitted to the county by the due date in subsequent years.

Official Responsible for Ensuring CAP:

Doris Troll, City Clerk/Treasurer

Planned Completion Date for CAP:

December 31, 2026

Plan to Monitor Completion of CAP:

City Council

CITY OF KIESTER, MINNESOTA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
December 31, 2025

Finding Reference	Finding Title	Status	Year Finding Initially Occurred	If Not Corrected, Provide Planned Corrective Action or Other Explanation
Financial Statement Findings:				
2024-001	Material Audit Adjustments	Not Corrected	2022	See Current Year Finding 2025-001
2024-002	Auditor Prepared Financial Statements	Not Corrected	2007	See Current Year Finding 2025-002
2024-003	Limited Segregation of Duties	Not Corrected	2007	See Current Year Finding 2025-003
Minnesota Legal Compliance Findings:				
2024-004	Failure to Follow Conflicts of Interest Provisions	Corrected	2024	N/A
2024-005	Public Purpose Expenditures	Corrected	2024	N/A

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