

FINANCIAL STATEMENTS

CITY OF LORETTO
LORETTO, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2025

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City of Loretto, Minnesota
Annual Financial Report
Table of Contents
For the Year Ended December 31, 2025

	<u>Page No.</u>
Introductory Section	
Elected and Appointed Officials	7
Financial Section	
Independent Auditor's Report	11
Financial Statements - Regulatory Basis	
Governmental Funds	
Statement of Balances Arising from Cash Transactions	16
Statement of Receipts, Disbursements and Changes in Cash Fund Balances	17
Proprietary Funds	
Statement of Net Position	18
Statement of Revenues, Expenses and Changes in Net Position	19
Statement of Cash Flows	20
Notes to the Financial Statements	21
Required Supplementary Information	
Schedule of Employer's Share of Public Employees Retirement Association Net Pension Liability - General Employees Retirement Fund	40
Schedule of Employer's Public Employees Retirement Association Contributions - General Employees Retirement Fund	40
Notes to the Required Supplementary Information - General Employees Retirement Fund	41
Budgetary Comparison Schedule - Regulatory Basis General Fund	43
Notes to the Required Supplementary Information – Budgetary Reporting	46
Individual Fund Financial Schedules	
Summary Financial Report Receipts and Disbursements for General Operations - Governmental Funds	48
Supplementary Information - Unaudited	
Schedule of Accounts Receivable	50
Schedule of Accounts Payable and Contingent Liabilities	50
Other Required Reports	
Independent Auditor's Report on Minnesota Legal Compliance	53
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 <i>Government Auditing Standards</i>	54
Schedule of Findings and Responses	56

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INTRODUCTORY SECTION

CITY OF LORETTO
LORETTO, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2025

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City of Loretto, Minnesota
Elected and Appointed Officials
For the Year Ended December 31, 2025

Elected Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Kent Koch	Mayor	12/31/2026
Ben Scanlon	Council Member	12/31/2026
Brenda Daniels	Council Member	12/31/2026
Jeff Leuer	Council Member	12/31/2028
Melissa Markham	Council Member	12/31/2028

Appointed Officials

Mary Schneider	Clerk/Treasurer
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FINANCIAL SECTION
CITY OF LORETTO
LORETTO, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2025

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council
City of Loretto, Minnesota

Opinions

We have audited the accompanying financial statements of each major fund of the governmental and proprietary funds and the aggregate remaining fund information of the City of Loretto, 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.

Unmodified Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements of the governmental funds referred to in the first paragraph present fairly, in all material respects, the cash and unencumbered cash balances of each fund of the City, as of December 31, 2025, and their respective cash receipts and disbursements, for the year then ended, on the basis of the financial reporting provisions the Minnesota Office of the State Auditor as described in Note 1B. Also, in our opinion, the financial statements of the proprietary funds referred to in the first paragraph present fairly, in all material respects, the respective financial position of each fund of the City as of December 31, 2025, and the respective changes in financial position and cash flows, for the year then ended, on the basis of the financial reporting provisions the Minnesota Office of the State Auditor as described in Note 1B.

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" paragraph, the financial statements referred to in the first paragraph do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the City as of December 31, 2025, the changes in its financial position 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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1B, the financial statements are prepared by the City on the basis of the financial reporting provisions of the Minnesota Office of the State Auditor, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements of the Minnesota Office of the State Auditor. The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1B and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of the Minnesota Office of the State auditor, as described in Note 1B. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the 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 Loretto's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City of Loretto's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Loretto'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 Schedule of Employer's Shares of the Net Pension Liability, the Schedule of Employer's Contributions, the related note disclosures for defined benefit plans, the respective budgetary comparison schedule and the related note disclosures starting on page 40 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinion on the financial statements that collectively comprise the City's basic financial statements. The accompanying individual fund financial schedules 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 related 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 accompanying individual fund financial schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 10, 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.



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Minneapolis, Minnesota
March 10, 2026



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FINANCIAL STATEMENTS - REGULATORY BASIS

CITY OF LORETTO
LORETTO, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2025

City of Loretto, Minnesota
Statement of Balances Arising from Cash Transactions
Governmental Funds
December 31, 2025

	General	Capital Improvements	2021 Street Project Bond	2023 Street Improvement Project	2023 Street Project Bond	Totals Governmental Funds
Assets						
Cash and temporary investments	\$ 560,311	\$ 317,583	\$ 140,774	\$ 59,643	\$ 117,104	\$ 1,195,415
Cash Fund Balances						
Restricted for						
Capital projects	\$ -	\$ -	\$ -	\$ 59,643	\$ -	\$ 59,643
Debt service	-	-	140,774	-	117,104	257,878
Assigned for capital purchases	-	317,583	-	-	-	317,583
Unassigned	560,311	-	-	-	-	560,311
Total Cash Fund Balances	\$ 560,311	\$ 317,583	\$ 140,774	\$ 59,643	\$ 117,104	\$ 1,195,415

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

City of Loretto, Minnesota
Statement of Receipts, Disbursements and
Changes in Cash Fund Balances
Governmental Funds
For the Year Ended December 31, 2025

	General	Capital Improvements	2021 Street Project Bond	2023 Street Improvement Project	2023 Street Project Bond	Totals Governmental Funds
Receipts						
Taxes	\$ 575,864	\$ -	\$ 60,359	\$ -	\$ 110,296	\$ 746,519
Licenses and permits	31,673	-	-	-	-	31,673
Intergovernmental	135,112	-	-	-	-	135,112
Charges for services	12,499	-	-	-	-	12,499
Fines and forfeitures	2,170	-	-	-	-	2,170
Special assessments	-	-	12,454	-	31,444	43,898
Interest on investments	17,534	10,062	3,956	3,809	418	35,779
Miscellaneous	41,298	-	-	-	-	41,298
Total Receipts	<u>816,150</u>	<u>10,062</u>	<u>76,769</u>	<u>3,809</u>	<u>142,158</u>	<u>1,048,948</u>
Disbursements						
Current						
General government	183,481	-	-	-	-	183,481
Public safety	151,830	-	-	-	-	151,830
Streets and highways	176,544	-	-	-	-	176,544
Culture and recreation	132,548	-	-	-	-	132,548
Miscellaneous	810	-	-	-	-	810
Capital outlay						
General government	2,165	-	-	-	-	2,165
Public safety	-	-	-	-	-	-
Streets and highways	-	14,068	-	108,905	-	122,973
Culture and recreation	70,176	17,197	-	-	-	87,373
Debt service						
Principal	-	-	55,000	-	-	55,000
Interest and other fiscal charges	-	-	13,763	-	64,053	77,816
Total Disbursements	<u>717,554</u>	<u>31,265</u>	<u>68,763</u>	<u>108,905</u>	<u>64,053</u>	<u>990,540</u>
Excess (Deficiency) of Receipts Over (Under) Disbursements	<u>98,596</u>	<u>(21,203)</u>	<u>8,006</u>	<u>(105,096)</u>	<u>78,105</u>	<u>58,408</u>
Other Financing Sources (Uses)						
Transfers in	-	65,000	-	-	-	65,000
Transfers out	<u>(93,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(93,000)</u>
Total Other Financing Sources (Uses)	<u>(93,000)</u>	<u>65,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(28,000)</u>
Net Change in Cash Fund Balances	5,596	43,797	8,006	(105,096)	78,105	30,408
Cash Fund Balances, January 1	<u>554,715</u>	<u>273,786</u>	<u>132,768</u>	<u>164,739</u>	<u>38,999</u>	<u>1,165,007</u>
Cash Fund Balances, December 31	<u>\$ 560,311</u>	<u>\$ 317,583</u>	<u>\$ 140,774</u>	<u>\$ 59,643</u>	<u>\$ 117,104</u>	<u>\$ 1,195,415</u>

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

City of Loretto, Minnesota
Statement of Net Position
Proprietary Funds
December 31, 2025

	Business-type Activities - Enterprise Funds			Nonmajor Enterprise	Total
	Water	Wastewater	Storm Water	Garbage	
Assets					
Current Assets					
Cash and cash equivalents	\$ 257,017	\$ 267,953	\$ 178,912	\$ (646)	\$ 703,236
Receivables					
Accounts	24,752	21,127	9,622	6,046	61,547
Special assessments	34,327	25,362	-	-	59,689
Total Current Assets	<u>316,096</u>	<u>314,442</u>	<u>188,534</u>	<u>5,400</u>	<u>824,472</u>
Noncurrent Assets					
Capital assets					
Machinery and equipment	79,409	91,978	21,488	-	192,875
Infrastructure	2,169,527	1,317,589	222,049	-	3,709,165
Less accumulated depreciation	(559,486)	(296,209)	(50,746)	-	(906,441)
Net Capital Assets	<u>1,689,450</u>	<u>1,113,358</u>	<u>192,791</u>	<u>-</u>	<u>2,995,599</u>
Total Assets	<u>2,005,546</u>	<u>1,427,800</u>	<u>381,325</u>	<u>5,400</u>	<u>3,820,071</u>
Deferred Outflows of Resources					
Deferred pension resources	<u>8,474</u>	<u>8,867</u>	<u>2,418</u>	<u>1,404</u>	<u>21,163</u>
Liabilities					
Current Liabilities					
Accounts payable	5,687	3,168	2,797	3,989	15,641
Salaries and wages payable	1,680	1,748	491	295	4,214
Accrued interest payable	18,569	1,273	-	-	19,842
Compensated absences - current	3,387	3,548	985	457	8,377
Bonds payable - current	45,000	10,000	-	-	55,000
Total Current Liabilities	<u>74,323</u>	<u>19,737</u>	<u>4,273</u>	<u>4,741</u>	<u>103,074</u>
Noncurrent Liabilities					
Bonds payable	1,233,245	162,282	-	-	1,395,527
Net pension liability	19,129	20,019	5,459	3,170	47,777
Total Noncurrent Liabilities	<u>1,252,374</u>	<u>182,301</u>	<u>5,459</u>	<u>3,170</u>	<u>1,443,304</u>
Total Liabilities	<u>1,326,697</u>	<u>202,038</u>	<u>9,732</u>	<u>7,911</u>	<u>1,546,378</u>
Deferred Inflows Of Resources					
Deferred pension resources	<u>13,526</u>	<u>14,154</u>	<u>3,859</u>	<u>2,242</u>	<u>33,781</u>
Net Position					
Net investment in capital assets	411,205	941,076	192,791	-	1,545,072
Unrestricted	<u>262,592</u>	<u>279,399</u>	<u>177,361</u>	<u>(3,349)</u>	<u>716,003</u>
Total Net Position	<u>\$ 673,797</u>	<u>\$ 1,220,475</u>	<u>\$ 370,152</u>	<u>\$ (3,349)</u>	<u>\$ 2,261,075</u>

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

City of Loretto, Minnesota
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
For the Year Ended December 31, 2025

	Business-type Activities - Enterprise Funds			Nonmajor Enterprise	Total
	Water	Wastewater	Storm Water	Garbage	
Operating Revenues					
Charges for services	\$ 293,698	\$ 216,604	\$ 89,519	\$ 61,998	\$ 661,819
Operating Expenses					
Personal services	62,920	65,025	17,948	9,759	155,652
Supplies	11,314	8,152	444	516	20,426
Other charges	105,065	137,685	20,140	55,643	318,533
Depreciation	92,750	58,474	13,388	-	164,612
Total Operating Expenses	<u>272,049</u>	<u>269,336</u>	<u>51,920</u>	<u>65,918</u>	<u>659,223</u>
Operating Income (Loss)	<u>21,649</u>	<u>(52,732)</u>	<u>37,599</u>	<u>(3,920)</u>	<u>2,596</u>
Nonoperating Revenues (Expenses)					
Grants	-	-	-	3,195	3,195
Other revenue	-	30,176	-	-	30,176
Interest on investments	6,886	9,256	5,592	20	21,754
Interest and other fiscal charges	<u>(44,488)</u>	<u>(2,916)</u>	<u>-</u>	<u>-</u>	<u>(47,404)</u>
Total Nonoperating Revenues (Expenses)	<u>(37,602)</u>	<u>36,516</u>	<u>5,592</u>	<u>3,215</u>	<u>7,721</u>
Income (Loss) Before Transfers	(15,953)	(16,216)	43,191	(705)	10,317
Transfers In	<u>28,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>28,000</u>
Change in Net Position	18,287	(10,218)	43,191	(705)	50,555
Net Position, January 1	<u>655,510</u>	<u>1,230,693</u>	<u>326,961</u>	<u>(2,644)</u>	<u>2,210,520</u>
Net Position, December 31	<u>\$ 673,797</u>	<u>\$ 1,220,475</u>	<u>\$ 370,152</u>	<u>\$ (3,349)</u>	<u>\$ 2,261,075</u>

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

City of Loretto, Minnesota
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2025

	Business-type Activities - Enterprise Funds			Nonmajor Enterprise	Total
	Water	Wastewater	Storm Water	Garbage	
Cash Flows from Operating Activities					
Receipts from customers	\$ 293,846	\$ 214,804	\$ 89,767	\$ 62,148	\$ 660,565
Other receipts	-	30,176	-	3,195	33,371
Payments to suppliers	(112,262)	(143,704)	(18,054)	(56,873)	(330,893)
Payments to employees	(65,834)	(69,041)	(19,016)	(10,604)	(164,495)
Net Cash Provided (Used) by Operating Activities	<u>115,750</u>	<u>32,235</u>	<u>52,697</u>	<u>(2,134)</u>	<u>198,548</u>
Cash Flows from Noncapital Financing Activities					
Cash received related to loans with other funds	10,000	-	-	-	10,000
Transfers in	28,000	-	-	-	28,000
Net Cash Provided by Non Capital Financing Activities	<u>38,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>38,000</u>
Cash Flows from Capital and Related Financing Activities					
Special assessments received	5,862	5,048	-	-	10,910
Principal paid on bonds	(65,000)	(5,000)	-	-	(70,000)
Interest paid on bonds	(54,590)	(3,068)	-	-	(57,658)
Net Cash Used by Capital and Related Financing Activities	<u>(113,728)</u>	<u>(3,020)</u>	<u>-</u>	<u>-</u>	<u>(116,748)</u>
Cash Flows from Investing Activities					
Interest on investments	6,886	9,256	5,592	20	21,754
Net Increase (Decrease) in Cash and Cash Equivalents	<u>46,908</u>	<u>38,471</u>	<u>58,289</u>	<u>(2,114)</u>	<u>141,554</u>
Cash and Cash Equivalents, January 1	<u>210,109</u>	<u>229,482</u>	<u>120,623</u>	<u>1,468</u>	<u>561,682</u>
Cash and Cash Equivalents, December 31	<u>\$ 257,017</u>	<u>\$ 267,953</u>	<u>\$ 178,912</u>	<u>\$ (646)</u>	<u>\$ 703,236</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities					
Operating income (loss)	\$ 21,649	\$ (52,732)	\$ 37,599	\$ (3,920)	\$ 2,596
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities					
Depreciation	92,750	58,474	13,388	-	164,612
Other receipts	-	30,176	-	3,195	33,371
(Increase) decrease in assets/deferred outflows					
Accounts receivable	148	(1,800)	248	150	(1,254)
Deferred pension resources	(4,710)	(4,797)	(1,310)	(748)	(11,565)
Increase (decrease) in liabilities/deferred inflows					
Accounts payable	4,117	2,133	2,530	(714)	8,066
Salaries and wages payable	299	312	89	30	730
Compensated absences payable	204	209	65	(66)	412
Net pension liability	1,421	870	247	80	2,618
Deferred pension resources	(128)	(610)	(159)	(141)	(1,038)
Net Cash Provided (Used) by Operating Activities	<u>\$ 115,750</u>	<u>\$ 32,235</u>	<u>\$ 52,697</u>	<u>\$ (2,134)</u>	<u>\$ 198,548</u>
Noncash Capital and Related Financing Activities					
Amortization of bond premium	<u>\$ 2,339</u>	<u>\$ 142</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,481</u>

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

City of Loretto, Minnesota
Notes to the Financial Statements
December 31, 2025

Note 1: Summary of Significant Accounting Policies

A. Reporting Entity

The City of Loretto, Minnesota (the City), operates under “Optional Plan A” as defined in the Minnesota statutes. The City is governed by an elected Mayor and a four-member City Council. 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 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. The City has no component units that meet the GASB criteria.

B. Measurement Focus, Basis of Accounting and Basis of Presentation

The accompanying financial statements have been prepared using the regulatory basis of accounting as described in the Minnesota Office of the State Auditor’s Reporting and Publishing Requirements for Cities fewer than 2,500 in population published in February 2016. Under that basis, governmental receipts are recognized when received rather than when measurable and available, and disbursements are recognized when paid rather than when the obligation is incurred. That basis differs from generally accepted accounting principles in the United States of America (GAAP) primarily because the City has not included a management discussion and analysis letter, government-wide statement of net position and government-wide statement of activities and the City does not recognize governmental revenue and expenditures in accordance with the modified accrual basis of accounting.

The accounts of the City are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum numbers of funds are maintained consistent with legal and managerial requirements.

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.

Governmental funds are used to account for the City’s general government activities and are accounted for using the regulatory basis of accounting. Their receipts are recognized when received in cash and disbursements are recognized when paid in cash. The regulatory basis of accounting is a special purpose framework other than GAAP. Under GAAP, governmental funds use the modified accrual method of accounting. The difference between the regulatory basis and modified accrual basis of accounting is that under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they are “measurable and available”). “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to pay liabilities of the current period.

Proprietary funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, grants, entitlement and donations. On the regulatory basis, receipts from property taxes are recognized in the year the tax is collected. Receipts from grants, entitlements and donations are recognized in the year in which they are collected. For proprietary funds, 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.

City of Loretto, Minnesota
Notes to the Financial Statements
December 31, 2025

Note 1: Summary of Significant Accounting Policies (Continued)

Preparation of the financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

The City has the following major governmental funds:

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

The *Capital Improvements fund* accounts for resources accumulated and payments made for improvements projects.

The *2021 Street Project Bond fund* accounts for resources accumulated and payments made for bond payments related to the 2021 bond issuance.

The *2023 Street Improvement Project fund* accounts for resources accumulated and payments made for the capital improvement project.

The *2023 Street Project Bond fund* accounts for resources accumulated and payments made for bond payments related to the 2023 bond issuance.

The City reports the following major proprietary funds:

The *Water fund* accounts for the activities of the water distribution system the City maintains.

The *Wastewater fund* accounts for the activities of the City's wastewater collection operations.

The *Stormwater fund* accounts for the activities of the City's wastewater collection operations.

Enterprise funds are used to account for those operations that are financed and operated in a manner similar to private business or where the City Council has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

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 enterprise funds are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. 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.

C. 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 considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. The proprietary funds' portion in the government-wide cash and temporary investments pool is considered to be cash and cash equivalents for purposes of the statement of cash flows.

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 on the basis of applicable participation by each of the funds.

City of Loretto, Minnesota
Notes to the Financial Statements
December 31, 2025

Note 1: Summary of Significant Accounting Policies (Continued)

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. Obligation of a school district with an original maturity not exceeding 13 months and (i) rated in the highest category by a national bond rating service or (ii) enrolled in the credit enhancement program pursuant to statute section 126C.55.
6. Bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System.
7. 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.
8. 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.
9. Guaranteed Investment Contracts (GIC's) issued or guaranteed by a United States commercial bank, a domestic branch of a foreign bank, 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.

The Minnesota Municipal Money Market Fund is regulated by Minnesota statutes and the Board of Directors of the League of Minnesota Cities and is an external investment pool not registered with the Securities Exchange Commission (SEC) that follows the regulatory rules of the SEC. In accordance with GASB Statement No. 79, the City's investment in this pool is valued at amortized cost, which approximates fair value. There are no restrictions or limitations on withdrawals from the 4M Liquid Asset Fund. Investments in the 4M Plus must be deposited for a minimum of 14 calendar days. Withdrawals prior to the 14-day restriction period will be subject to a penalty equal to seven days interest on the amount withdrawn. Seven days' notice of redemption is required for withdrawals of investments in the 4M Term Series withdrawn prior to the maturity date of that series. A penalty could be assessed as necessary to recoup the Series for any charges, losses, and other costs attributable to the early redemption. Financial statements of the 4M Fund can be obtained by contracting RBC Global Management at 100 South Fifth Street, Suite 2300, Minneapolis, MN 55402-1240.

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, July and December of each year.

City of Loretto, Minnesota
Notes to the Financial Statements
December 31, 2025

Note 1: Summary of Significant Accounting Policies (Continued)

Accounts Receivable

Accounts receivable in the enterprise funds include amounts billed for services provided before year end. The City can annually certify delinquent water and sewer accounts to the County for collection. As a result, there is no allowance for uncollectible accounts.

Special Assessments

Special assessments represent the financing for public improvements paid for by benefiting property owners. In the proprietary funds, these assessments are recorded as receivables upon certification to the County. Special assessments are recognized as revenue upon receipt in the governmental funds.

Capital Assets

Under the regulatory basis, the City does not account for capital assets used in the governmental funds.

Property, plant and equipment in the proprietary funds of the City are recorded at cost. Capital assets are defined by the City as assets with an initial individual or group cost of more than \$5,000 and an estimated useful life in excess of one year. Property, plant and equipment donated to these proprietary fund type operations are recorded at estimated acquisition value at the date of donation.

Capital assets in the proprietary funds prior to 2005 are considered fully depreciated and not shown on the financial statements.

Major outlays for capital assets and improvements are capitalized in proprietary funds as projects are constructed.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized in the proprietary funds.

Property, plant and equipment are depreciated in the proprietary funds of the City using the straight-line method over the following estimated useful lives:

Assets	Useful Lives in Years
Land Improvements	10 - 20
Buildings and Improvements	10 - 50
Office Furniture and Fixtures	5 - 15
Machinery and Equipment	5 - 20
Automotive Equipment	5 - 10

Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net assets that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has only one item that qualifies for reporting in this category. Accordingly, the item, deferred pension resources, is reported only in the statement of net position. This item results from actuarial calculations and current year pension contributions made subsequent to the measurement date.

City of Loretto, Minnesota
Notes to the Financial Statements
December 31, 2025

Note 1: Summary of Significant Accounting Policies (Continued)

Compensated Absences

It is the City's policy to permit employees to accumulate a portion of earned but unused vacation and sick pay benefits. Accumulated vacation and sick pay are accrued when incurred in the proprietary fund financial statements. In governmental funds, in the case of an employee leaving, the General fund would be responsible for liquidation of the liability.

Long-term Obligations

In the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable proprietary fund type statement of net position. The recognition of bond premiums and discounts are amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as an expense in the period incurred.

In the fund financial statements, governmental funds 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 disbursements.

Pensions

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

Deferred Inflows of Resources

In addition to liabilities, the statement of net 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 assets that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has only one item which qualifies for reporting in this category on the statement of net position. The item, deferred pension resources, is reported only in the statement of net position and results from actuarial calculations involving net differences between projected and actual earnings on plan investments and changes in proportions.

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 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.

City of Loretto, Minnesota
Notes to the Financial Statements
December 31, 2025

Note 1: Summary of Significant Accounting Policies (Continued)

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.

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 disbursements 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 50 percent of budgeted operating disbursements for cash-flow timing needs.

Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. 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 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 that do not meet the definition of "restricted" or "net investment in capital assets".

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 2: Stewardship, Compliance and Accountability

A. Budgetary Information

Annual budgets are adopted on the regulatory basis, which is a comprehensive basis other than GAAP for the General fund. All annual appropriations lapse at fiscal year-end. The City does not use encumbrance accounting.

In August of each year, all departments of the City submit requests for appropriations to the City Clerk 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 early December.

The appropriated budget is prepared by fund, function and department. The City's department heads 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. There were no budget amendments in 2025.

B. Deficit Fund Equity

As of December 31, 2025, the Nonmajor Garbage fund had negative net position of \$3,349. This deficit will be covered with future charges for services.

City of Loretto, Minnesota
Notes to the Financial Statements
December 31, 2025

Note 3: Detailed Notes on Accounts

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 fair value of collateral pledged must equal 110 percent of the deposits not covered by insurance, bonds, with the exception irrevocable standby letters of credit from Federal Home Loan Banks as this type of collateral only requires collateral pledged equal to 100 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 City.

At year end, the City's carrying amount of deposits was \$1,836,937 and the bank balance was \$1,884,737. Of the bank balance \$1,884,737 was covered by Federal depository insurance.

City of Loretto, Minnesota
Notes to the Financial Statements
December 31, 2025

Note 3: Detailed Notes on Accounts (Continued)

Investments

At year end, the City's investments balances were as follows:

Investment Type	Credit Quality/ Ratings (1)	Segmented Time Distribution (2)	Amount
Pooled Investments at Amortized Costs			
Minnesota Municipal Money Market fund	N/A	less than 6 months	<u>\$ 61,664</u>

(1) Ratings are provided by various credit rating agencies where applicable to indicate associated credit risk.

(2) Interest rate risk is disclosed using the segmented time distribution method.

N/A Indicates not applicable or available.

The investments of the City are subject to the following risks:

- *Credit Risk.* Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Ratings are provided by various credit rating agencies and where applicable, indicate associated credit risk. Minnesota statutes limit the City's investments to the list on page 23 of the notes.
- *Custodial Credit Risk.* The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.
- *Concentration of Credit Risk.* Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer.
- *Interest Rate Risk.* Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

The investment in the Minnesota Municipal Money Market Mutual Fund is not subject to the custodial credit risk classifications as noted in paragraph 9 of GASB Statement No. 40. The City does not have an investment policy that addresses the risks described above.

A reconciliation of cash and temporary investments as shown on the financial statements for the City follows:

Carrying Amount of Deposits	\$ 1,836,937
Investments	61,664
Cash on Hand	<u>50</u>
Total	<u>\$ 1,898,651</u>
Governmental Funds	\$ 1,195,415
Business-type Funds	<u>703,236</u>
Total	<u>\$ 1,898,651</u>

City of Loretto, Minnesota
Notes to the Financial Statements
December 31, 2025

Note 3: Detailed Notes on Accounts (Continued)

A. Capital Assets

A summary of changes in business-type capital assets follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type Activities				
Capital Assets being Depreciated				
Infrastructure	\$ 3,709,165	\$ -	\$ -	\$ 3,709,165
Machinery and Equipment	192,875	-	-	192,875
Total Capital Assets being Depreciated	<u>3,902,040</u>	<u>-</u>	<u>-</u>	<u>3,902,040</u>
Less Accumulated Depreciation for				
Infrastructure	(548,831)	(153,563)	-	(702,394)
Machinery and Equipment	(192,998)	(11,049)	-	(204,047)
Total Accumulated Depreciation	<u>(741,829)</u>	<u>(164,612)</u>	<u>-</u>	<u>(906,441)</u>
 Total Capital Assets being Depreciated, Net	 <u>3,160,211</u>	 <u>(164,612)</u>	 <u>-</u>	 <u>2,995,599</u>
 Business-type Activities Capital Assets, Net	 <u>\$ 3,160,211</u>	 <u>\$ (164,612)</u>	 <u>\$ -</u>	 <u>\$ 2,995,599</u>

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

Business-type Activities		
Water		\$ 92,750
Wastewater		58,474
Storm Water		<u>13,388</u>
 Total Depreciation Expense - Business-type Activities		 <u>\$ 164,612</u>

B. Interfund Receivables, Payables and Transfers

Interfund Transfers

The composition of interfund transfers for the year ended December 31, 2025 is as follows:

Fund	Transfers in		
	Capital Improvement	Water	Total
Transfer out			
General	<u>\$ 65,000</u>	<u>\$ 28,000</u>	<u>\$ 93,000</u>

The General fund transferred \$65,000 to the Capital Improvements fund for various park, street and public works building projects. The General fund transferred \$28,000 to the Water fund as an operating transfer.

City of Loretto, Minnesota
Notes to the Financial Statements
December 31, 2025

Note 3: Detailed Notes on Accounts (Continued)

C. Long-term Debt

General Obligation Bonds

A general obligation bond has been issued for both general government and proprietary activities. The following bond was issued to finance the 2021 Street Improvement Project. It will be repaid from future tax levies and special assessment revenue and is backed by the taxing power of the City.

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
G.O. Bond, Series 2021A	\$ 1,495,000	0.5 - 2.0 %	08/05/21	02/01/42	\$ 1,405,000
G.O. Bond, Series 2024A	2,050,000	4.0 - 5.0	04/09/24	02/01/45	<u>1,920,000</u>
Total G. O. Bonds					<u>\$ 3,325,000</u>

General obligation bonds are direct obligations and pledge the full faith and credit of the government. General obligation bonds currently outstanding are as follows:

Year Ending December 31,	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2026	\$ 115,000	\$ 63,150	\$ 178,150	\$ 55,000	\$ 46,766	\$ 101,766
2027	120,000	59,765	179,765	60,000	45,033	105,033
2028	120,000	56,255	176,255	60,000	43,278	103,278
2029	125,000	52,275	177,275	60,000	41,350	101,350
2030	125,000	47,825	172,825	65,000	39,125	104,125
2031-2035	705,000	167,450	872,450	350,000	159,075	509,075
2036-2040	610,000	51,400	661,400	390,000	98,100	488,100
2041-2045	-	-	-	365,000	31,900	396,900
Total	<u>\$ 1,920,000</u>	<u>\$ 498,120</u>	<u>\$ 2,418,120</u>	<u>\$ 1,405,000</u>	<u>\$ 504,627</u>	<u>\$ 1,909,627</u>

City of Loretto, Minnesota
Notes to the Financial Statements
December 31, 2025

Note 3: Detailed Notes on Accounts (Continued)

Changes in Long-term Liabilities

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities					
Bonds payable					
General obligation bonds	<u>\$ 1,975,000</u>	<u>\$ -</u>	<u>\$ (55,000)</u>	<u>\$ 1,920,000</u>	<u>\$ 115,000</u>
Business-type Activities					
Bonds Payable					
General obligation					
revenue bonds	\$ 50,000	\$ -	\$ (50,000)	\$ -	\$ -
General obligation bonds	1,425,000	-	(20,000)	1,405,000	55,000
Unamortized premium on bonds	48,008	-	(2,481)	45,527	-
Compensated Absences Payable*	<u>7,965</u>	<u>412</u>	<u>-</u>	<u>8,377</u>	<u>8,377</u>
Total	<u><u>\$ 1,530,973</u></u>	<u><u>\$ 412</u></u>	<u><u>\$ (72,481)</u></u>	<u><u>\$ 1,458,904</u></u>	<u><u>\$ 63,377</u></u>

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

City of Loretto, Minnesota
Notes to the Financial Statements
December 31, 2025

Note 4: Defined Benefit Pension Plans - Statewide

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.

General Employees Retirement Plan (General Plan)

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 Employee Plan Benefits

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 .25% for each month under age 65. Members with 30 or more years of service can retire at any age with a reduction of .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.

City of Loretto, Minnesota
Notes to the Financial Statements
December 31, 2025

Note 4: Defined Benefit Pension Plans - Statewide (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.

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 Employees Fund Contributions

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 \$25,431. The City's contributions were equal to the required contributions as set by state statute.

D. Pension Costs

General Employees Fund Pension Costs

At December 31, 2025, the City reported a liability of \$121,767 for its proportionate share of the General Employees Fund's net pension liability. The City's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million. 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 \$2,937.

City's proportionate share of the net pension liability	\$ 121,767
State of Minnesota's proportionate share of the net pension liability associated with the City	2,937
	2,937
Total	\$ 124,704

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. The City's proportionate share was 0.0037% at the end of the measurement period and 0.0031% for the beginning of the period.

For the year ended December 31, 2025, the City recognized pension expense of negative \$2,756 for its proportionate share of the General Employees Plan's pension expense. In addition, the City recognized an additional negative \$451 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.

City of Loretto, Minnesota
Notes to the Financial Statements
December 31, 2025

Note 4: Defined Benefit Pension Plans - Statewide (Continued)

At December 31, 2025, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 11,602	\$ -
Changes in actuarial assumptions	2,934	28,018
Net difference between projected and actual investment earnings	-	48,452
Changes in proportion	26,500	9,628
Employer contributions subsequent to the measurement date	12,903	-
Total	\$ 53,939	\$ 86,098

The \$12,903 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2026. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

2026	\$ (9,449)
2027	(18,704)
2028	(12,472)
2029	(4,437)

E. Long-term Expected Return on Investment

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

Asset Class	Target Allocation	Long-term Expected Return on Investment
Domestic Equity	33.5 %	5.10 %
International Equity	16.5	5.30
Fixed Income	25.0	0.75
Private Markets	25.0	5.90
Total	100.0 %	

City of Loretto, Minnesota
Notes to the Financial Statements
December 31, 2025

Note 4: Defined Benefit Pension Plans - Statewide (Continued)

F. Actuarial Assumptions

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

- Inflation is assumed to be 2.25% for the General Employees Plan.
- Benefit increases after retirement are assumed to be 1.50% for the General Employees Plan.

Salary growth assumptions in the General Employees Plan range in annual increments from 11.5% after one year of service to 3% 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 following changes in actuarial assumptions and plan provisions occurred in 2025:

General Employees Fund

Changes in Actuarial Assumptions:

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

G. 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 Plan was projected to be available to make all projected future benefit payments of current plan members. The long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

City of Loretto, Minnesota
Notes to the Financial Statements
December 31, 2025

Note 4: Defined Benefit Pension Plans - Statewide (Continued)

H. 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 one percentage point lower or one percentage point higher than the current discount rate:

	<u>1 Percent Decrease (6.00%)</u>	<u>Current (7.00%)</u>	<u>1 Percent Increase (8.00%)</u>
General Employees Fund	\$ 295,754	\$ 121,767	\$ (19,375)

I. Pension Plan Fiduciary Net Position

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

City of Loretto, Minnesota
Notes to the Financial Statements
December 31, 2025

Note 5: 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 this 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 (IBNR's). The City's management is not aware of any incurred but not reported claims.

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 subject to this limit.

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REQUIRED SUPPLEMENTARY INFORMATION

CITY OF LORETTO
LORETTO, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2025

City of Loretto, Minnesota
Required Supplementary Information
For the Year Ended December 31, 2025

Schedule of Employer's Share of PERA Net Pension Liability - General Employees Fund

Fiscal Year Ending	City's Proportion of the Net Pension Liability	City's Proportionate Share of the Net Pension Liability (a)	State's Proportionate Share of the Net Pension Liability Associated with the City (b)	Total (a+b)	City's Covered Payroll (c)	City's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll (a/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
6/30/2025	0.0037 %	\$ 121,767	\$ 2,937	\$ 124,704	\$ 332,787	36.6 %	90.8 %
6/30/2024	0.0031	113,315	2,930	116,245	259,417	43.7	89.1
6/30/2023	0.0034	190,124	5,250	195,374	267,459	71.1	83.1
6/30/2022	0.0034	269,281	7,895	277,176	244,097	110.3	76.7
6/30/2021	0.0033	140,925	4,303	145,228	237,774	59.3	87.0
6/30/2020	0.0031	185,859	5,739	191,598	231,647	80.2	79.1
6/30/2019	0.0031	171,392	5,333	176,725	221,977	77.2	80.2
6/30/2018	0.0029	160,880	5,067	165,947	193,287	83.2	79.5
6/30/2017	0.0024	153,214	-	153,214	154,839	99.0	75.9
6/30/2016	0.0020	162,390	-	162,390	119,088	136.4	68.9

Schedule of Employer's PERA Contributions - General Employees Fund

Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	City's Covered Payroll (c)	Contributions as a Percentage of Covered Payroll (b/c)
12/31/2025	\$ 25,431	\$ 25,431	\$ -	\$ 339,079	7.50 %
12/31/2024	23,279	23,279	-	310,387	7.50
12/31/2023	19,139	19,139	-	255,187	7.50
12/31/2022	18,665	18,665	-	248,869	7.50
12/31/2021	17,991	17,991	-	239,885	7.50
12/31/2020	17,369	17,369	-	231,593	7.50
12/31/2019	17,082	17,082	-	227,765	7.50
12/31/2018	16,513	16,513	-	220,169	7.50
12/31/2017	12,202	12,202	-	162,691	7.50
12/31/2016	10,689	10,689	-	142,527	7.50

City of Loretto, Minnesota
Required Supplementary Information (Continued)
For the Year Ended December 31, 2025

Notes to the Required Supplementary Information - General Employee Retirement Fund

Changes in Actuarial Assumptions

2025 - 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%.

2024 - The following changes in assumptions are effective with the July 1, 2024 valuation, as recommended in the most recent experience study (dated June 29, 2023): Rates of merit and seniority were adjusted, resulting in slightly higher rates. Assumed rates of retirement were adjusted as follows: increase the rate of assumed unreduced retirements, slight adjustments to Rule of 90 retirement rates, and slight adjustments to early retirement rates for Tier 1 and Tier 2 members. Minor increase in assumed withdrawals for males and females. Lower rates of disability. Continued use of Pub-2010 general mortality table with slight rate adjustments as recommended in the most recent experience study. Minor changes to form of payment assumptions for male and female retirees. Minor changes to assumptions made with respect to missing participant data.

2023 - The investment return and single discount rates were changed from 6.5 percent to 7.0 percent.

2022 - The mortality improvement scale was changed from Scale MP-2020 to Scale MP-2021.

2021 - 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.

2020 - 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.

2019 - The mortality projection scale was changed from MP-2017 to MP-2018.

2018 - 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 - 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. 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 - The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2035 and 2.5 percent per year thereafter to 1.0 percent per year for all future years. The assumed investment return was changed from 7.9 percent to 7.5 percent. The single discount rate was changed from 7.9 percent to 7.5 percent. 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 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

City of Loretto, Minnesota
Required Supplementary Information (Continued)
For the Year Ended December 31, 2025

Notes to the Required Supplementary Information - General Employee Retirement Fund (Continued)

Changes in Plan Provisions

2025 - 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 - The workers' compensation offset for disability benefits was eliminated. The actuarial equivalent factors updated to reflect the changes in assumptions.

2023 - An additional one-time direct state aid contribution of \$170.1 million will be contributed to the Plan on October 1, 2023. The vesting period of those hired after June 30, 2010, was changed from five years of allowable service to three years of allowable service. The benefit increase delay for early retirements on or after January 1, 2024 was eliminated. A one-time non-compounding benefit increase of 2.5 percent minus the actual 2024 adjustment will be payable in a lump sum for calendar year 2024 by March 31, 2024.

2022 - There were no changes in plan provisions since the previous valuation.

2021 - There were no changes in plan provisions since the previous valuation.

2020 - 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.

2019 - 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 - The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024. Interest credited on member contributions decreased from 4.0 percent to 3.0 percent, beginning July 1, 2018. Deferred augmentation was changed to 0.0 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply. Contribution stabilizer provisions were repealed. Postretirement benefit increases were changed from 1.0 percent per year with a provision to increase to 2.5 percent upon attainment of 90.0 percent funding ratio to 50.0 percent of the Social Security Cost of Living Adjustment, not less than 1.0 percent and not more than 1.5 percent, beginning January 1, 2019. For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches normal retirement age; does not apply to Rule of 90 retirees, disability benefit recipients, or survivors. Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

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

2016 - There were no changes in plan provisions since the previous valuation.

City of Loretto, Minnesota
 Budgetary Comparison Schedule - Regulatory Basis
 General Fund
 For the Year Ended December 31, 2025
 (With Comparative Actual Amounts for the Year Ended December 31, 2024)

	2025		2024	
	<u>Budgeted Amounts</u> <u>Original and Final</u>	<u>Actual</u> <u>Amounts</u>	<u>Variance with</u> <u>Final Budget</u>	<u>Actual</u> <u>Amounts</u>
Budgetary Cash Fund Balances, January 1	\$ 554,715	\$ 554,715	\$ -	\$ 549,833
Receipts				
Property taxes	578,700	575,864	(2,836)	573,762
Licenses and permits	25,800	31,673	5,873	23,669
Intergovernmental				
State				
Local government aid	55,100	55,125	25	55,094
Other state aids	19,000	9,387	(9,613)	14,277
County				
County grants	1,500	70,600	69,100	69,500
Total intergovernmental	75,600	135,112	59,512	138,871
Charges for services				
General government	1,300	1,175	(125)	1,696
Culture and recreation	13,000	11,324	(1,676)	12,968
Total charges for services	14,300	12,499	(1,801)	14,664
Fines and forfeitures	3,000	2,170	(830)	2,352
Interest on investments	15,000	17,534	2,534	21,395
Miscellaneous				
Refunds and reimbursements	2,000	4,069	2,069	8,933
Contributions and donations	10,000	22,798	12,798	22,671
Other	9,000	14,431	5,431	16,167
Total miscellaneous	21,000	41,298	20,298	47,771
Total Receipts	733,400	816,150	82,750	822,484
Other Financing Sources				
Transfers In	14,000	-	(14,000)	-
Total Receipts and Other Financing Sources	747,400	816,150	68,750	822,484
Amounts Available for Appropriation	1,302,115	1,370,865	68,750	1,372,317

City of Loretto, Minnesota
 Budgetary Comparison Schedule - Regulatory Basis (Continued)
 General Fund
 For the Year Ended December 31, 2025
 (With Comparative Actual Amounts for the Year Ended December 31, 2024)

	2025		Variance with Final Budget	2024
	<u>Budgeted Amounts Original and Final</u>	<u>Actual Amounts</u>		<u>Actual Amounts</u>
Disbursements				
Current				
General government				
Mayor and Council				
Personal services	\$ 19,350	\$ 17,679	\$ 1,671	\$ 18,179
Other services and charges	500	-	500	-
Total Mayor and Council	<u>19,850</u>	<u>17,679</u>	<u>2,171</u>	<u>18,179</u>
City Clerk				
Personal services	80,610	79,871	739	78,503
Other services and charges	11,800	10,352	1,448	9,680
Total City Clerk	<u>92,410</u>	<u>90,223</u>	<u>2,187</u>	<u>88,183</u>
City hall				
Supplies	10,400	9,767	633	8,075
Other services and charges	52,600	47,269	5,331	48,682
Total city hall	<u>63,000</u>	<u>57,036</u>	<u>5,964</u>	<u>56,757</u>
Elections				
Other services and charges	1,500	34	1,466	2,077
Assessor				
Other services and charges	-	-	-	10,073
Legal				
Other services and charges	16,700	17,811	(1,111)	17,621
Planning and zoning				
Other services and charges	2,500	698	1,802	1,120
Total general government	<u>195,960</u>	<u>183,481</u>	<u>12,479</u>	<u>194,010</u>
Public safety				
Police				
Other services and charges	71,000	77,414	(6,414)	69,099
Fire				
Other services and charges	67,400	67,403	(3)	51,684
Building inspection				
Other services and charges	3,700	7,013	(3,313)	2,031
Total public safety	<u>142,100</u>	<u>151,830</u>	<u>(9,730)</u>	<u>122,814</u>

City of Loretto, Minnesota
 Budgetary Comparison Schedule - Regulatory Basis (Continued)
 General Fund
 For the Year Ended December 31, 2025
 (With Comparative Actual Amounts for the Year Ended December 31, 2024)

	2025		Variance with Final Budget	2024
	<u>Budgeted Amounts Original and Final</u>	<u>Actual Amounts</u>		<u>Actual Amounts</u>
Disbursements (Continued)				
Current (continued)				
Streets and highways				
Street maintenance				
Personal services	\$ 100,120	\$ 96,556	\$ 3,564	\$ 95,103
Supplies	3,700	3,696	4	3,962
Other services and charges	58,700	50,820	7,880	125,149
Total street maintenance	<u>162,520</u>	<u>151,072</u>	<u>11,448</u>	<u>224,214</u>
Snow and ice removal				
Supplies	<u>10,000</u>	<u>5,825</u>	<u>4,175</u>	<u>7,857</u>
Street lighting				
Other services and charges	<u>20,000</u>	<u>19,647</u>	<u>353</u>	<u>17,863</u>
Total streets and highways	<u>192,520</u>	<u>176,544</u>	<u>15,976</u>	<u>249,934</u>
Culture and recreation				
Parks				
Personal services	72,850	71,224	1,626	63,416
Supplies	6,700	13,880	(7,180)	11,797
Other services and charges	44,500	47,444	(2,944)	44,014
Total parks	<u>124,050</u>	<u>132,548</u>	<u>(8,498)</u>	<u>119,227</u>
Miscellaneous				
Unallocated	<u>2,270</u>	<u>810</u>	<u>1,460</u>	<u>4,886</u>
Capital outlay				
General government	9,000	2,165	6,835	2,371
Streets and highways	14,700	-	14,700	8,048
Culture and recreation	28,800	70,176	(41,376)	72,035
Total capital outlay	<u>52,500</u>	<u>72,341</u>	<u>(19,841)</u>	<u>82,454</u>
Total Disbursements	<u>709,400</u>	<u>717,554</u>	<u>(8,154)</u>	<u>773,325</u>
Other Financing Uses				
Transfers out	<u>38,000</u>	<u>93,000</u>	<u>(55,000)</u>	<u>44,277</u>
Total Disbursements and Other Financing Uses	<u>747,400</u>	<u>810,554</u>	<u>(63,154)</u>	<u>817,602</u>
Budgetary Cash Fund Balances, December 31	<u>\$ 554,715</u>	<u>\$ 560,311</u>	<u>\$ 5,596</u>	<u>\$ 554,715</u>

City of Loretto, Minnesota
 Required Supplementary Information
 December 31, 2025

Notes to the Required Supplementary Information – Budgetary Reporting

A. The Schedule

The budgetary comparison schedule presents the comparison of the original budget with actual amounts on a departmental level for the General fund. The departmental level budgets are adopted on a basis consistent with the regulatory basis of accounting. The fund records receipts when received in cash and expenses when cash is spent.

B. Excess of Disbursements Over Appropriations

For the year ended December 31, 2025, disbursements exceeded appropriations in the following fund:

Fund	Budget	Actual	Excess of Disbursements Over Appropriations
General	\$ 709,400	\$ 717,554	\$ 8,154

These excess disbursements were funded by greater than anticipated receipts.

C. Summary of Significant Budget Variances

The General fund receipts and disbursements varied significantly from final budget amounts as noted below:

Receipts

- Intergovernmental receipts exceeded final budget amounts due to unbudgeted receipts of county grants related to the Lion’s Park project.
- Miscellaneous receipts exceeded final budget amounts due to contributions and donations in excess of budget.

Disbursements

- Capital outlay disbursements exceeded final budget amounts due to unbudgeted softball field bathroom project costs.
- Transfers to other funds exceeded final budget amounts due to additional transfers approved by Council throughout the year to save for various future capital improvement projects.

D. Budgetary Compliance

There were no budgetary compliance violations for the fiscal year ending December 31, 2025.

INDIVIDUAL FUND FINANCIAL SCHEDULES

CITY OF LORETTO
LORETTO, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2025

City of Loretto, Minnesota
Summary Financial Report
Receipts and Disbursements for General Operations -
Governmental Funds
For the Years Ended December 31, 2025 and 2024

	Total		Percent Increase (Decrease)
	2025	2024	
Receipts			
Taxes	\$ 746,519	\$ 628,517	18.77 %
Licenses and permits	31,673	23,669	33.82
Intergovernmental	135,112	183,883	(26.52)
Charges for services	12,499	14,664	(14.76)
Fines and forfeitures	2,170	2,352	(7.74)
Special assessments	43,898	35,089	25.10
Interest on investments	35,779	58,775	(39.13)
Miscellaneous	41,298	47,771	(13.55)
Total Receipts	\$ 1,048,948	\$ 994,720	5.45 %
Per Capita	\$ 1,556	\$ 1,478	5.29 %
Disbursements			
Current			
General government	\$ 183,481	\$ 194,010	(5.43) %
Public safety	151,830	122,814	23.63
Streets and highways	176,544	249,934	(29.36)
Culture and recreation	132,548	119,227	11.17
Miscellaneous	810	4,886	(83.42)
Capital outlay			
General government	2,165	2,371	(8.69)
Public safety	-	-	100.00
Streets and highways	122,973	1,029,521	(88.06)
Culture and recreation	87,373	79,035	10.55
Debt service			
Principal	55,000	55,000	-
Interest and other charges	77,816	14,404	440.24
Bond issuance costs	-	43,435	(100.00)
Total Disbursements	\$ 990,540	\$ 1,914,637	(48.26) %
Per Capita	\$ 1,470	\$ 2,845	(48.34) %
Total Long-term Indebtedness	\$ 1,920,000	\$ 1,975,000	(2.78) %
Per Capita	2,849	2,935	(2.93)
General Fund Balance - December 31	\$ 560,311	\$ 554,715	1.01 %
Per Capita	831	824	0.86

The purpose of this report is to provide a summary of financial information concerning the City of Loretto to interested citizens. The complete financial statements may be examined at City Hall, 279 North Medina Street, Suite 260, Loretto, Minnesota 55357. Questions about this report should be directed to Mary Schneider, City Clerk at (763) 479-4305.

SUPPLEMENTARY INFORMATION - UNAUDITED

CITY OF LORETTO
LORETTO, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2025

City of Loretto, Minnesota
 Supplementary Information - Unaudited
 December 31, 2025

Schedule of Accounts Receivable

Fund	Source of Revenue and Purpose	Amount
General	Hennepin County	<u>\$ 3,282</u>

Schedule of Accounts Payable and Contingent Liabilities

Fund	Vendor Name	Item and Purpose	Amount
General	Herald Journal Publishing	Publish ORD 2025-05	\$ 16
General	Gregerson, Rosow, Johnson & Nilan (GRJN)	December criminal/legal	344
General	WSB	November planning services	413
General	West Suburban Fire District	2025 PW office space rental	3,900
General	Metro West Inspections	2025 permits finalized	274
General	Xcel Energy	Electric utility	1,907
General	Wruck	Biff - December partial/final	18
General	Cintas	PW uniforms	13
General	CenterPoint Energy	City garage utility	98
General	Hennepin County Information Technology	December radio fees	117
General	Wruck	Biffs for Holiday Train	220
General	Xcel Energy	Electric utility	474
General	Cintas	PW restroom supplies	14
General	Abdo LLP	Audit progress 2025 audit	2,375
General	Stantec	December create ArcGIS online system	1,425
2023 Street	Stantec	December 2023 Street Project closeout	<u>515</u>
	Total		<u>\$ 12,123</u>

OTHER REQUIRED REPORTS

CITY OF LORETTO
LORETTO, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2025

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**INDEPENDENT AUDITOR'S REPORT
ON MINNESOTA LEGAL COMPLIANCE**

Honorable Mayor and City Council
City of Loretto, 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 each major fund of the governmental and proprietary funds and the aggregate remaining fund information of the City of Loretto, 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 10, 2026. In our report, our opinion was adverse because the City prepares its financial statements on the regulatory basis, which is a special purpose framework other than accounting principles generally accepted in the United States of America.

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 and bidding, deposits and 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.

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.



Abdo
Minneapolis, Minnesota
March 10, 2026

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 City Council
City of Loretto, 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 each major fund of the governmental and proprietary funds and the aggregate remaining fund information of the City of Loretto, 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 10, 2026. In our report, our opinion was adverse because the City prepares its financial statements on the regulatory basis, which is a special purpose framework other than accounting principles generally accepted in the United States of America.

Report on Internal Control Over Financial Reporting

In planning and performing our audit, 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.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We identified certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses 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 from 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*.

Response to Findings

The City's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Abdo
Minneapolis, Minnesota
March 10, 2026



City of Loretto, Minnesota
Schedule of Findings and Responses
For the Year Ended December 31, 2025

<u>Finding</u>	<u>Description</u>
2025-001	Limited Segregation of Duties
<i>Condition:</i>	During our audit we reviewed procedures over disbursements, cash receipts, payroll and utility billing and found the City to have limited segregation of duties over those transaction cycles.
<i>Criteria:</i>	There are four general categories of duties: authorization, custody, record keeping and reconciliation. In an ideal system, different employees perform each of these four major functions. In other words, no one person has control of two or more of these responsibilities.
<i>Cause:</i>	As a result of the limited number of staff, in the disbursements cycle, the City Clerk has control over check stock, enters transactions into the accounting system, receives the bank statement, and also reconciles the bank account on a monthly basis. In the receipts cycle, the Utility Clerk opens mail, posts to the utility billing software and prepares the deposit. In the payroll cycle, the City Clerk has control over the checks, sets up employee records, approves timesheets and the payroll, posts to the general ledger and reconciles bank accounts. In the utility billing cycle, the City Council approves rates but the Utility Clerk, does all other duties, with oversight by the City Clerk.
<i>Effect:</i>	The existence of this limited segregation of duties increases the risk of fraud.
<i>Recommendation:</i>	While we recognize staff is not large enough to eliminate this deficiency, we recommend that the City evaluate the current procedures and segregate duties where possible and implement any compensating controls. Compensating controls could consist of additional monitoring and review, such as approving all adjustments with utility billing, review of payroll records, and review of bank statements prior to the City Clerk receiving them. It is important that the City Council is aware of this condition and monitor all financial information.
<i>Management Response:</i>	Management recognizes that it is not economically feasible to correct this finding, is aware of the deficiency and is relying on oversight by management and the City Council to monitor this deficiency.

City of Loretto, Minnesota
Schedule of Findings and Responses (Continued)
For the Year Ended December 31, 2025

<u>Finding</u>	<u>Description</u>
2025-002	Preparation of Financial Statements
<i>Condition:</i>	As in prior years, we were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. Auditing standards require auditors to communicate this situation to the City Council as an internal control deficiency. Ultimately, it is management’s responsibility to provide for the preparation of your statements and footnotes, and the responsibility of the auditor to determine the fairness of presentation of those statements. From a practical standpoint we do both for you at the same time in connection with our audit. This is not unusual for us to do with organizations of your size. However, based on auditing standards, it is our responsibility to inform you that this deficiency could result in a material misstatement to the financial statements that could have been prevented or detected by your management. Essentially, the auditors cannot be part of your internal control process.
<i>Criteria:</i>	Internal controls should be in place to provide reasonable assurance over financial reporting.
<i>Cause:</i>	From a practical standpoint we do both for you at the same time in connection with our audit. This is not unusual for us to do with an organization of your size.
<i>Effect:</i>	The effectiveness of the internal control system relies on enforcement by management. The effect of deficiencies in internal controls can result in undetected errors in financial reporting.
<i>Recommendation:</i>	It is your responsibility to make the ultimate decision to accept this degree of risk associated with this condition because of cost or other considerations. As in prior years, we have instructed management to review a draft of the auditor prepared financials in detail for their accuracy; we have answered any questions they might have, and have encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification of disclosure in your statements. We are satisfied that the appropriate steps have been taken to provide you with the completed financial statements. While the City is reviewing the financial statements, we recommend a disclosure checklist is utilized to ensure all required disclosures are presented and the City should agree its financial software to the numbers reported in the financial statements.

Management Response

For now, the City’s management accepts the degree of risk associated with this deficiency and thoroughly reviews a draft of the financial statements.