CITY OF OSAKIS

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

Year Ended December 31, 2025

CITY OF OSAKIS, MINNESOTA
ELECTED OFFICIALS AND ADMINISTRATION

ELECTED OFFICIALS

		Term Expires
Judy Dvorsak	Mayor	2026
Stephanie Finnegan	Council Member	2026
Laura Backes	Council Member	2026
Randy Anderson	Council Member	2028
Tim Thornbloom	Council Member	2028

ADMINISTRATION

Angela Jacobson	Clerk/Treasurer	Appointed
Lynnette Swenstad	Deputy Clerk	Appointed

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Members of the City Council
City of Osakis, Minnesota

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the City of Osakis, Minnesota, which comprise the statements of balances arising from cash transactions as of December 31, 2025, and the related statements of cash receipts, disbursements and changes in cash fund balances for the year then ended, and the related notes to the financial statements.

Unmodified Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash and unencumbered cash balances of the City of Osakis, Minnesota, as of December 31, 2025, and the revenues it received and expenditures it paid, and where applicable, cash flows thereof, for the year then ended in accordance with the financial reporting provisions "Minimum Reporting Requirements for City Financial Statements for Cities Under 2,500 in Population" as promulgated by *Minnesota Statutes*, Section 471.698. described in Note 1.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles section of our report, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the City of Osakis, Minnesota, as of December 31, 2025, or changes in net position, or cash flows thereof for the year then ended.

Basis for Opinions

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

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles
As described in Note 1, the financial statements are prepared by the City of Osakis, Minnesota, on the basis of the financial provisions of the of "Minimum Reporting Requirements for City Financial Statements for Cities Under 2,500 in Population" as allowed by *Minnesota Statutes,* Section 471.698, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statements and variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material and pervasive.

Responsibilities of Management for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with the regulatory basis of accounting, as described in Note 1. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of City of Osakis, Minnesota's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about City of Osakis, Minnesota's ability to continue as a going concern for a reasonable period of time.

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Osakis, Minnesota's basic financial statements. The accompanying combining and individual nonmajor fund statements and the schedules of indebtedness and other long-term liabilities, accounts receivable, and accounts payable, are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund statements and the schedules of indebtedness and other long-term liabilities, accounts receivable, and accounts payable, are fairly stated in all material respects in relation to the basic financial statements as a whole on the basis of accounting described in Note 1.

Other Matters

Other Information

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

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

Management has omitted the management's discussion and analysis that the regulatory basis of accounting requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the financial provisions of "Minimum Reporting Requirements for City Financial Statements for Cities Under 2,500 in Population" as allowed by *Minnesota Statutes,* Section 471.698, 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 opinions on the basic financial statements are not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 6, 2026 on our consideration of the City of Osakis, Minnesota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Osakis, Minnesota's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Osakis, Minnesota's internal control over financial reporting and compliance.

Carlson SV LLP

Fergus Falls, Minnesota
April 6, 2026

BASIC FINANCIAL STATEMENTS

Fund Financial Statements

CITY OF OSAKIS, MINNESOTA
STATEMENT OF BALANCES ARISING FROM CASH TRANSACTIONS
GOVERNMENTAL FUNDS
December 31, 2025

	General	TIF 1-5 Osakis Residential Revolving Housing	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and investments	$ 2,813,351	$ 475,058	$ 1,149,171	$ 4,437,580
TOTAL ASSETS	**$ 2,813,351**	**$ 475,058**	**$ 1,149,171**	**$ 4,437,580**
LIABILITIES				
Overdrawn cash balance	$ -	$ -	$ 2,412	$ 2,412
CASH FUND BALANCE				
Restricted for				
Tax increments	-	475,058	-	475,058
DWI assessment expenses	-	-	1,922	1,922
Community park and rec expenditures	-	-	49,972	49,972
Lodging tax payments	-	-	13,673	13,673
Debt service	-	-	396,287	396,287
Unrestricted				
Committed for				
Fire service and equipment expenditures	-	-	164,328	164,328
First responders operations	-	-	100,392	100,392
Economic development expenditures	-	-	27,074	27,074
Cemetery operations	-	-	48,172	48,172
National Night Out expenditures	-	-	469	469
Bike Share expenditures	-	-	1,500	1,500
Assigned for				
Future capital purchases	762,612	-	-	762,612
Repairs and maintenance expenditures	699,120	-	-	699,120
Fireworks	4,498	-	-	4,498
Industrial park expenditures	-	-	282,492	282,492
Park Osagi expenditures	-	-	41,855	41,855
Unassigned	1,347,121	-	18,623	1,365,744
TOTAL LIABILITIES AND CASH FUND BALANCES	**$ 2,813,351**	**$ 475,058**	**$ 1,149,171**	**$ 4,437,580**

(The accompanying notes are an integral part of these financial statements.)

CITY OF OSAKIS, MINNESOTA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended December 31, 2025

	General	Formerly Major Fund Fire Service & Equipment	TIF 1-5 Osakis Residential Revolving Housing	Nonmajor Governmental Funds	Total Governmental Funds
RECEIPTS					
Property taxes	$ 852,418	$ -	$ -	$ 30,992	$ 883,410
Franchise taxes	13,661	-	-	-	13,661
Lodging taxes	-	-	-	9,282	9,282
Special assessments	-	-	-	40,169	40,169
Tax increments	-	-	121,861	51,421	173,282
Licenses and permits	41,084	-	-	-	41,084
Intergovernmental	716,070	-	-	5,000	721,070
Charges for services	38,528	-	-	146,211	184,739
Fines and forfeits	10,410	-	-	708	11,118
Investment earnings	103,918	-	26,205	29,234	159,357
Donations	48,290	-	-	275,977	324,267
Refunds	1,654	-	-	-	1,654
Miscellaneous	700	-	30,098	7,500	38,298
Total Receipts	1,826,733	-	178,164	596,494	2,601,391
DISBURSEMENTS					
Current					
General government	340,272	-	-	-	340,272
Public safety	730,861	-	-	21,251	752,112
Streets	270,067	-	-	301	270,368
Culture and recreation	181,724	-	-	18,403	200,127
Economic development	-	-	46,163	64,195	110,358
Miscellaneous	144,163	-	-	1,260	145,423
Debt service					
Principal	-	-	-	90,000	90,000
Interest and other charges	-	-	-	14,197	14,197
Capital outlay	316,624	-	330,973	192,374	839,971
Total Disbursements	1,983,711	-	377,136	401,981	2,762,828
RECEIPTS OVER (UNDER) DISBURSEMENTS	(156,978)	-	(198,972)	194,513	(161,437)
OTHER FINANCING SOURCES (USES)					
Sale of capital assets	466	-	-	-	466
Insurance recovery	250	-	-	-	250
Transfers in	172,515	-	-	53,740	226,255
Transfers out	(2,291)	-	(10,000)	(193,464)	(205,755)
Total Other Financing Sources (Uses)	170,940	-	(10,000)	(139,724)	21,216
NET CHANGE IN CASH FUND BALANCES	13,962	-	(208,972)	54,789	(140,221)
CASH FUND BALANCES - BEGINNING AS PREVIOUSLY REPORTED	2,799,389	91,596	684,030	1,000,374	4,575,389
CHANGE WITHIN FINANCIAL REPORTING ENTITY (MAJOR TO NONMAJOR FUNDS)	-	(91,596)	-	91,596	-
CASH FUND BALANCES - BEGINNING, AS RESTATED	$ 2,799,389	$ -	$ 684,030	$ 1,091,970	$ 4,575,389
CASH FUND BALANCES - ENDING	**$ 2,813,351**	**$ -**	**$ 475,058**	**$ 1,146,759**	**$ 4,435,168**

(The accompanying notes are an integral part of these financial statements.)

CITY OF OSAKIS, MINNESOTA
STATEMENT OF BALANCES ARISING FROM CASH TRANSACTIONS
PROPRIETARY FUNDS
December 31, 2025

	Business-Type Activities - Enterprise Funds				
	Water	Sewer	Liquor	Nonmajor Garbage/ Recycling	Total
ASSETS					
Current Assets					
Cash and investments	$ 371,678	$ 1,306,206	$ 254,139	$ 54,209	$ 1,986,232
TOTAL ASSETS	**$ 371,678**	**$ 1,306,206**	**$ 254,139**	**$ 54,209**	**$ 1,986,232**
NET CASH POSITION					
Unrestricted	$ 371,678	$ 1,306,206	$ 254,139	$ 54,209	$ 1,986,232
TOTAL NET CASH POSITION	**$ 371,678**	**$ 1,306,206**	**$ 254,139**	**$ 54,209**	**$ 1,986,232**

(The accompanying notes are an integral part of these financial statements.)

CITY OF OSAKIS, MINNESOTA
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN NET CASH POSITION
PROPRIETARY FUNDS
Year Ended December 31, 2025

	Business-Type Activities - Enterprise Funds				
	Water	Sewer	Liquor	Nonmajor Garbage/ Recycling	Total
OPERATING RECEIPTS					
Charges for services	$ 474,521	$ 446,393	$ 992,099	$ 143,374	$ 2,056,387
Less: Cost of sales	-	-	(664,785)	-	(664,785)
Miscellaneous	262	-	-	-	262
Total Operating Receipts	474,783	446,393	327,314	143,374	1,391,864
OPERATING DISBURSEMENTS					
Personnel services	120,257	95,674	179,873	-	395,804
Payroll taxes	9,053	6,984	13,179	-	29,216
Employee benefits	33,013	31,138	59,474	-	123,625
Pension contributions	9,019	7,175	12,590	-	28,784
Professional services	2,400	1,000	2,000	136,899	142,299
Utilities	21,880	15,438	12,993	-	50,311
Supplies	11,393	1,370	14,382	-	27,145
Repairs and maintenance	47,635	65,827	29,306	-	142,768
Chemicals	70,749	31,423	-	-	102,172
Insurance	-	-	3,366	-	3,366
Testing	1,175	4,507	-	-	5,682
Office expenses	4,421	1,240	4,473	-	10,134
Other disbursements	19,228	7,311	49,473	-	76,012
Total Operating Disbursements	350,223	269,087	381,109	136,899	1,137,318
OPERATING CASH INCOME (LOSS)	124,560	177,306	(53,795)	6,475	254,546
NONOPERATING RECEIPTS (DISBURSEMENTS)					
Interest and investment receipts	13,076	19,614	11,508	1,391	45,589
Special assessments	17,796	25,186	-	-	42,982
Federal grants and aids	703,281	-	-	-	703,281
State grants and aids	79,539	-	-	-	79,539
Bond proceeds	-	759,000	-	-	759,000
Rent income	-	-	58,823	-	58,823
Miscellaneous receipts	1,203	-	4,690	-	5,893
Capital outlay	(826,578)	(74,655)	(12,990)	-	(914,223)
Debt principal	(122,539)	(97,500)	-	-	(220,039)
Interest disbursements	(69,437)	(56,248)	-	-	(125,685)
Total Nonoperating Receipts (Disbursements)	(203,659)	575,397	62,031	1,391	435,160
NET CASH INCOME (LOSS) BEFORE TRANSFERS	(79,099)	752,703	8,236	7,866	689,706
TRANSFERS					
Transfers out	-	-	(20,500)	-	(20,500)
CHANGE IN NET CASH POSITION	(79,099)	752,703	(12,264)	7,866	669,206
TOTAL NET CASH POSITION - BEGINNING	450,777	553,503	266,403	46,343	1,317,026
TOTAL NET CASH POSITION - ENDING	**$ 371,678**	**$ 1,306,206**	**$ 254,139**	**$ 54,209**	**$ 1,986,232**

(The accompanying notes are an integral part of these financial statements.)

CITY OF OSAKIS, MINNESOTA
STATEMENT OF CASH FLOWS - CASH BASIS
PROPRIETARY FUNDS
Year Ended December 31, 2025

	Business Type Activities - Enterprise Funds				
	Water	Sewer	Liquor	Nonmajor Garbage/ Recycling	Total
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers and users	$ 474,783	$ 446,393	$ 327,314	$ 143,374	$ 1,391,864
Payments to suppliers	(11,393)	(1,370)	(14,382)	-	(27,145)
Payments to employees	(120,257)	(95,674)	(179,873)	-	(395,804)
Payments for services provided	(176,852)	(149,333)	(107,139)	(136,899)	(570,223)
Payments to other governments	(18,072)	(14,159)	(25,769)	-	(58,000)
Other receipts	1,203	-	63,513	-	64,716
Other payments	(23,649)	(8,551)	(53,946)	-	(86,146)
Net Cash Provided by Operating Activities	125,763	177,306	9,718	6,475	319,262
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Special assessments	17,796	25,186	-	-	42,982
Transfers to other funds	-	-	(20,500)	-	(20,500)
Net Cash Provided (Used) by Noncapital Financing Activities	17,796	25,186	(20,500)	-	22,482
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Purchases of capital assets	(826,578)	(74,655)	(12,990)	-	(914,223)
Intergovernmental grants	782,820	-	-	-	782,820
Bond proceeds	-	759,000	-	-	759,000
Principal paid on capital debt	(122,539)	(97,500)	-	-	(220,039)
Interest paid on capital debt	(69,437)	(56,248)	-	-	(125,685)
Net Cash Provided (Used) by Capital and Related Financing Activities	(235,734)	530,597	(12,990)	-	281,873
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest and dividends	13,076	19,614	11,508	1,391	45,589
NET INCREASE (DECREASE) IN CASH AND INVESTMENTS	(79,099)	752,703	(12,264)	7,866	669,206
CASH AND INVESTMENTS - BEGINNING	450,777	553,503	266,403	46,343	1,317,026
CASH AND INVESTMENTS - ENDING	**$ 371,678**	**$ 1,306,206**	**$ 254,139**	**$ 54,209**	**$ 1,986,232**
RECONCILIATION OF OPERATING CASH INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES					
Operating cash income (loss)	$ 124,560	$ 177,306	$ (53,795)	$ 6,475	$ 254,546
Adjustments to reconcile operating cash income (loss) to net cash provided by operating activities					
Other income related to operations	1,203	-	63,513	-	64,716
NET CASH PROVIDED BY OPERATING ACTIVITIES	**$ 125,763**	**$ 177,306**	**$ 9,718**	**$ 6,475**	**$ 319,262**

(The accompanying notes are an integral part of these financial statements.)

CITY OF OSAKIS, MINNESOTA
STATEMENT OF FIDUCIARY NET POSITION
December 31, 2025

		Revolving Loan Trust Fund
ASSETS		
Current Assets		
Cash and investments	$	23,322
TOTAL ASSETS	**$**	**23,322**
NET CASH POSITION		
Held in trust	$	23,322
TOTAL NET CASH ASSETS	**$**	**23,322**

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
Year Ended December 31, 2025

		Revolving Loan Trust Fund
ADDITIONS		
Investment income	$	304
Miscellaneous revenue		11,000
Total Additions		11,304
CASH NET POSITION - BEGINNING OF YEAR		12,018
CASH NET POSITION - END OF YEAR	**$**	**23,322**

(The accompanying notes are an integral part of these financial statements.)

NOTE 1 – NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity
The City of Osakis, Minnesota was incorporated under the laws of the State of Minnesota and is governed by an elected Mayor and four-member Council.

The financial statements of the reporting entity include those of the City (the primary government) and the component units for which the primary government is financially accountable. The criteria used to determine if the primary government is financially accountable for a component unit includes whether or not the primary government appoints the voting majority of the potential component unit's governing body, is able to impose its will on the potential component unit, is in a relationship of financial benefit or burden with the potential component unit or the potential component unit is fiscally dependent on the City.

Blended component units are separate legal entities that meet the component unit criteria described above and whose governing body is the same or substantially the same as the City Council or the component unit provides services entirely to the City. These component unit's funds are blended into those of the City by appropriate activity type to compose the primary government presentation. The City has one blended component unit:

> The Osakis Economic Development Authority (EDA) was organized in 1997 for the purpose of promoting economic development in the Osakis area. The governing body is composed of a seven member board. The City Council approves all appointments to the EDA Board, and two City Council members are members of the EDA Board. The EDA is included as a blended component unit of the City because the EDA is financially accountable to the City and the EDA provides services almost entirely for the City. The EDA is included as a special revenue fund of the City. Separate financial statements are not prepared for the EDA.

Discretely presented component units are separate legal entities that meet the component unit criteria described above but do not meet the criteria for blending. Currently, the City has no discretely presented component units.

Joint Venture and Jointly Governed Organizations. The City has a local lodging tax. The proceeds of the lodging tax provides for a local tourism and visitors bureau whose purpose is to promote tourism in the City. The joint powers agreement established a lodging tax of up to 3% and is collected by the City. The City retains 5% of the tax for reimbursement of administrative expenses and the balance of the tax remitted to the tourism and visitors bureau. Collections of lodging taxes and remittance to the tourism and visitors bureau are accounted for in the General Fund. Separate financial statements are not prepared.

NOTE 1 – NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The following represents the significant accounting policies used by the City of Osakis, Minnesota:

Basis of Accounting and Financial Statement Presentation
The City follows the *Reporting and Publishing Requirement for City Audited Financial Statements for Cities under 2,500 in Population Reporting on the Cash or Regulatory Basis of Accounting* as prescribed by the Minnesota Office of the State Auditor, for all funds. The statements of cash receipts and disbursements were prepared on the cash basis and, accordingly, revenues and expenditures are recognized only as cash is received or paid. These statements do not give effect to receivables, payables, accrued expenses, and inventories, and, accordingly, are not presented in accordance with generally accepted accounting principles.

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

The financial statements of the City are organized on the basis of funds, each of which is considered a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts, which constitute its assets, cash fund balance/net cash assets, receipts, and disbursements.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements. All remaining funds are aggregated and reported as nonmajor funds.

Funds are organized as major funds or nonmajor funds within the governmental and proprietary statements. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

1. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10% of the corresponding total for all funds of that category or type, and

NOTE 1 – NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting and Financial Statement Presentation (Continued)

2. The same element of the individual governmental fund or enterprise fund that met the 10% test is at least 5% of the corresponding total for all governmental and enterprise funds combined.
3. In addition, any other governmental or enterprise fund that the City believes is particularly important to financial statement users may be reported as a major fund.

The City reports the following types of funds:
Governmental Funds

General – the General Fund is the general operating fund of the City. It is used to account for all financial resources and transactions, except those required to be accounted for in another fund. The primary revenue sources are ad valorem taxes, State grants, and various other taxes and licenses. The primary expenditures are for public safety, public works, parks and recreation, and general government services.

Special Revenue Funds – used to account for specific revenue sources (other than expendable trusts and agency funds or major capital assets) that are restricted or committed to expenditures for specific purposes other than debt service or capital projects. The City has twelve special revenue funds. The City's major special revenues funds and their purposes are as follows:

TIF 1-5 Osakis Residential Revolving Housing – accounts for the resources accumulated and used to promote improvements of single family owner occupied homes in Douglas County.

Debt Service Funds – used to account for and report financial resources that are restricted, committed, or assigned to expenditure for the payment of long-term debt principal, interest, and related costs, other than enterprise debt. The City has four debt service funds. The City has no major debt service funds.

Capital Project Funds – used to account for the financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds). The City has four capital projects funds. The City has no major capital project funds.

NOTE 1 – NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting and Financial Statement Presentation (Continued)

Proprietary Funds

Enterprise Funds – used to account for operations that are financed and operated in a manner similar to private business enterprise, where the intent is that the cost of providing goods or services be financed or recovered primarily through user charges. In addition, the general property taxes and special assessments levied to retire the bonded indebtedness relating to the construction of the water and sewer systems are accounted for in these funds. The City's major enterprise funds and their purposes are as follows:

Water – accounts for the activities of the City's water service operations.

Sewer – accounts for the activities of the City's sewer service operations.

Liquor – accounts for the operations of the City's liquor store.

Fiduciary Funds

Trust Fund – accounts for assets held by the City in a trustee capacity for individuals, private organizations, other governments, and/or other funds. Expendable trust funds are accounted for in essentially the same manner as governmental funds. The City's intent is to use the principal and interest collected for future development projects. The City currently has a revolving loan trust fund.

Cash and Investments (Including Cash Equivalents)

Available cash balances from all funds are pooled and invested in accordance with *Minnesota Statutes*. Each fund's share of the pool is shown on the financial statements as "cash and investments." The City's cash and investments are considered to be cash on hand, demand deposits, and short-term maturities with original maturities of three months or less from the date of acquisition , and certificates of deposit with maturities of three months or more. Investments are valued at fair value.

Property Tax Revenue

The City levies its property taxes for the subsequent year during the month of December. In Minnesota, the lien date and assessment date is January 2. Douglas County and Todd County are the collecting agencies for the levy and then remits the collections to the City. The County Auditors also collect all special assessments, except for certain payments made directly to the City. The City receives its taxes in three installments in July, December, and January following the year for which the taxes were levied.

NOTE 1 – NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets
In the fund financial statements, property and equipment purchases are accounted for as capital outlay expenditures of the fund upon acquisition.

Long-Term Debt
Long-term debt is not reported as a liability in the regulatory basis financial statements. The face value of the debt obligations is reported as other financing sources and payments of principal and interest are reported as expenditures. 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.

Fund Balance Classifications
Cash fund balance is classified as follows in the City's financial statements:

Governmental Fund Financial Statements
Governmental funds report components of fund balance to provide information about fund balance availability for appropriation. Restricted fund balance represents amounts available for appropriation but intended for a specific use and is legally restricted by outside parties. Committed fund balance represents constraints on spending that the government imposes upon itself by high-level formal action prior to the close of the fiscal period. Assigned fund balance represents resources intended for spending for a purpose set by the government body itself or by some person or body delegated to exercise such authority in accordance with policy established by the council.

Unassigned fund balance is the residual classification for the City's General Fund and includes all spendable amounts not contained in the other classifications.

Committed fund balance is required to be established, modified, or rescinded by resolution of the City Council prior to each year-end. Based on resolution of the City Council, the City Clerk/Treasurer has the authority to establish or modify assigned fund balance. When restricted and unrestricted fund balance is available for expenditure, it is the City's policy to first use restricted fund balance, and then unrestricted resources as they are needed. When committed, assigned, and unassigned fund balance is available for expenditure, it is the City's policy to use committed, assigned, and then unassigned fund balance.

NOTE 1 – NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balance Classifications (Continued)

Proprietary Fund Statements

Net cash position is reported as restricted in the statements when there are limitations imposed on its used through external restrictions imposed by creditors, grantors, laws, or regulations of other governments. The remaining balance is considered to be unrestricted. When restricted and unrestricted net cash position is available for an expense, it is the City's policy to use restricted and then unrestricted net cash position.

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Deficit Fund Equity

The Tax Increment Financing District 1-9 funds had deficit balances of $2,412, as of December 31, 2025.

Budgetary Information

Budgets are prepared on the same basis of accounting as the financial statements to reflect actual cash receipts and disbursements. Each year, the City Council adopts an annual budget for the following year for the General Fund. Comparisons of budgeted receipts and disbursements to actual for the General Fund are presented as other information.

Budgetary Accounting

An operating budget is adopted each year for the General Fund on the same basis used in the fund financial statements to reflect actual cash receipts and disbursements. Budgeted amounts are as originally adopted or as amended by Council.

Annual appropriations lapse at year-end. Spending control is established by the amount of expenditures budgeted for the fund, but management control is exercised at budgetary program level.

Administration can authorize transfers of budgeted amounts within any fund. Revisions that change total expenditures of any fund must be approved by the City Council. Budgetary control is maintained at the object of expenditure category within each activity and is in compliance with Minnesota Statutes.

Compliance

The General Fund expenditures exceeded budgeted appropriations by $268,753 for the year ended December 31, 2025. The overage, considered by the City management to be the result of necessary expenditures critical to operations, were approved by the City Council.

NOTE 3 – DEPOSITS AND INVESTMENTS

Deposits
Minnesota Statues authorize the City to deposit its cash and to invest in certificates of deposit in financial institutions designated by the City Council.

The City maintains a cash and investment pool that is available for use by all funds. As of December 31, 2025, the City's cash and investment balances are reported as follows:

	Governmental Funds	Proprietary Funds	Fiduciary Funds	Total
Cash and investments				
Cash in bank	$ 3,577,222	$ 1,981,708	$ 23,322	$ 5,582,252
Cash on hand	100	4,524	-	4,624
Investments				
Certificates of deposit	857,846	-	-	857,846
TOTAL	**$ 4,435,168**	**$ 1,986,232**	**$ 23,322**	**$ 6,444,722**

A reconciliation to the basic financial statements is as follows:

	Governmental Funds	Proprietary Funds	Fiduciary Funds	Total
Cash and investments	$ 4,437,580	$ 1,986,232	$ 23,322	$ 6,447,134
Overdrawn cash balances	(2,412)	-	-	(2,412)
TOTAL	**$ 4,435,168**	**$ 1,986,232**	**$ 23,322**	**$ 6,444,722**

Custodial Credit Risk – the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City maintains its deposits in accordance with Minn. Stat. § 118A.03. Under that statute, all deposits must be covered by Federal Deposit Insurance Corporation (FDIC) or collateralized with eligible securities in an amount equal to 110% of the deposits not covered by FDIC or corporate surety bonds. As of December 31, 2025, the City's deposits with various financial institutions had a bank balance of $6,613,115. Of these deposits, $500,000 was covered by FDIC insurance and $6,113,115 was collateralized in accordance with Minn. Stat. § 118A.03.

Investments
Investment of City funds is restricted by *Minnesota Statutes*. Authorized investments include obligations of the U.S. Treasury and U.S. Agencies, bankers' acceptances, certain repurchase agreements and commercial paper rate A-1 by Standard & Poor's Corporate or P-1 by Moody's Commercial Paper Record.

NOTE 3 – DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)
Certificates of deposit totaling $857,846 at December 31, 2025 are included in cash and investments in the accompanying financial statements. The certificates bear interest at rates ranging from 2.67% to 3.94% and have initial maturities of twelve months, with penalties for early withdrawal.

The investments of the City are exposed to various risks as follows:

Interest Rate Risk – the risk that the market value of securities in the portfolio will fall due to changes in general interest rates. The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk – the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The City's policy, which adheres to State of Minnesota law, is to limit its corporate and municipal investments as noted above. Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality per GASB Statement No. 40. The City's investments in certificates of deposit are not rated.

Concentration of Credit Risk – the risk of loss attributed to the magnitude of a government's investment in a single issuer. The City places no limit on the amount that the City may invest in any one issuer.

NOTE 4 – INTERFUND TRANSFERS

Amounts were transferred between funds as follows:

Transferred From	Transferred To	Amount
General	TIF 1-8 Industrial Park	$ 2,291
COVID Funding	General	13,873
TIF 1-6 Downtown	General	500
TIF 1-6 Downtown	G.O. Series 2016A Downtown	51,449
TIF 1-5 Osakis Residential Revolving Housing	General	10,000
G.O. Refunding Bonds 2010A	General	127,442
TIF District 1-9	General	200
Liquor	General	20,500
Total		**$ 226,255**

NOTE 4 – INTERFUND TRANSFERS (Continued)

The transfers between the General Fund and the following funds were made to close the funds: Tax Increment Financing District Industrial Park (TIF 1-8), Covid Funding, and G.O. Refunding Bonds 2010A. The transfers from the Tax Increment Financing Downtown (TIF 1-6) and the Tax Increment Financing District (TIF 1-9) to the General Fund were for the reimbursement of administrative fees. Also, the transfer from TIF 1-6 to the G.O. Series 2016A Downtown Fund was to aid in debt repayment. The transfer from Tax Increment Financing Osakis Residential Revolving Housing (TIF 1-5) Fund to the General Fund was for the reimbursement of time spent by the City's administration on the fund. The transfer from the Liquor Fund to the General Fund was to aid in operations.

NOTE 5 – LONG-TERM OBLIGATIONS

Long-term obligations activity as of December 31 was as follows:

	Balance 2024	Additions	Reductions	Balance 2025	Due Within One Year
Governmental Activities					
General obligation bonds	$ 635,000	$ -	$ 90,000	$ 545,000	$ 90,000
Other liabilities					
Net pension liability	356,673	-	245,238	111,435	-
OPEB liability	208,225	60,206	-	268,431	-
TOTAL GOVERNMENTAL ACTIVITIES, NET	**$ 1,199,898**	**$ 60,206**	**$ 335,238**	**$ 924,866**	**$ 90,000**
Business-Type Activities					
General obligation revenue bonds	$ 3,807,000	$ 759,000	$ 111,039	$ 4,454,961	$ 114,457
Public Facilities revenue notes	1,444,961	-	109,000	1,335,961	110,000
Other liabilities					
Net pension liability	158,000	-	22,461	135,539	-
OPEB liability	188,393	54,476	-	242,869	-
TOTAL BUSINESS-TYPE ACTIVITIES	**$ 5,598,354**	**$ 813,476**	**$ 242,500**	**$ 6,169,330**	**$ 224,457**

NOTE 5 – LONG-TERM OBLIGATIONS (Continued)

Debt outstanding at December 31, 2025, include the following issues:

	Outstanding	Due Within One Year
Governmental Activities		
General obligation bonds		
$475,000 G.O. improvement note, series 2012A, issued November 21, 2012, due in annual installments of $25,000 to $40,000, through February 2029, interest at 2.25%	$ 145,000	$ 35,000
$805,000 G.O. PIR revolving fund bond, series 2016A, issued June 1, 2016, due in annual installments of $50,000 to $60,000 through February 2032, interest at 1.10 to 2.55%	400,000	55,000
TOTAL GOVERNMENTAL ACTIVITIES	**$ 545,000**	**$ 90,000**
Business-Type Activities		
General obligation revenue notes - Public Facilities Authority (PFA)		
$507,614 G.O. revenue notes - PFA, issued August 2, 2016, due in annual installments of $11,083 to $28,000, through August 2036, interest at 1.00%	$ 298,000	$ 26,000
$476,199 G.O. revenue notes - PFA, issued August 2, 2016, due in annual installments of $11,048 to $26,000, through August 2036, interest at 1.00%	278,000	24,000
$475,604 G.O. revenue notes - PFA, issued February 26, 2018, due in annual installments of $10,000 to $28,604, through August 2037, interest at 1.00%	319,000	25,000
$653,961 G.O. revenue notes - PFA, issued February 26, 2018, due in annual installments of $12,000 to $38,961, through August 2037, interest at 1.00%	440,961	35,000
Total G.O. Revenue Notes - PFA	1,335,961	110,000

NOTE 5 – LONG-TERM OBLIGATIONS (Continued)

	Outstanding	Due Within One Year
Business-Type Activities (Continued)		
General Obligation Revenue Bonds		
$1,275,000 G.O. water revenue bond, series 2013A, issued February 21, 2013, due in annual installments of $20,000 to $50,000, through January 2053, interest at 2.50%	$ 1,029,000	$ 26,000
$433,000 G.O. water revenue bond, series 2013B, issued February 21, 2013, due in annual installments of $7,000 to $17,000, through January 2053, interest at 2.50%	349,000	9,000
$360,000 G.O. utility revenue bond, series 2017A, issued September 19, 2017, due in annual installments of $16,000 to $30,000, through February 2033, interest at 3.20%	215,000	24,000
$774,000 G.O. disposal system note, series 2022A, issued August 8, 2022, due in annual installments of $27,000 to $52,000, through February 2042, interest at 3.70%	678,000	29,000
$800,000 G.O. disposal system note, series 2024B, issued August 12, 2024, due in annual installments of $15,544 to $24,851, through February 2064, interest at 1.25%	784,456	15,739
$651,000 G.O. disposal system note, series 2024C, issued August 12, 2024, due in annual installments of $10,495 to $23,462, through February 2064, interest at 2%	640,505	10,718
$759,000 G.O. sewer revenue bond, series 2025A, issued December 22, 2025, due in annual installments of $21,000 to $55,000, through February 2046, interest at 4.45%	759,000	-
Total General Obligation Revenue Bonds	4,454,961	114,457
TOTAL BUSINESS-TYPE ACTIVITIES	**$ 5,790,922**	**$ 224,457**

NOTE 5 – LONG-TERM OBLIGATIONS (Continued)

The annual debt service requirements to maturity for long-term bonds and notes outstanding are as follows:

	Governmental Activities		Business-Type Activities	
Year Ending December 31,	**Principal**	**Interest**	**Principal**	**Interest**
2026	$ 90,000	$ 11,598	$ 224,457	$ 135,579
2027	90,000	9,697	248,882	130,258
2028	90,000	7,699	259,313	124,685
2029	95,000	5,645	264,752	119,054
2030	60,000	3,825	270,199	113,099
2031 - 2035	120,000	3,060	1,378,971	473,091
2036 - 2040	-	-	1,005,319	325,096
2041 - 2045	-	-	783,864	190,401
2046 - 2050	-	-	540,591	108,116
2051 - 2055	-	-	401,659	54,630
2056 - 2060	-	-	222,198	27,162
2061 - 2064	-	-	190,717	8,020
TOTAL	**$ 545,000**	**$ 41,524**	**$ 5,790,922**	**$ 1,809,191**

NOTE 6 – CONDUIT DEBT

Conduit debt represents debt for which the City has no obligation for debt repayment beyond the resources provided from the related leases or loans incorporated within the debt documents. At December 31, 2025, the following conduit debt existed relating to the Community Memorial Home:

Community Memorial Home Project, Series 2017	**$ 1,114,442**

NOTE 7 – DEFINED BENEFIT PENSION PLANS

General Employees Retirement Plan (General Plan)

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.

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% of the highest average salary for each of the first 10 years of service and 1.7% for each additional year. Under the Level formula, General Plan members receive 1.7% 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 0.25% for each month under age 65. Members with 30 or more years of service can retire at any age with a reduction of 0.25% 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 7 – DEFINED BENEFIT PENSION PLANS (Continued)

General Employees Retirement Plan (Continued)

Benefits Provided (Continued)

Benefit increases are provided to benefit recipients each January. The postretirement increase is equal to 50% of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1% and a maximum of 1.5%. The 2025 annual increase was 1.25%. 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.

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% of their annual covered salary in fiscal year 2025 and the City was required to contribute 7.50% for General Plan members. The City's contributions to the General Employees Fund for the year ended December 31, 2025, were $53,971. The City's contributions were equal to the required contributions as set by state statute.

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.

Osakis Firemen's Relief Association

Plan Description

The Osakis Firemen's Relief Association 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, 2025, 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 353G.

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 5 years of service. Plan provisions include a pro-rated vesting schedule that increases from 5 years at 40% through 20 years at 100%.

NOTE 7 – DEFINED BENEFIT PENSION PLANS (Continued)

Osakis Firemen's Relief Association (Continued)

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 $51,639 in fire state aid for the year ended December 31, 2025. Required employer contributions are calculated annually based on statutory provisions. The City did not have any statutorily-required contributions to the SVF plan for the year ended December 31, 2025.

Pension Plan Fiduciary Net Position

Detailed information about the Volunteer Firefighter Fund'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 at www.mnpera.org.

NOTE 8 – OTHER POST EMPLOYMENT BENEFITS

The City's current employment agreements state the City will pay 100% of negotiated health and medical insurance premiums for employees whose employment ends with the City after 20 years of service until that employee becomes eligible for Medicare health insurance or is eligible for employer covered health insurance elsewhere. Employees hired after January 1, 2007, must be at least 55 years of age to receive the benefit. During the year ended December 31, 2025, the City paid retiree benefits for one retiree totaling $11,172.

NOTE 9 – LEASES

The City leases space in the City liquor store to Nelson Community Club for the operation of the gambling booth. The term of the lease agreement is concurrent with the premises permit issued by the Gambling Control Board. The City receives monthly rent based on 20% of gross profits from paper pull-tabs and 15% of gross profits from e-tabs, which amounted to $58,823 in 2025.

NOTE 10 – TAX INCREMENT FINANCING

The City has entered into four Tax Increment Financing (TIF) agreements. The City's authority to enter into these agreements comes from *Minnesota Statute* 469. These agreements are for the purpose of promoting economic development and housing opportunities.

NOTE 10 – TAX INCREMENT FINANCING (Continued)

Under each agreement, the City and developer agree on an amount of development costs to be reimbursed to the developer by the City through tax revenues from the additional taxable value of the property generated by the development (tax increment). A "pay-as-you-go" note is established for this amount, on which the City makes payments for a fixed period of time with available tax increment revenue after deducting for certain administrative costs. The notes are not debt of the City and the City is not liable on the notes, except for the City's obligations to make payments of pledged tax increment from the applicable TIF district. The notes shall not be payable out of any funds or properties other than pledged tax increment.

During the year ended December 31, 2025, the City generated $173,282 in tax increment revenue on all four TIF districts and made $63,371 in payments to developers. The following four agreements represent the tax increment generated on the pay-as-you-go TIF districts during the year:

- TIF District No. 1-5 is a housing district established in 2000 for the purpose of establishing new retail real estate on a parcel of blighted property. All obligations have been paid in full for this TIF district. The district has been modified to allow the City to continue to collect increment in the district to support low to moderate housing development in the City. During the year ended December 31, 2025, the district generated $121,861 of tax increment revenue.
- TIF District No. 1-6 is a redevelopment district established in 2008. The district was reconstructed from original purpose. The City issued bonds to reconstruct the infrastructure for downtown. As part of the bonding, $395,000 was allocated from this TIF district. Tax increment revenue generated is being used to assist in debt repayment of the 2016A G.O. Bonds. During the year ended December 31, 2025, the district generated $38,002 of tax increment revenue.
- TIF District No. 1-8 is an economic development district established in 2015. Under the agreement, up to $45,000 of development costs plus interest at 4% will be reimbursed through tax increment. Duration of the TIF district is 10 years from the date of receipt of the first increment by the City. During the year ended December 31, 2025, the district generated $3,522 of tax increment revenue. The note's balance at year-end was $37,746.
- TIF District No. 1-9 is a housing district established in 2017. Under the agreement, up to $125,000 of development costs will be reimbursed through tax increment. Duration of the TIF district is 25 years from the date of receipt of the first increment by the City. During the year ended December 31, 2025, the district generated $9,897 of tax increment revenue. The note's balance at year-end was $65,733.

NOTE 11 – RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; job-related illnesses or injuries to employees and natural disasters. The City has entered into a joint powers agreement with the League of Minnesota Cities Insurance Trust (LMCIT). The LMCIT is a public entity risk pool currently operating as a common risk management and insurance program for Minnesota cities. The City also carries commercial insurance for certain other risks of loss.

The agreement for formation of the LMCIT provides that the pool will be self-sustaining through member assessments and will reinsure through commercial companies for claims in excess of reserved amounts for each insured event. The LMCIT can make additional assessments to make the pool self-sustaining. The City has determined that it is not possible to estimate the amount of such additional assessments; however, they are not expected to be material to the financial statements.

There were no significant reductions in insurance coverage from the previous year or settlements in excess of insurance coverage for any of the past three fiscal years.

OTHER INFORMATION

CITY OF OSAKIS, MINNESOTA
BUDGETARY COMPARISON SCHEDULE - CASH BASIS
GENERAL FUND
Year Ended December 31, 2025

	Budgeted Amounts		Actual	Variance Over
	Original	Final	Amounts	(Under)
BEGINNING FUND BALANCE - JANUARY 1	$ 2,799,389	$ 2,799,389	$ 2,799,389	$ -
RECEIPTS				
Taxes				
Property taxes	808,822	808,822	852,418	43,596
Franchise taxes	15,000	15,000	13,661	(1,339)
Total Taxes	823,822	823,822	866,079	42,257
Licenses and permits	43,000	43,000	41,084	(1,916)
Intergovernmental				
State grants and aids				
Local government aid	592,016	592,016	592,016	-
Market value credit - agricultural	350	350	403	53
Police aid	28,000	28,000	34,646	6,646
Fire relief aid	-	-	51,639	51,639
Other state aids	40,113	40,113	20,920	(19,193)
County grants and aids				
Street and highway aid	10,000	10,000	16,446	6,446
Total Intergovernmental	670,479	670,479	716,070	45,591
Charges For Services				
Fire safety	11,000	11,000	11,000	-
Highways and streets	10,000	10,000	16,446	6,446
Community center rent	13,400	13,400	16,065	2,665
Other charges for services	2,200	2,200	(4,983)	(7,183)
Total Charges For Services	36,600	36,600	38,528	1,928
Fines and forfeitures	10,000	10,000	10,410	410
Miscellaneous				
Investment earnings	50,000	50,000	103,918	53,918
Contributions and donations	13,000	13,000	48,290	35,290
Refunds	4,800	4,800	1,654	(3,146)
Other	1,600	1,600	700	(900)
Total Miscellaneous	69,400	69,400	154,562	85,162
Total Receipts	1,653,301	1,653,301	1,826,733	173,432
OTHER FINANCING SOURCES				
Sale of assets	2,000	2,000	466	(1,534)
Insurance recovery	1,000	1,000	250	(750)
Transfers in	27,200	41,073	172,515	131,442
Total Other Financing Sources	30,200	44,073	173,231	129,158
Total Receipts and Other Financing Sources	1,683,501	1,697,374	1,999,964	302,590
AMOUNTS AVAILABLE FOR APPROPRIATION	4,482,890	4,496,763	4,799,353	302,590

CITY OF OSAKIS, MINNESOTA
BUDGETARY COMPARISON SCHEDULE - CASH BASIS
GENERAL FUND
Year Ended December 31, 2025

	Budgeted Amounts		Actual	Variance Over
	Original	Final	Amounts	(Under)
DISBURSEMENTS				
General Government				
Mayor and council	$ 32,625	$ 36,625	$ 42,718	$ 6,093
Clerk / finance and administration	185,960	191,055	195,911	4,856
Elections	1,000	1,000	1,218	218
Professional fees	50,000	54,380	61,866	7,486
Other general government	33,550	33,550	38,559	5,009
Total General Government	303,135	316,610	340,272	23,662
Public Safety				
Police protection	460,920	463,547	512,761	49,214
Fire protection	71,025	69,025	157,209	88,184
First responders	29,530	29,530	35,983	6,453
Building inspection	24,500	24,500	23,858	(642)
Civil defense	2,000	2,000	1,050	(950)
Total Public Safety	587,975	588,602	730,861	142,259
Streets				
Maintenance	260,373	243,544	270,067	26,523
Culture and Recreation				
Visitor's center	7,680	7,680	9,442	1,762
Community center	32,245	36,072	34,521	(1,551)
Beach	9,000	10,500	10,574	74
Ice rink	500	500	306	(194)
Parks	119,100	135,500	126,881	(8,619)
Total Culture and Recreation	168,525	190,252	181,724	(8,528)
Miscellaneous				
Cemetary	9,450	9,450	8,582	(868)
Insurance (unallocated)	135,000	135,000	104,274	(30,726)
Other	32,500	27,500	31,307	3,807
Total Miscellaneous	176,950	171,950	144,163	(27,787)
Capital Outlay				
Government buildings	12,000	12,000	3,565	(8,435)
Police	22,500	22,500	72,255	49,755
Streets	150,000	150,000	201,974	51,974
Senior center	1,000	1,000	-	(1,000)
Culture and recreation	3,500	3,500	-	(3,500)
Community center	5,000	5,000	9,057	4,057
Parks	10,000	10,000	13,890	3,890
Miscellaneous	-	-	15,883	15,883
Total Capital Outlay	204,000	204,000	316,624	112,624
Total Disbursements	1,700,958	1,714,958	1,983,711	268,753
OTHER FINANCING USES				
Transfers to other funds	-	-	2,291	2,291
TOTAL DISBURSEMENTS AND OTHER FINANCING USES				
(Charges to appropriations)	1,700,958	1,714,958	1,986,002	271,044
ENDING BUDGETARY FUND BALANCE - DECEMBER 31	**$ 2,781,932**	**$ 2,781,805**	**$ 2,813,351**	**$ 31,546**

SUPPLEMENTARY INFORMATION

CITY OF OSAKIS, MINNESOTA
COMBINING STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH FUND BALANCES
NONMAJOR FUNDS
Year Ended December 31, 2025

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Total
RECEIPTS				
Property taxes	$ -	$ 30,992	$ -	$ 30,992
Lodging taxes	9,282	-	-	9,282
Special assessments	-	36,755	3,414	40,169
Tax increment	-	-	51,421	51,421
Intergovernmental	5,000	-	-	5,000
Charges for services	146,211	-	-	146,211
Fines and forfeits	708	-	-	708
Investment earnings	11,061	7,616	10,557	29,234
Contributions and donations	167,313	-	108,664	275,977
Miscellaneous	-	-	7,500	7,500
Total Receipts	339,575	75,363	181,556	596,494
DISBURSEMENTS				
Current				
Public safety	21,251	-	-	21,251
Streets	-	-	301	301
Culture and recreation	18,403	-	-	18,403
Economic development	46,987	-	17,208	64,195
Miscellaneous	1,260	-	-	1,260
Debt service				
Principal	-	90,000	-	90,000
Interest	-	14,197	-	14,197
Capital outlay	125,391	-	66,983	192,374
Total Disbursements	213,292	104,197	84,492	401,981
RECEIPTS OVER (UNDER) DISBURSEMENTS	126,283	(28,834)	97,064	194,513
OTHER FINANCING SOURCES (USES)				
Transfers in	-	51,449	2,291	53,740
Transfers out	(13,873)	(127,442)	(52,149)	(193,464)
Total Other Financing Sources (Uses)	(13,873)	(75,993)	(49,858)	(139,724)
NET CHANGE IN CASH FUND BALANCES	112,410	(104,827)	47,206	54,789
CASH FUND BALANCES - BEGINNING	316,127	501,114	274,729	1,091,970
CASH FUND BALANCES - ENDING	**$ 428,537**	**$ 396,287**	**$ 321,935**	**$ 1,146,759**

CITY OF OSAKIS, MINNESOTA
COMBINING STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
Year Ended December 31, 2025

	Fire Service & Equipment	First Responders	Economic Development Authority	Osakis Economic Development Commission	Interstate Sign	Cemetery	DWI Assessment	National Night Out	Bike Share	COVID Funding	Community Park & Rec	Lodging Tax Payments	Total
RECEIPTS													
Lodging taxes	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 9,282	$ 9,282
Intergovernmental	5,000	-	-	-	-	-	-	-	-	-	-	-	5,000
Charges for services	145,511	-	-	-	-	700	-	-	-	-	-	-	146,211
Fines and forfeits	-	-	-	-	-	-	708	-	-	-	-	-	708
Investment earnings	5,144	3,488	499	-	-	1,930	-	-	-	-	-	-	11,061
Contributions and donations	450	39,138	38,326	41,739	22,935	-	-	1,350	1,500	-	21,875	-	167,313
Total Receipts	156,105	42,626	38,825	41,739	22,935	2,630	708	1,350	1,500	-	21,875	9,282	339,575
DISBURSEMENTS													
Current													
Public safety	12,903	8,348	-	-	-	-	-	-	-	-	-	-	21,251
Culture and recreation	-	-	-	-	-	-	-	-	-	-	18,403	-	18,403
Economic development	-	-	260	41,739	1,300	-	-	-	-	-	-	3,688	46,987
Miscellaneous	-	-	-	-	-	6	-	1,254	-	-	-	-	1,260
Capital outlay	70,470	19,208	35,713	-	-	-	-	-	-	-	-	-	125,391
Total Disbursements	83,373	27,556	35,973	41,739	1,300	6	-	1,254	-	-	18,403	3,688	213,292
RECEIPTS OVER DISBURSEMENTS	72,732	15,070	2,852	-	21,635	2,624	708	96	1,500	-	3,472	5,594	126,283
OTHER FINANCING SOURCES (USES)													
Transfers out	-	-	-	-	-	-	-	-	-	(13,873)	-	-	(13,873)
NET CHANGE IN CASH FUND BALANCES	72,732	15,070	2,852	-	21,635	2,624	708	96	1,500	(13,873)	3,472	5,594	112,410
CASH FUND BALANCES - BEGINNING	91,596	85,322	21,877	2,345	(600)	45,548	1,214	373	-	13,873	46,500	8,079	316,127
CASH FUND BALANCES - ENDING	**$ 164,328**	**$ 100,392**	**$ 24,729**	**$ 2,345**	**$ 21,035**	**$ 48,172**	**$ 1,922**	**$ 469**	**$ 1,500**	**$ -**	**$ 49,972**	**$ 13,673**	**$ 428,537**

CITY OF OSAKIS, MINNESOTA
COMBINING STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH FUND BALANCES
NONMAJOR DEBT SERVICE FUNDS
Year Ended December 31, 2025

	G.O. Bonds of 2008A and 2014A	G.O. Refunding Bonds of 2010A	G.O. Series 2016A Downtown	G.O. Series 2012A Rural Water Loan	Total
RECEIPTS					
Property taxes	$ 2,020	$ 1,016	$ 83	$ 27,873	$ 30,992
Special assessments	-	2,252	23,584	10,919	36,755
Investment earnings	852	4,676	2,088	-	7,616
Total Receipts	2,872	7,944	25,755	38,792	75,363
DISBURSEMENTS					
Debt service					
Principal	-	-	55,000	35,000	90,000
Interest	-	-	10,540	3,657	14,197
Total Disbursements	-	-	65,540	38,657	104,197
RECEIPTS OVER (UNDER) DISBURSEMENTS	2,872	7,944	(39,785)	135	(28,834)
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	51,449	-	51,449
Transfers out	-	(127,442)	-	-	(127,442)
Net Other Financing Sources (Uses)	-	(127,442)	51,449	-	(75,993)
NET CHANGE IN CASH FUND BALANCES	2,872	(119,498)	11,664	135	(104,827)
CASH FUND BALANCES - BEGINNING	92,021	120,649	273,844	14,600	501,114
CASH FUND BALANCES - ENDING	**$ 94,893**	**$ 1,151**	**$ 285,508**	**$ 14,735**	**$ 396,287**

CITY OF OSAKIS, MINNESOTA
COMBINING STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH FUND BALANCES
NONMAJOR CAPITAL PROJECTS FUNDS
Year Ended December 31, 2025

	Tax Increment Financing District Industrial Park 1-8	Tax Increment Financing District Downtown 1-6	Industrial Park	Tax Increment Financing District 1-9	Park Osagi Project	Total
RECEIPTS						
Special assessments	$ -	$ -	$ 3,414	$ -	$ -	$ 3,414
Tax increment	3,522	38,002	-	9,897	-	51,421
Investment earnings	-	-	10,383	-	174	10,557
Contributions and donations	-	-	-	-	108,664	108,664
Miscellaneous	-	-	7,500	-	-	7,500
Total Receipts	3,522	38,002	21,297	9,897	108,838	181,556
DISBURSEMENTS						
Current						
Streets	-	-	301	-	-	301
Economic development	5,951	1,175	-	10,082	-	17,208
Capital outlay	-	-	-	-	66,983	66,983
Total Disbursements	5,951	1,175	301	10,082	66,983	84,492
RECEIPTS OVER (UNDER) DISBURSEMENTS	(2,429)	36,827	20,996	(185)	41,855	97,064
OTHER FINANCING SOURCES (USES)						
Transfers in	2,291	-	-	-	-	2,291
Transfers out	-	(51,949)	-	(200)	-	(52,149)
Net Other Financing Sources (Uses)	2,291	(51,949)	-	(200)	-	(49,858)
NET CHANGE IN CASH FUND BALANCES	(138)	(15,122)	20,996	(385)	41,855	47,206
CASH FUND BALANCES - BEGINNING	138	15,122	261,496	(2,027)	-	274,729
CASH FUND BALANCES - ENDING	**$ -**	**$ -**	**$ 282,492**	**$ (2,412)**	**$ 41,855**	**$ 321,935**

CITY OF OSAKIS, MINNESOTA
SCHEDULE OF INDEBTEDNESS AND OTHER LONG-TERM LIABILITIES
Year Ended December 31, 2025

	Interest Rate %	Issue Date	Final Maturity Date	Outstanding January 1, 2025	Issued in 2025	Paid in 2025	Outstanding December 31, 2025
Bonded Indebtedness							
General Obligation							
2012A GO improvement note	2.25%	11/21/2012	2/1/2029	$ 180,000	$ -	$ 35,000	$ 145,000
2016A GO PIR revolving fund bond	1.10%	6/1/2016	2/1/2032	455,000	-	55,000	400,000
Total General Obligation				635,000	-	90,000	545,000
Revenue Bonds							
2013A GO water revenue bond	2.50%	2/21/2013	1/1/2053	1,054,000	-	25,000	1,029,000
2013B GO water revenue bond	2.50%	2/21/2013	1/1/2053	358,000	-	9,000	349,000
2017A GO utility revenue bond	3.20%	9/19/2017	2/1/2033	238,000	-	23,000	215,000
2016 PFA water revenue notes	1.00%	8/2/2016	8/1/2036	324,000	-	26,000	298,000
2016 PFA sewer revenue notes	1.00%	8/2/2016	8/1/2036	302,000	-	24,000	278,000
2018 PFA water revenue notes	1.00%	2/26/2018	8/1/2037	344,000	-	25,000	319,000
2018 PFA sewer revenue notes	1.00%	2/26/2018	8/1/2037	474,961	-	34,000	440,961
2022A GO disposal system note	3.70%	8/8/2022	2/1/2042	706,000	-	28,000	678,000
2024B GO water revenue bond	1.25%	8/12/2024	8/23/2064	800,000	-	15,544	784,456
2024C GO water revenue bond	2.00%	8/12/2024	8/23/2064	651,000	-	10,495	640,505
2025A GO sewer revenue bond	4.45%	12/22/2025	2/1/2046	-	759,000	-	759,000
Total Revenue Bonds				5,251,961	759,000	220,039	5,790,922
TOTAL INDEBTEDNESS				**$ 5,886,961**	**$ 759,000**	**$ 310,039**	**$ 6,335,922**
Other Long-Term Liabilities							
Net pension liability							
PERA - general employees plan							$ 246,974
PERA - police and fire plan							221,220
OPEB liability							511,300

CITY OF OSAKIS, MINNESOTA
SCHEDULE OF ACCOUNTS RECEIVABLE
December 31, 2025

FUND	SOURCE OF REVENUE AND PURPOSE	AMOUNT	
Water	Various customers - utilities	$	53,322
Sewer	Various customers - utilities		50,160
Garbage/recycling	Various customers - utilities		16,110
Liquor	Various customers - credit cards		4,924
TOTAL		**$**	**124,516**

CITY OF OSAKIS, MINNESOTA
SCHEDULE OF ACCOUNTS PAYABLE
December 31, 2025

FUND	VENDOR NAME	ITEM AND PURPOSE	AMOUNT
General	Thornton, Dolan, Bowen, Klecker & Burkhammer, P.A.	Legal fees	$ 2,198
	Flaherty & Hood, P.A.	Legal and consulting services	2,050
	Inspectron Inc.	Inspection fees	5,410
	Metro Sales Inc.	Copies	1,579
	VISA	Credit card charges	1,637
	Computer Information Systems	Professional services	810
	Douglas County Information Systems	Professional services	150
	Northdale Oil, Inc.	Fuel	1,095
	Ampion	Solar	1,367
	Cybersprout LLC	Website maintenance	438
	Deluxe Oil Co	Fuel	1,328
	Sourcewell	Professional services	55
	Deedra Greene	Cleaning	94
	Midwest Captionns, Inc.	Website maintenance	51
	Xcel Energy	Utilities	4,437
	Customized Fire Rescue Training	Training	700
	Centerpoint Energy	Utilities	3,555
	Verizon	Telephone	262
			27,216
Fire Service and Equipment	MacQueen	Fire equipment	12,173
Water	Cargill	Salt	6,708
	MN Department of Revenue	Sales tax	362
	Ampion	Solar	1,128
	Gopher State One Call	Locates	4
	Northdale Oil Inc.	Fuel	101
	VISA	Credit card charges	221
	Xcel Energy	Utilities	1,084
	Centerpoint Energy	Utilities	981
			10,589
Sewer	Ampion	Solar	859
	Gopher State One Call	Locates	4
	Northdale Oil Inc.	Fuel	101
	Xcel Energy	Utilities	722
			1,686
Garbage	West Central Sanitation	December garbage fees	11,355
	MN Department of Revenue	Sales tax	845
			12,200
Liquor	Tri County Pumping LLC	Supplies	526
	HBI Radio Alexandria LLC	Advertising	370
	Leighton Media	Advertising	920
	Wacosa	Cleaning	710
	Xcel Energy	Utilities	840
	Centerpoint Energy	Utilities	355
	Mike Randt	Freight	310
	Central Lakes Restaurant Supply	Supplies	175
			4,206
TOTAL			**$ 68,070**

OTHER REPORTS

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*

To the Honorable Mayor and Members of the City Council
City of Osakis, 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, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Osakis, Minnesota 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 April 6, 2026.

Report on 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 of Osakis, Minnesota's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Osakis, Minnesota's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2025-001 and 2025-002, that we consider to be significant deficiencies.

Report on 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 determination of 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.*

Minnesota Legal Compliance

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

City of Osakis, Minnesota's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Osakis, Minnesota'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 of Osakis, Minnesota's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Carlson SV LLP

Fergus Falls, Minnesota
April 6, 2026

CITY OF OSAKIS, MINNESOTA
SCHEDULE OF CURRENT YEAR FINDINGS AND RESPONSES
Year Ended December 31, 2025

SIGNIFICANT DEFICIENCIES

2025-001. Lack of Segregation of Duties

Criteria: Management is responsible for establishing and maintaining internal control. Adequate segregation of duties is a key control in preventing and detecting errors or irregularities. To protect City assets, proper segregation of the record keeping, custody, and authorization functions should be in place, and where management decides segregation of duties may not be cost effective, compensating controls should be in place.

Condition: The City has a limited number of office personnel and, accordingly, does not have adequate separation of duties in cash receipts, cash disbursements, accounts payable and purchasing, payroll and related liabilities, and general ledger maintenance and reconciliation. An effective internal control structure provides an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion.

Cause: The City has a limited number of office personnel and inadequate internal controls.

Effect: The failure to properly segregate duties increases the risk that misstatement may occur and not be detected within a time period by employees in the normal course of performing their assigned functions.

Recommendation: While we recognize the City's office staff is not large enough to permit an adequate segregation of duties in all respects for an effective internal control structure, it is important that the City be aware of this condition and look for opportunities to improve segregation of duties or add mitigating controls to prevent material misstatement of the financial statements.

Management's Response and Actions Planned: The City's management is aware of this condition and believes that it is not economically feasible to attain the ideal segregation of duties. Management is attempting to mitigate the associated risks by doing the following:

1. Identifying areas lacking segregation of duties and where there is higher risk of fraud occurring.
2. Implementing limited segregation to the extent possible to reduce risks without impairing efficiency.
3. Using the knowledge of management and the Council to review accounting records and reports.

SIGNIFICANT DEFICIENCIES (Continued)

2025-002. Preparation of Financial Statements and Related Footnotes

Criteria: Internal controls over financial reporting include those related to the actual preparation and review of the audited financial statements. In order to prepare a complete set of financial statements in conformity with the regulatory basis of accounting, the preparer must have the necessary expertise.

Condition: The City does not have an internal control system designed to provide for the preparation of the financial statements being audited. City personnel do prepare periodic financial statements and other financial information for internal use that meets the needs of management and council. However, the City does not have the internal resources to prepare full-disclosure financial statements required by the regulatory basis of accounting for external reporting. As auditors, we were requested to draft the financial statements and accompanying footnotes.

Cause: The City does not have the resources to compile their own financial statements.

Effect: This control deficiency could result in a misstatement to the financial statements that would not be prevented or detected.

Recommendation: This control deficiency is not unusual in a small city. However, it is the responsibility of management and the Council to decide whether to accept the degree of risk associated with this condition based on the cost of correction and other considerations.

Management's Response and Actions Planned: The City's management is aware of this significant deficiency. Management reviews and approves the draft annual audited financial statements and distributes them to users. For entities of this size, it generally is not practical to obtain the internal expertise needed to handle all aspects of the external financial reporting. Management recognizes this and feels it is effectively handling its reporting responsibilities with the procedures described above.