

ANNUAL FINANCIAL REPORT

CITY OF EMPIRE
EMPIRE, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2025

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City of Empire, Minnesota
 Annual Financial Report
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 For the Year Ended December 31, 2025

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INTRODUCTORY SECTION

CITY OF EMPIRE
EMPIRE, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2025

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

ELECTED

Name	Title	Term
Melanie Lee	Mayor	12/31/2026
Eric Hanson	Councilmember	12/31/2026
Marla Vagts	Councilmember	12/31/2026
Danny Rubio	Councilmember	12/31/2028
Mark Page	Councilmember	12/31/2028

CITY OFFICIALS - APPOINTED

Name	
Charles Seipel-Teng	Clerk/Administrator
Dawn McCracken	Deputy Clerk

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FINANCIAL SECTION

CITY OF EMPIRE
EMPIRE, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2025

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council
City of Empire
Empire, Minnesota

Report on the Financial Statements

Opinions

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

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

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for 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's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis starting on page 15 and the Schedule of Employer's Share of the Net Pension Liability, the Schedule of Employer's Contributions, the related note disclosures, the respective budgetary comparison schedules and related note disclosures, starting on page 60 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.



Other Information

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

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



Abdo
Minneapolis, Minnesota
March 13, 2026



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Management's Discussion and Analysis

As management of City of Empire, Minnesota, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2025.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplemental information in addition to the basic financial statements themselves.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of combining and individual fund financial statements and schedules which further explain and support the information in the financial statements. Figure 1 shows how the required parts of this annual report are arranged and relate to one another. In addition to these required elements, we have included a section with combining and individual fund financial statements and schedules that provide details about non-major governmental funds, which are added together and presented in single columns in the basic financial statements.

Figure 1
Required Components of the
City's Annual Financial Report

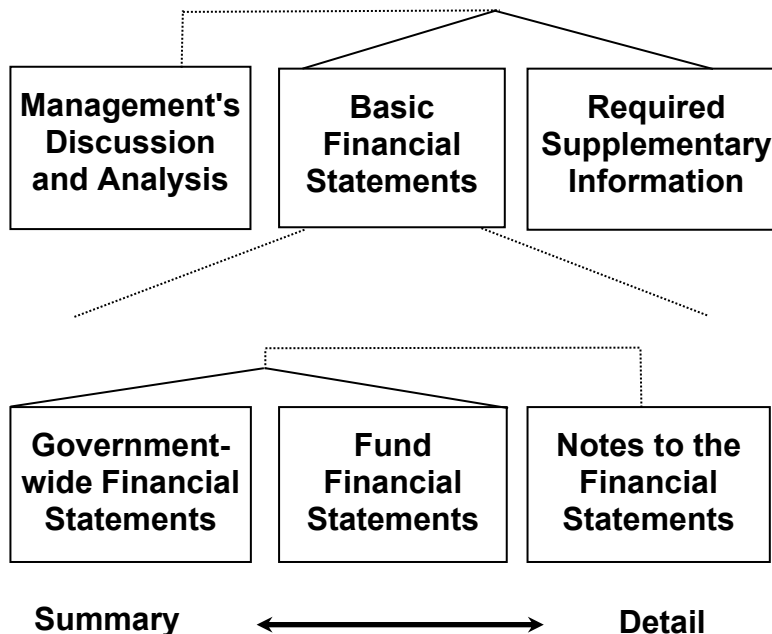


Figure 2 summarizes the major features of the City’s financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis explains the structure and contents of each of the statements.

Figure 2
Major Features of the Government-wide and Fund Financial Statements

	Fund Financial Statements		
	Government-wide Statements	Governmental Funds	Proprietary Funds
Scope	Entire City government (except fiduciary funds) and the City’s component units	The activities of the City that are not proprietary or fiduciary, such as police, fire and parks	Activities the City operates similar to private businesses, such as the sewer system
Required financial statements	<ul style="list-style-type: none"> • Statement of Net Position • Statement of Activities 	<ul style="list-style-type: none"> • Balance Sheet • Statement of Revenues, Expenditures, and Changes in Fund Balances 	<ul style="list-style-type: none"> • Statement of Net Position • Statement of Revenues, Expenses and Changes in Net Position • Statement of Cash Flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short term and long term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of deferred outflows/inflows of resources information	All deferred outflows/inflows of resources, regardless of when cash is received or paid	Only deferred outflows of resources expected to be used up and deferred inflows of resources that come due during the year or soon thereafter; no capital assets included	All deferred outflows/inflows of resources, regardless of when cash is received or paid.
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

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

The *statement of net position* presents information on all of the City’s assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

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

The government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenue (*governmental activities*). The governmental activities of the City include general government, public safety, public works, culture and recreation, and interest on long-term debt. The business-type activities of the City include its water and sewer system.

The government-wide financial statements can be found starting on page 29 of this report.

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

Governmental Funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact by the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances.

The City adopts an annual appropriated budget for its General and Road and Bridge fund. A budgetary comparison statement has been provided for each of the funds to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found starting on page 34 of this report.

Proprietary Funds. The City maintains one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its water and sewer services.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide information on the water and sewer service.

The basic proprietary fund financial statements can be found starting on page 38 of this report.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found starting on page 41 of this report.

Required Supplementary Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to its employees and budget to actual schedules. Required supplementary information can be found starting on page 60 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources at the close of the most recent fiscal year (As shown on the chart below).

By far, the largest portion of the City's net position reflects its investment in capital assets (e.g., land, buildings, machinery and equipment); less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. The balance of *unrestricted net* position may be used to meet the City's ongoing obligations to citizens and creditors.

City of Empire's Net Position

	Governmental Activities			Business-type Activities			
	2025	2024	Increase (Decrease)	2025	2024	Increase (Decrease)	2025 Total
Assets							
Current and other assets	\$ 5,034,846	\$ 5,499,639	\$ (464,793)	\$ 4,047,835	\$ 3,949,545	\$ 98,290	\$ 9,082,681
Capital assets (net of depreciation)	11,833,500	12,754,698	(921,198)	3,348,695	3,470,294	(121,599)	15,182,195
Total Assets	16,868,346	18,254,337	(1,385,991)	7,396,530	7,419,839	(23,309)	24,264,876
Deferred Outflows of Resources							
Deferred pension resources	28,875	27,621	1,254	9,581	9,047	534	38,456
Liabilities							
Current and other liabilities	126,605	519,457	(392,852)	7,424	1,091	6,333	134,029
Noncurrent	1,414,627	1,738,033	(323,406)	32,613	37,120	(4,507)	1,447,240
Total Liabilities	1,541,232	2,257,490	(716,258)	40,037	38,211	1,826	1,581,269
Deferred Inflows of Resources							
Deferred pension resources	70,476	81,965	(11,489)	21,919	25,072	(3,153)	92,395
Net Position							
Net investment in capital assets	10,633,500	11,279,698	(646,198)	3,348,695	3,470,294	(121,599)	13,982,195
Restricted for							
Road maintenance	40,069	64,193	(24,124)	-	-	-	40,069
Park improvements	206,117	122,000	84,117	-	-	-	206,117
Debt service	1,043,325	990,514	52,811	-	-	-	1,043,325
Unrestricted	3,362,502	3,486,098	(123,596)	3,995,460	3,895,309	100,151	7,357,962
Total Net Position	\$ 15,285,513	\$ 15,942,503	\$ (656,990)	\$ 7,344,155	\$ 7,365,603	\$ (21,448)	\$ 22,629,668
Net Position as a Percent of Total							
Net investment in capital assets	69.6 %	70.7 %		45.6 %	47.1 %		
Restricted	8.4	7.4		-	-		
Unrestricted	22.0	21.9		54.4	52.9		
	<u>100.0 %</u>	<u>100.0 %</u>		<u>100.0 %</u>	<u>100.0 %</u>		

At the end of the current fiscal year, the City is able to report positive balances in net position for both governmental and business-type activities.

Governmental Activities. Governmental activities decreased the City's net position. The Business-type activities decreased the City's net position. Additional details are outlined below.

City of Empire's Changes in Net Position

	Governmental Activities			Business-type Activities			
	2025	2024	Increase (Decrease)	2025	2024	Increase (Decrease)	2025 Total
Program Revenues							
Charges for services	\$ 506,859	\$ 760,019	\$ (253,160)	\$ 530,155	\$ 505,129	\$ 25,026	\$ 1,037,014
Operating grants and contributions	90,494	92,321	(1,827)	-	1,695	(1,695)	90,494
General revenues							
Taxes							
Property taxes,							
levied for general purposes	977,306	919,004	58,302	-	-	-	977,306
levied for debt service	343,140	344,190	(1,050)	-	-	-	343,140
levied for capital improvements	270,000	239,000	31,000	-	-	-	270,000
Franchise taxes	12,158	6,195	5,963	-	-	-	12,158
Gravel tax	155,370	130,000	25,370	-	-	-	155,370
State grants and contributions							
not restricted to specific programs	10,246	7,164	3,082	-	-	-	10,246
Unrestricted investment earnings	126,923	90,559	36,364	106,997	62,679	44,318	233,920
Gain on sale of capital assets	55,303	-	55,303	-	-	-	55,303
Miscellaneous	240	720	(480)	-	-	-	240
Total Revenues	<u>2,548,039</u>	<u>2,589,172</u>	<u>(41,133)</u>	<u>637,152</u>	<u>569,503</u>	<u>67,649</u>	<u>3,185,191</u>
Expenses							
General government	1,040,277	561,095	479,182	-	-	-	1,040,277
Public safety	567,120	551,767	15,353	-	-	-	567,120
Public works	1,335,005	1,178,275	156,730	-	-	-	1,335,005
Culture and recreation	246,470	257,106	(10,636)	-	-	-	246,470
Interest on long-term debt	16,157	33,978	(17,821)	-	-	-	16,157
Water and sewer	-	-	-	658,600	580,372	78,228	658,600
Total Expenses	<u>3,205,029</u>	<u>2,582,221</u>	<u>622,808</u>	<u>658,600</u>	<u>580,372</u>	<u>78,228</u>	<u>3,863,629</u>
Change In Net Position	(656,990)	6,951	(663,941)	(21,448)	(10,869)	(10,579)	(678,438)
Net Position, January 1	15,942,503	16,152,154	(209,651)	7,365,603	7,376,472	(10,869)	23,308,106
Error Correction	-	(216,602)	216,602	-	-	-	-
Net Position, December 31	<u>\$ 15,285,513</u>	<u>\$ 15,942,503</u>	<u>\$ (656,990)</u>	<u>\$ 7,344,155</u>	<u>\$ 7,365,603</u>	<u>\$ (21,448)</u>	<u>\$ 22,629,668</u>

Key elements of the decrease in Governmental Activities are as follows:

- Increases in general government expenditures.
- Increases in public works expenditures.
- Decrease in charges for services.

Increases in general government expenditures

Additional planning fees related to a large environmental study.

Increases in public works expenditures

Increases in engineering fees relating to road maintenance costs.

Decrease in charges for services

Less permitting revenues and park dedication fees.

Key elements of the decrease in Business-type Activities are as follows:

- Increases in water and sewer costs.
- Increases in investment earnings.

Increases in water and sewer costs

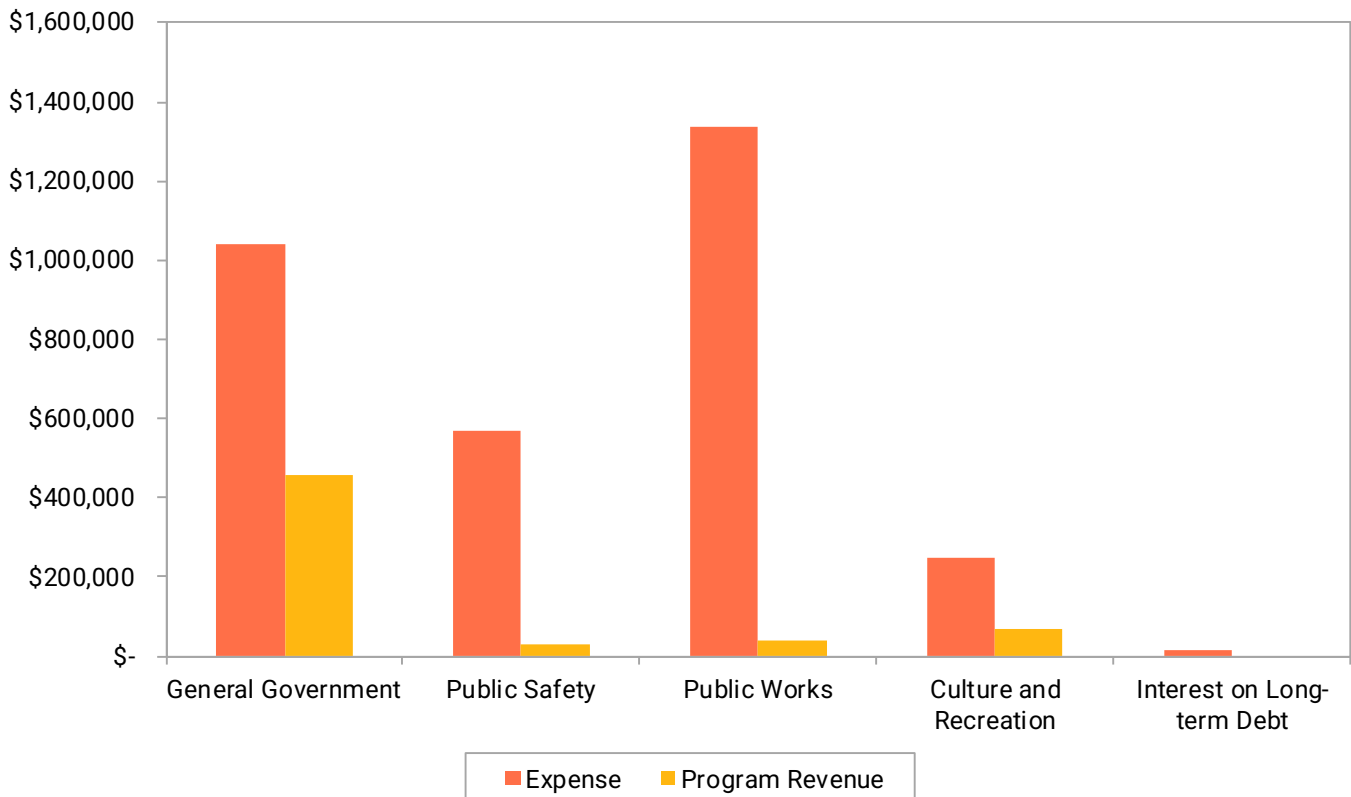
Additional engineering fees and repairs and maintenance fees related to water tower soil testing and surveys.

Increases in investment earnings

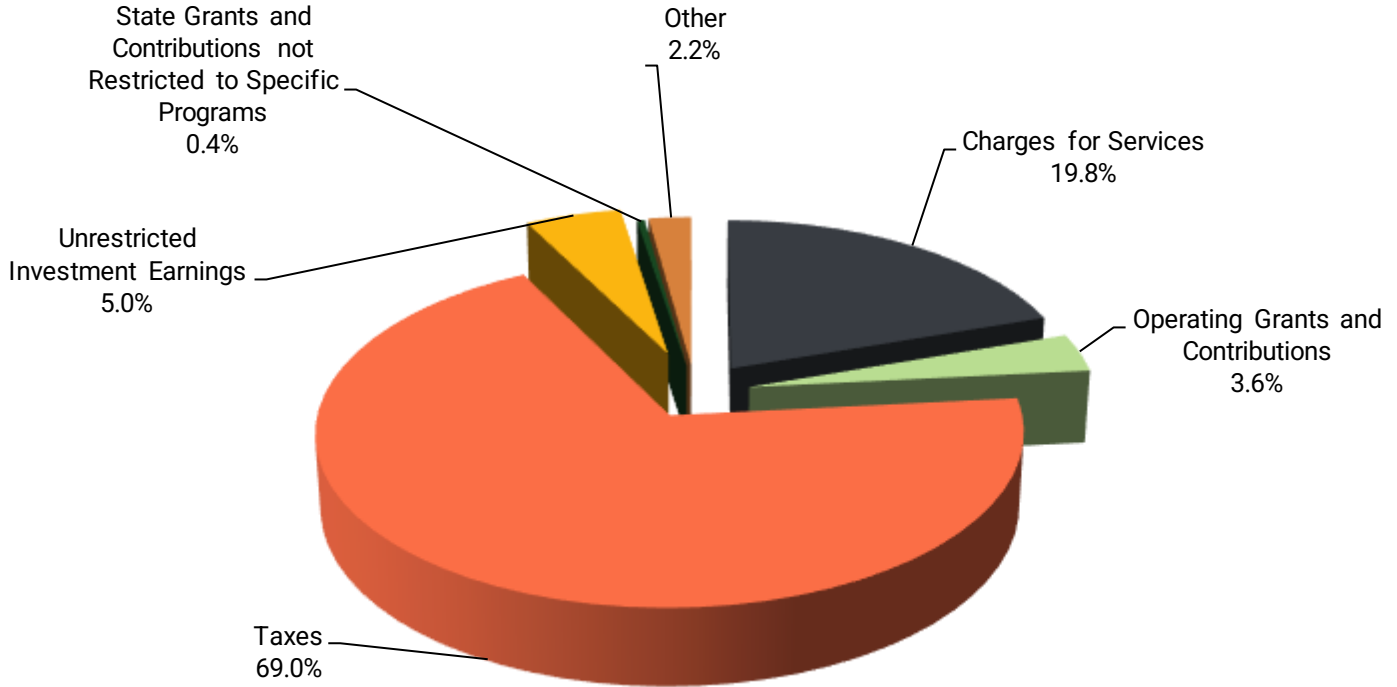
Additional allocation of investment earnings due to additional cash in enterprise funds.

The following graph depicts various governmental activities and shows the revenue and expenses directly related to those activities.

Expenses and Program Revenues - Governmental Activities



Revenues by Source - Governmental Activities



Financial Analysis of the Government's Funds

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

Governmental Funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. The table below outlines the governmental fund balances for the year ending December 31, 2025.

	General Fund	Road and Bridge	Debt Service	Capital Improvements	Total	Prior Year Total	Increase/ (Decrease)
Fund Balances							
Nonspendable	\$ 20,318	\$ 123	\$ -	\$ -	\$ 20,441	\$ 20,654	\$ (213)
Restricted	206,117	-	1,060,742	-	1,266,859	1,198,707	68,152
Committed	-	-	-	274,463	274,463	121,229	153,234
Assigned	-	-	-	-	-	661,400	(661,400)
Unassigned	3,354,363	(123)	-	-	3,354,240	2,982,864	371,376
	<u>\$ 3,580,798</u>	<u>\$ -</u>	<u>\$ 1,060,742</u>	<u>\$ 274,463</u>	<u>\$ 4,916,003</u>	<u>\$ 4,984,854</u>	<u>\$ (68,851)</u>

As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances as shown above. Additional information on the City's fund balances can be found in Note 1 of this report.

The *General fund* is the chief operating fund of the City. At the end of the current year, the fund balance of the General fund is shown in the table above. As a measure of the General fund's liquidity, it may be useful to compare unassigned fund balance to total fund expenditures. The total unassigned fund balance as a percent of total fund expenditures is shown in the chart below along with total fund balance as a percent of total expenditures.

	<u>Current Year Ending Balance</u>	<u>Prior Year Ending Balance</u>	<u>Increase/ (Decrease)</u>
General Fund Fund Balances			
Nonspendable	\$ 20,318	\$ 20,479	\$ (161)
Restricted	206,117	122,000	84,117
Unassigned	<u>3,354,363</u>	<u>2,982,864</u>	<u>371,499</u>
 Total	 <u>\$ 3,580,798</u>	 <u>\$ 3,125,343</u>	 <u>\$ 455,455</u>
 General Fund expenditures	 \$ 1,785,371	 \$ 1,292,548	
Unassigned as a percent of expenditures	187.9%	230.8%	
Total Fund Balance as a percent of expenditures	200.6%	241.8%	

The fund balance of the City's General fund increased during the current fiscal year as shown in the table above. The increase in fund balance was due to Road and Bridge fund closing into General fund resulting in large transfer in to General fund.

Other major governmental fund analysis is shown below:

	<u>December 31, 2025</u>	<u>Restated December 31, 2024</u>	<u>Increase (Decrease)</u>
Road and Bridge Fund	\$ -	\$ 725,768	\$ (725,768)
<i>The Road and Bridge fund decrease in fund balance was due to closing out the fund in the current year.</i>			
Debt Service Fund	\$ 1,060,742	\$ 1,012,514	\$ 48,228
<i>The Debt Service fund increased in fund balance during the year was due to revenue from property taxes in excess of principal and interest payments as required by state statute.</i>			
Capital Improvements Fund	\$ 274,463	\$ 121,229	\$ 153,234
<i>The Capital Improvements fund increase in fund balance during the year was due to revenue from property taxes in excess of capital outlay expenditures. The City is building reserves for future capital.</i>			

Proprietary Funds. The City's proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail. Net position of the City's proprietary funds decreased as follows:

	<u>Ending Net Position 2025</u>	<u>Ending Net Position 2024</u>	<u>Increase/ (Decrease)</u>
Water/Sewer Fund	\$ 7,344,155	\$ 7,365,603	\$ (21,448)
<i>The decrease is primarily attributed to an increase in expenditures from the prior year. Mostly due to repair and maintenance needs.</i>			

General Fund Budgetary Highlights

	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget
Revenues	\$ 1,548,958	\$ 1,651,825	\$ 102,867
Expenditures	<u>1,301,058</u>	<u>1,785,371</u>	<u>(484,313)</u>
Excess of Revenues Over Expenditures	247,900	(133,546)	(381,446)
Other Financing Sources (Uses) Transfers in	<u>-</u>	<u>589,001</u>	<u>589,001</u>
Net Change in Fund Balances	247,900	455,455	207,555
Fund Balances, January 1	<u>3,125,343</u>	<u>3,125,343</u>	<u>-</u>
Fund Balances, December 31	<u><u>\$ 3,373,243</u></u>	<u><u>\$ 3,580,798</u></u>	<u><u>\$ 207,555</u></u>

The City's General fund budget was not amended during the year as shown above. Actual revenues were over the final budget and expenditures were also over the final budget amounts as shown above.

Capital Assets and Debt Administration

Capital Assets. The City's investment in capital assets for its governmental and business-type activities as of December 31, 2025, is shown below in the capital asset table (net of accumulated depreciation). This investment in capital assets includes land, structures, improvements, machinery and equipment, vehicles, roads, highways, and bridges. The total increase in the City's investment in capital assets for the current fiscal year for governmental and business-type activities is due to several construction projects and improvements being depreciated.

Major public project capital asset events during the current fiscal year were as follows:

- Purchase of Camera Systems
- Empire River Trail Repair
- Purchase of John deere Mower

Additional information on the City's capital assets can be found in Note 3B starting on page 48 of this report.

City of Empire’s Capital Assets
(Net of Depreciation)

	Governmental Activities			Business-type Activities			2025 Total
	2025	2024	Increase (Decrease)	2025	2024	Increase (Decrease)	
Land	\$ 491,644	\$ 491,644	\$ -	\$ 71,310	\$ 71,310	\$ -	\$ 562,954
Buildings	1,239,679	1,306,929	(67,250)	-	-	-	1,239,679
Machinery and Equipment	465,556	456,483	9,073	19,445	24,888	(5,443)	485,001
Infrastructure	9,636,621	10,499,642	(863,021)	3,257,940	3,374,096	(116,156)	12,894,561
Total	\$ 11,833,500	\$ 12,754,698	\$ (921,198)	\$ 3,348,695	\$ 3,470,294	\$ (121,599)	\$ 15,182,195

Long-term Debt. At the end of the current fiscal year, the City had total bonded debt outstanding consisting of general obligation debt as noted in the table below. While all of the City’s bonds have revenue streams, they are all backed by the full faith and credit of the City.

City of Empire’s Outstanding Debt

	Governmental Activities		
	2024	Increase (Decrease)	2025
Bonds Payable	<u>\$ 1,475,000</u>	<u>\$ (275,000)</u>	<u>\$ 1,200,000</u>

Economic Factors and Next Year’s Budgets and Rates

- The General Fund Operating highlights include a decrease in anticipated revenues from the 2026 State Transportation Aid Advancement, a rise in revenue from Zoning & Subdivision Fees due to past activity and future development, an increase from Franchise Fees assuming the City will begin to collect at \$3.00 per account for electric and natural gas, a proposed increase in Public Lighting revenue by raising the quarterly charge from \$6.50 to \$7.00 per quarter for properties in the MXR District to offset electricity costs, an increase in revenue from interest earnings due to better interest yields on interest earning savings, and an increase in court fines from prosecution following the hiring of the city's prosecuting attorney. On the expenditure side, there is an increase in Profession Services, an increase in Planning Services to begin work on the 2050 Comprehensive Plan update, A large increase in expense for the annual fire contract, increases in Street Repair and Maintenance, Legal Services, and increases in payroll wages, health insurance premiums and Property & Casualty Insurance Premiums. Debt Service Revenue, included as part of the tax levy, is set at 105% of the fiscal total for principal and interest payments on the 2019 GO Street Reconstruction Bond, with more details available in the Projected Cash Flow for Debt Service Fund.
- The Capital Improvement Fund accounts for all expenditures made by the City’s General Fund for capital improvements and capital outlay items, including purchases of investments. For the 2026 Budget, it is anticipated that the City will have funds for the purchase of investments in the amount of \$205,000 for general Capital Outlay and \$30,000 for the purchase of investments in the Building Fund. Additional notable expenditures include purchases including a new woodchipper, and a trade-in of the Kubota Tractor.

- The Enterprise Fund for water and sewer is budgeted to operate as a self-sufficient fund, with revenues closely matching expenses and no funds available for investment purchases. Anticipated increases in water and sewer revenues are based on recommended tier increases from the City's Financial Management Plan. Notable changes in Water Fund Expenditures include continued but less frequent purchase of water meters and a increase for water repair to fund a new submersible pump for Well #3 or an emergency interconnect line with the City of Farmington. Primary sewer expenses are expected to increase to \$226,853 in 2026, with \$75,000 allocated for sewer structure repairs, including a new panel at the 205th Street lift station. The budget calls for no purchase of investments, recommending annual water and sewer rate increases to allow for future depreciation investments, which will be needed as the City's water infrastructure ages. It is anticipated that design work for the new water tower to serve new development in the City will commence in 2026.
- Other items to note include the potential revenue from franchise fees on gas and electric utilities, pending proper ordinances and franchise agreements expected in 2026. Historically, developers have funded much of the infrastructure in Empire, but as this infrastructure ages, it is crucial for the city to increase investment purchases to offset replacement costs and maintain a strong bond rating. Franchise fees are expected to help save for future building and street repairs in the future. The proposed tax levy for 2026 real estate taxes calls for a 10.04% increase, but with an anticipated 3.64% growth in the City's tax capacity from 2025 to 2026, the net increase in the tax levy burden for City properties is estimated at 6.40%. Examples of tax burdens for selected properties of varying valuations are provided in the attachments.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to City of Empire; Attn: Clerk-Administrator; 3385 197th Street, Farmington, MN 55024.

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF EMPIRE
EMPIRE, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2025

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City of Empire, Minnesota
Statement of Net Position
December 31, 2025

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and temporary investments	\$ 4,790,560	\$ 3,904,168	\$ 8,694,728
Receivables			
Taxes	9,655	-	9,655
Accounts	21,104	104,306	125,410
Special assessments	-	35,833	35,833
Due from other governments	193,086	3,315	196,401
Prepaid items	20,441	213	20,654
Capital assets			
Land	491,644	71,310	562,954
Depreciable assets (net of accumulated depreciation)	11,341,856	3,277,385	14,619,241
Total Assets	<u>16,868,346</u>	<u>7,396,530</u>	<u>24,264,876</u>
Deferred Outflows of Resources			
Deferred pension resources	<u>28,875</u>	<u>9,581</u>	<u>38,456</u>
Liabilities			
Accounts payable	74,327	7,424	81,751
Due to other governments	34,861	-	34,861
Accrued interest payable	17,417	-	17,417
Noncurrent liabilities			
Due within one year			
Long-term liabilities	287,561	-	287,561
Due in more than one year			
Long-term liabilities	1,022,167	-	1,022,167
Net pension liability	104,899	32,613	137,512
Total Liabilities	<u>1,541,232</u>	<u>40,037</u>	<u>1,581,269</u>
Deferred Inflows of Resources			
Deferred pension resources	<u>70,476</u>	<u>21,919</u>	<u>92,395</u>
Net Position			
Net investment in capital assets	10,633,500	3,348,695	13,982,195
Restricted for			
Road maintenance	40,069	-	40,069
Park improvements	166,048	-	166,048
Debt service	1,043,325	-	1,043,325
Unrestricted	<u>3,402,571</u>	<u>3,995,460</u>	<u>7,398,031</u>
Total Net Position	<u>\$ 15,285,513</u>	<u>\$ 7,344,155</u>	<u>\$ 22,629,668</u>

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

City of Empire, Minnesota
Statement of Activities
For the Year Ended December 31, 2025

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities				
General government	\$ 1,040,277	\$ 374,934	\$ 83,244	\$ -
Public safety	567,120	29,498	-	-
Public works	1,335,005	38,868	-	-
Culture and recreation	246,470	63,559	7,250	-
Interest on long-term debt	16,157	-	-	-
Total Governmental Activities	<u>3,205,029</u>	<u>506,859</u>	<u>90,494</u>	<u>-</u>
Business-Type Activities				
Water and sewer	<u>658,600</u>	<u>530,155</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 3,863,629</u>	<u>\$ 1,037,014</u>	<u>\$ 90,494</u>	<u>\$ -</u>

General Revenues

Taxes

Property taxes, levied for general purposes

Property taxes, levied for debt service

Property taxes, levied for capital improvements

Franchise taxes

Gravel tax

Grants and contributions not restricted to specific programs

Unrestricted investment earnings

Miscellaneous

Gain on sale of capital assets

Total General Revenues

Change in Net Position

Net Position, January 1

Net Position, December 31

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

Net (Expenses) Revenues and
Changes in Net Position

Governmental Activities	Business-type Activities	Total
\$ (582,099)	\$ -	\$ (582,099)
(537,622)	-	(537,622)
(1,296,137)	-	(1,296,137)
(175,661)	-	(175,661)
(16,157)	-	(16,157)
<u>(2,607,676)</u>	<u>-</u>	<u>(2,607,676)</u>
-	(128,445)	(128,445)
<u>\$ (2,607,676)</u>	<u>\$ (128,445)</u>	<u>\$ (2,736,121)</u>
977,306	-	977,306
343,140	-	343,140
270,000	-	270,000
12,158	-	12,158
155,370	-	155,370
10,246	-	10,246
126,923	106,997	233,920
240	-	240
55,303	-	55,303
<u>1,950,686</u>	<u>106,997</u>	<u>2,057,683</u>
(656,990)	(21,448)	(678,438)
<u>15,942,503</u>	<u>7,365,603</u>	<u>23,308,106</u>
<u>\$ 15,285,513</u>	<u>\$ 7,344,155</u>	<u>\$ 22,629,668</u>

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

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FUND FINANCIAL STATEMENTS

CITY OF EMPIRE
EMPIRE, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2025

City of Empire, Minnesota
Balance Sheet
Governmental Funds
December 31, 2025

	100	201	301	450	Total Governmental Funds
	General	Road and Bridge	Debt Service	Capital Improvements	
Assets					
Cash and temporary investments	\$ 3,552,194	\$ (140,413)	1,060,742	\$ 318,037	\$ 4,790,560
Receivables					
Taxes	9,655	-	-	-	9,655
Accounts	10,814	10,290	-	-	21,104
Due from other governments	63,086	130,000	-	-	193,086
Prepaid items	20,318	123	-	-	20,441
	<u>20,318</u>	<u>123</u>	<u>-</u>	<u>-</u>	<u>20,441</u>
Total Assets	<u>\$ 3,656,067</u>	<u>\$ -</u>	<u>\$ 1,060,742</u>	<u>\$ 318,037</u>	<u>\$ 5,034,846</u>
Liabilities					
Accounts payable	\$ 30,753	\$ -	\$ -	\$ 43,574	\$ 74,327
Due to other governments	34,861	-	-	-	34,861
Total Liabilities	<u>65,614</u>	<u>-</u>	<u>-</u>	<u>43,574</u>	<u>109,188</u>
Deferred Inflows of Resources					
Unavailable revenue - taxes	9,655	-	-	-	9,655
	<u>9,655</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,655</u>
Fund Balances					
Nonspendable					
Prepaid items	20,318	123	-	-	20,441
Restricted for					
Park improvements	166,048	-	-	-	166,048
Debt service	-	-	1,060,742	-	1,060,742
Road maintenance	40,069	-	-	-	40,069
Committed for					
Road and bridge improvement	-	-	-	274,463	274,463
Unassigned	3,354,363	(123)	-	-	3,354,240
Total Fund Balances	<u>3,580,798</u>	<u>-</u>	<u>1,060,742</u>	<u>274,463</u>	<u>4,916,003</u>
	<u>3,580,798</u>	<u>-</u>	<u>1,060,742</u>	<u>274,463</u>	<u>4,916,003</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 3,656,067</u>	<u>\$ -</u>	<u>\$ 1,060,742</u>	<u>\$ 318,037</u>	<u>\$ 5,034,846</u>

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

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

City of Empire, Minnesota
 Reconciliation of the Balance Sheet
 to the Statement of Net Position
 Governmental Funds
 December 31, 2025

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

Total Fund Balances - Governmental	\$ 4,916,003
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.</p>	
Cost of capital assets	27,658,613
Less: accumulated depreciation	(15,825,113)
<p>Noncurrent liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds.</p>	
<p>Noncurrent liabilities at year-end consist of</p>	
Compensated absences payable	(2,561)
Bonds payable	(1,200,000)
Plus premium on bonds	(107,167)
Net pension liability	(104,899)
<p>Some receivables are not available soon enough to pay for the current period's expenditures, and therefore are reported as unavailable revenue in the funds.</p>	
Delinquent taxes receivable	9,655
<p>Governmental funds do not report long-term amounts related to pensions.</p>	
Deferred outflows of pension resources	28,875
Deferred inflows of pension resources	(70,476)
<p>Governmental funds do not report a liability for accrued interest until due and payable.</p>	
	(17,417)
Total Net Position - Governmental Activities	\$ 15,285,513

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

City of Empire, Minnesota
Statement of Revenues, Expenditures and
Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2025

	100	201	301	450	Total
	General	Road and Bridge	Debt Service	Capital Improvements	Governmental Funds
Revenues					
Taxes					
Property taxes	\$ 984,979	\$ -	\$ 343,140	\$ 270,000	\$ 1,598,119
Gravel	-	155,370	-	-	155,370
Franchise taxes	12,158	-	-	-	12,158
Licenses and permits	178,279	-	-	-	178,279
Intergovernmental	93,878	-	-	-	93,878
Charges for services	225,768	38,847	-	-	264,615
Fines and forfeitures	23,541	-	-	-	23,541
Investment earnings	85,329	1,276	28,433	11,885	126,923
Miscellaneous	47,893	21	-	-	47,914
Total Revenues	<u>1,651,825</u>	<u>195,514</u>	<u>371,573</u>	<u>281,885</u>	<u>2,500,797</u>
Expenditures					
Current					
General government	1,052,898	-	-	-	1,052,898
Public safety	567,120	-	-	-	567,120
Public works	5,007	365,764	-	-	370,771
Culture and recreation	140,408	-	-	-	140,408
Capital outlay					
General government	2,448	-	-	-	2,448
Public works	-	5,767	-	5,389	11,156
Culture and recreation	17,490	-	-	123,262	140,752
Debt service					
Principal	-	-	275,000	-	275,000
Interest and other charges	-	-	48,345	-	48,345
Total Expenditures	<u>1,785,371</u>	<u>371,531</u>	<u>323,345</u>	<u>128,651</u>	<u>2,608,898</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(133,546)</u>	<u>(176,017)</u>	<u>48,228</u>	<u>153,234</u>	<u>(108,101)</u>
Other Financing Sources (Uses)					
Transfers in	589,001	-	-	-	589,001
Sale of fixed assets	-	39,250	-	-	39,250
Transfers out	-	(589,001)	-	-	(589,001)
Total Other Financing Sources (Uses)	<u>589,001</u>	<u>(549,751)</u>	<u>-</u>	<u>-</u>	<u>39,250</u>
Net Change in Fund Balances	455,455	(725,768)	48,228	153,234	(68,851)
Fund Balances, January 1	<u>3,125,343</u>	<u>725,768</u>	<u>1,012,514</u>	<u>121,229</u>	<u>4,984,854</u>
Fund Balances, December 31	<u>\$ 3,580,798</u>	<u>\$ -</u>	<u>\$ 1,060,742</u>	<u>\$ 274,463</u>	<u>\$ 4,916,003</u>

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

City of Empire, Minnesota
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances
to the Statement of Activities
Governmental Funds
For the Year Ended December 31, 2025

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

Total Net Change in Fund Balances - Governmental Funds	\$ (68,851)
<p>Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense.</p>	
Capital outlays	120,169
Depreciation expense	(1,057,420)
Gain on trade in of capital assets	16,053
<p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position.</p>	
Principal repayments	275,000
Amortization of bond premium	27,605
<p>Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.</p>	
	4,583
<p>Long-term pension activity is not reported in governmental funds.</p>	
Pension expense	29,621
Pension revenue	(388)
<p>Certain revenues are recognized as soon as they are earned. Under the modified accrual basis of accounting, certain revenues cannot be recognized until they are available to liquidate liabilities of the current period.</p>	
Property taxes	(7,673)
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.</p>	
Compensated absences	4,311
	4,311
Change in Net Position - Governmental Activities	\$ (656,990)

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

City of Empire, Minnesota
Statement of Net Position
Proprietary Fund
December 31, 2025

	Business-type Activities - Enterprise Fund <u>Water/Sewer Fund</u>
Assets	
Current Assets	
Cash and temporary investments	\$ 3,904,168
Receivables	
Accounts	104,306
Special assessments	35,833
Due from other governments	3,315
Prepaid items	213
Total Current Assets	<u>4,047,835</u>
Noncurrent Assets	
Capital assets	
Land	71,310
Buildings	167,170
Machinery and equipment	67,536
Infrastructure	5,707,233
Less accumulated depreciation	<u>(2,664,554)</u>
Net Capital Assets	<u>3,348,695</u>
Total Assets	<u>7,396,530</u>
Deferred Outflows of Resources	
Deferred pension resources	<u>9,581</u>
Liabilities	
Current Liabilities	
Accounts payable	7,424
Noncurrent Liabilities	
Due in more than one year	
Net pension liability	<u>32,613</u>
Total Liabilities	<u>40,037</u>
Deferred Inflows of Resources	
Deferred pension resources	<u>21,919</u>
Net Position	
Investment in capital assets	3,348,695
Unrestricted	<u>3,995,460</u>
Total Net Position	<u>\$ 7,344,155</u>

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

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

	Business-type Activities - <u>Enterprise Fund</u> <u>Water/Sewer Fund</u>
Operating Revenues	
Charges for services	<u>\$ 530,155</u>
Operating Expenses	
Personal services	115,132
Supplies	30,696
Professional services	315,617
Repairs	75,556
Depreciation	121,599
Total Operating Expenses	<u>658,600</u>
Operating Gain (Loss)	(128,445)
Nonoperating Revenues	
Investment earnings	<u>106,997</u>
Change In Net Position	(21,448)
Net Position, January 1	<u>7,365,603</u>
Net Position, December 31	<u><u>\$ 7,344,155</u></u>

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

City of Empire, Minnesota
 Statements of Cash Flows
 Proprietary Fund
 For the Year Ended December 31, 2025

	Business-type Activities - <u>Enterprise Funds</u> <u>Water/Sewer Fund</u>
Cash Flows from Operating Activities	
Receipts from customers	\$ 538,696
Payments to suppliers	(415,466)
Payments to employees	(123,326)
Net Cash Provided by Operating Activities	<u>(96)</u>
Cash Flows from Investing Activities	
Interest received on investments	<u>106,997</u>
Net Increase (Decrease) in Cash and Cash Equivalents	106,901
Cash and Cash Equivalents, January 1	<u>3,797,267</u>
Cash and Cash Equivalents, December 31	<u><u>\$ 3,904,168</u></u>
Reconciliation of Operating Loss to	
Net Cash Provided by Operating Activities	
Operating Gain (Loss)	\$ (128,445)
Adjustments to reconcile operating loss to net cash provided by operating activities	
Depreciation	121,599
Increase (decrease) in assets	
Accounts receivable	7,333
Due from other governments	(2,822)
Special assessments receivable	4,030
Prepaid items	70
Deferred outflows of pension resources	(534)
Increase (decrease) in liabilities	
Accounts payable	6,333
Net pension liability	(4,507)
Deferred inflows of pension resources	(3,153)
Net Cash Provided (Used) by Operating Activities	<u><u>\$ (96)</u></u>

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

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

Note 1: Summary of Significant Accounting Policies

A. Reporting Entity

The City of Empire, Minnesota (the City), operates under “Optional Plan A” as defined in the State of Minnesota (the State) statutes. The City is governed by an elected Mayor and 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.

B. Government-wide and Fund Financial Statements

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

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

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

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

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

Note 1: Summary of Significant Accounting Policies (Continued)

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

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

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are also recorded as unearned revenue.

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

The City reports the following major governmental funds:

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

The *Road and Bridge fund* is used to account for the levy approved and disbursements of such funds for the purpose of roads and bridges.

The *Debt Service fund* accounts for the debt service activity associated with the long-term general obligation debt of governmental funds.

The *Capital Improvements fund* is used to account for financial resources and disbursements to capital improvements.

The City reports the following major proprietary fund:

The *Water and Sewer Fund* is used to account for charges for water and sewer services.

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

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

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

Note 1: Summary of Significant Accounting Policies (Continued)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position/Fund Balances

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 statements 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 based on the City's policy.

The City may 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.

Property Taxes

The Council annually adopts a tax levy at their Annual City Meeting. The levy is then certified to the County 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 Auditor and tax settlements are made to the City during January, June, and December each year.

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

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

Note 1: Summary of Significant Accounting Policies (Continued)

Accounts Receivable

Accounts receivable include amounts billed for services provided before year end. The City annually certifies delinquent charges to the County for collection in the following year. Therefore, there has been no allowance for doubtful accounts established.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two years.

Such purchased assets are recorded at historical cost or estimated historical cost if historical cost is not available. Assets acquired prior to 1986 are recorded at estimated historical cost. Donated capital assets are recorded at acquisition value at the date of donation. The City reports infrastructure assets on a network and subsystem basis. Accordingly, the amounts spent for the construction or acquisition of infrastructure assets are capitalized and reported in the government-wide financial statements.

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.

Property, plant and equipment will be depreciated using the straight-line method over the following estimated useful lives:

Assets	Useful Lives in Years
Buildings and Structures	20 to 50
Improvements other than Buildings	15 to 30
Machinery and Equipment	5 to 10
Infrastructure	20 to 30

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 statements of net position. This item results from actuarial calculations and current year pension contributions made subsequent to the measurement date.

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

Note 1: Summary of Significant Accounting Policies (Continued)

Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. 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 fund types recognized bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

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 except that PERA's fiscal year end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. The General fund is typically used to liquidate the governmental net pension liability.

The total pension expense for the GERP and DCP is as follows:

	Public Employees Retirement Association of Minnesota (PERA)		Total All Plans
	GERP	DCP	
City's proportionate share	\$ (8,202)	\$ 701	\$ (7,501)
Proportionate share of State's contribution	(509)	-	(509)
Total pension expense	<u>\$ (8,711)</u>	<u>\$ 701</u>	<u>\$ (8,010)</u>

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 one type of item, which arises only under a modified accrual basis of accounting that qualifies as needing to be reported in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from one sources: property taxes. This amounts is deferred and recognized as an inflow of resources in the period that the amounts become available.

The City has an additional item which qualifies for reporting in this category. The item, deferred pension resources, is reported only in the statements of net position and results from actuarial calculations.

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

Note 1: Summary of Significant Accounting Policies (Continued)

Fund Balance

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

Nonspendable - Amounts that cannot be spent because they are not in 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 Council modifies or rescinds the commitment by resolution.

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

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

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

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

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

Note 2: Stewardship, Compliance and Accountability

A. Budgetary Information

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

In July/August of each year, the proposed budget is prepared by the Council and management. The Council holds public hearing in September at the continuation of the annual meeting. A final budget is prepared and adopted prior to the beginning of the year.

The appropriated budget is prepared by fund, function and department for the General and Road and Bridge funds.. Transfers of appropriations between funds require the approval of the Council. The legal level of budgetary control is the fund level. Budgeted amounts are as originally adopted, or as amended by the Council. There were no budget amendments made during 2025.

B. Excess of Expenditures over Appropriations

Fund	Budget	Actual	Excess of Expenditures Over Appropriations
General Fund	\$ 1,301,058	\$ 1,785,371	\$ 484,313

The excess expenditures over appropriation was funded by a transfer in and revenues in excess of budget.

Note 3: Detailed Notes on All Funds

A. Deposits and Investments

Deposits

Custodial credit risk for deposits and investments is the risk that in the event of a bank failure, the City’s deposits and investments may not be returned or the City will not be able to recover collateral securities in the possession of an outside party. In accordance with Minnesota statutes and as authorized by the Board, 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 or bonds, which the exception of irrevocable standby letters of credit issued by 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;

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

Note 3: Detailed Notes on All Funds (Continued)

- 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.

The city had FDIC coverage and pledged collateral in compliance with Minnesota statute.

B. Capital Assets

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital Assets not Being Depreciated				
Land	\$ 491,644	\$ -	\$ -	\$ 491,644
Capital Assets Being Depreciated				
Buildings	2,357,245	-	-	2,357,245
Machinery and equipment	1,343,249	97,124	(116,737)	1,323,636
Infrastructure	23,444,825	41,263	-	23,486,088
Total Capital Assets Being Depreciated	<u>27,145,319</u>	<u>138,387</u>	<u>(116,737)</u>	<u>27,166,969</u>
Less Accumulated Depreciation for				
Buildings	(1,050,316)	(67,250)	-	(1,117,566)
Machinery and equipment	(886,766)	(85,886)	114,572	(858,080)
Infrastructure	(12,945,183)	(904,284)	-	(13,849,467)
Total Accumulated Depreciation	<u>(14,882,265)</u>	<u>(1,057,420)</u>	<u>114,572</u>	<u>(15,825,113)</u>
Total Capital Assets Being Depreciated, Net	<u>12,263,054</u>	<u>(919,033)</u>	<u>(2,165)</u>	<u>11,341,856</u>
Governmental Activities Capital Assets, Net	<u>\$ 12,754,698</u>	<u>\$ (919,033)</u>	<u>\$ (2,165)</u>	<u>\$ 11,833,500</u>

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

Note 3: Detailed Notes on All Funds (Continued)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type Activities				
Capital Assets not Being Depreciated				
Land	\$ 71,310	\$ -	\$ -	\$ 71,310
Capital Assets Being Depreciated				
Buildings	167,170	-	-	167,170
Machinery and equipment	67,536	-	-	67,536
Infrastructure	5,707,233	-	-	5,707,233
Total Capital Assets Being Depreciated	5,941,939	-	-	5,941,939
Less Accumulated Depreciation				
Buildings	(167,170)	-	-	(167,170)
Machinery and equipment	(42,648)	(5,443)	-	(48,091)
Infrastructure	(2,333,137)	(116,156)	-	(2,449,293)
Total Accumulated Depreciation	(2,542,955)	(121,599)	-	(2,664,554)
Total Capital Assets Being Depreciated, Net	3,398,984	(121,599)	-	3,277,385
Business-type Activities Capital Assets, Net	<u>\$ 3,470,294</u>	<u>\$ (121,599)</u>	<u>\$ -</u>	<u>\$ 3,348,695</u>

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

Governmental Activities		
General government		\$ 2,640
Public works		957,072
Culture and recreation		97,708
Total Depreciation Expense - Governmental Activities		<u>\$ 1,057,420</u>
Business-type Activities		
Water/Sewer		<u>\$ 121,599</u>

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

Note 3: Detailed Notes on All Funds (Continued)

C. Transfers

The City transferred \$589,001 from the Road and Bridge Fund to the General Fund to close out the Road and Bridge Fund. Road maintenance expenditures will be reported in the General Fund moving forward.

D. Long-term Debt

General Obligation Bonds

The City issued general obligation bonds to provide funds for the acquisition and construction of major capital assets. General obligation bonds were issued for governmental activities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. General obligation bonds currently outstanding are as follows:

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
General Obligation Improvement Bond, Series 2019A	\$ 2,730,000	3.00 - 4.00 %	06/25/19	02/01/29	<u>\$ 1,200,000</u>

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

Year Ending December 31,	General Obligation Bonds Governmental Activities		
	Principal	Interest	Total
2026	\$ 285,000	\$ 36,100	\$ 321,100
2027	295,000	24,500	319,500
2028	305,000	14,025	319,025
2029	315,000	4,725	319,725
Total	<u>\$ 1,200,000</u>	<u>\$ 79,350</u>	<u>\$ 1,279,350</u>

Changes in Long-term Liabilities

Long-term liability activity for the year ended December 31, 2025, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Governmental Activities					
Bonds Payable					
G.O. Improvement Bonds	\$ 1,475,000	\$ -	\$ (275,000)	\$ 1,200,000	\$ 285,000
Bond premium	134,772	-	(27,605)	107,167	-
Compensated absences*	6,872	-	(4,311)	2,561	2,561
Governmental Activity Long-term Liabilities	<u>\$ 1,616,644</u>	<u>\$ -</u>	<u>\$ (306,916)</u>	<u>\$ 1,309,728</u>	<u>\$ 287,561</u>

*Change in compensated absences liability presented net of increase or decrease.

City of Empire, 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 Empire, 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 \$29,226. 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 \$137,512 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 \$3,317.

City's proportionate share of the net pension liability	\$ 137,512
State of Minnesota's proportionate share of the net pension liability associated with the City	<u>3,317</u>
Total	<u>\$ 140,829</u>

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

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

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 0.0041% at the end of the measurement period and 0.0043% for the beginning of the period.

For the year ended December 31, 2025, the City recognized pension expense of negative \$8,202 for its proportionate share of the General Employees Plan's pension expense. In addition, the City recognized an additional negative \$509 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.

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	\$ 13,102	\$ -
Changes in actuarial assumptions	3,313	31,641
Net difference between projected and actual investment earnings	-	54,717
Changes in proportion	6,450	6,037
Employer contributions subsequent to the measurement date	15,591	-
Total	\$ 38,456	\$ 92,395

The \$15,591 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		\$ (12,394)
2027		(26,501)
2028		(20,860)
2029		(9,774)

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

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

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 %	

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:

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

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

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.

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:

	1 Percent Decrease (6.00%)	Current (7.00%)	1 Percent Increase (8.00%)
General Employees Fund	\$ 333,994	\$ 137,512	\$ (21,880)

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 Empire, Minnesota
Notes to the Financial Statements
December 31, 2025

Note 5: Defined Contribution Plan

The City has board members that are covered by the Defined Contribution Plan (DCP), a multiple-employer deferred compensation plan administered by PERA. The DCP is a tax qualified plan under Section 401(a) of the Internal Revenue Code and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses, therefore, there is no future liability to the employer. *Minnesota statutes*, chapter 353d.03, specifies plan provisions, including the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes 5 percent of salary which is matched by the elected official's employer. Employees who are paid for their services may elect to make member contributions in an amount not to exceed the employer share. Employer and employee contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2.0 percent of employer contributions and twenty-five hundredths of 1.0 percent (0.25) of the assets in each member's account annually.

Pension expense for the year is equal to contributions made. Total contributions made by the City during the fiscal year 2025 were:

Contribution Amount		Percentage of Covered Payroll		Required Rate
Employee	Employer	Employee	Employer	
\$ 701	\$ 701	5.00%	5.00%	5.00%

The City's contributions to the DCP for the years ended December 31, 2025, 2024 and 2023 were \$701, \$790 and \$697 respectively. The City's contributions were equal to the contractually required contributions for each year as set by Minnesota statute.

Note 6: Other Information

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which the City carries insurance. The City established a limited risk management program for workers' compensation and general liability and property damage.

The workers' compensation program activities are accounted for in the Workers' Compensation Insurance internal service fund. Premiums are paid into the fund by all other funds to pay claims and administrative cost of the program. The premiums are allocated based on the payroll costs by department. During the year, the City obtained 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.

B. Legal Debt Margin

In accordance with Minnesota statutes, the City may not incur or be subject to net debt in excess of three 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. The City has no outstanding debt subject to the limit.

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

Note 7: Subsequent Event

On January 13, 2026, the City purchased a parcel of land for \$201,600. The City paid the Seller \$128,000 for the property, \$50,400 for the permanent easement, and \$23,200 for the temporary easement. This purchase of property and easements are for a new water tower site.

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REQUIRED SUPPLEMENTARY INFORMATION

CITY OF EMPIRE
EMPIRE, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2025

City of Empire, Minnesota
Schedule of Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual
General Fund and Road and Bridge Fund
For the Year Ended December 31, 2025

	General			Road and Bridge		
	Budgeted Amounts Original and Final	Actual Amounts	Variance with Final Budget	Budgeted Amounts Original and Final	Actual Amounts	Variance with Final Budget
Revenues						
Taxes						
Property taxes	\$ 1,056,951	\$ 984,979	\$ (71,972)	\$ -	\$ -	\$ -
Gravel tax	-	-	-	130,000	155,370	25,370
Franchise taxes	7,500	12,158	4,658	-	-	-
Licenses and permits	174,300	178,279	3,979	-	-	-
Intergovernmental	96,407	93,878	(2,529)	-	-	-
Charges for services	77,300	225,768	148,468	38,600	38,847	247
Fines and forfeitures	15,500	23,541	8,041	-	-	-
Investment earnings	85,000	85,329	329	-	1,276	1,276
Miscellaneous	36,000	47,893	11,893	-	21	21
Total Revenues	<u>1,548,958</u>	<u>1,651,825</u>	<u>102,867</u>	<u>168,600</u>	<u>195,514</u>	<u>26,914</u>
Expenditures						
Current						
General government	591,574	1,052,898	(461,324)	-	-	-
Public safety	527,684	567,120	(39,436)	-	-	-
Public works	1,500	5,007	(3,507)	412,500	365,764	46,736
Culture and recreation	160,300	140,408	19,892	-	-	-
Capital outlay	20,000	19,938	62	4,000	5,767	(1,767)
Total Expenditures	<u>1,301,058</u>	<u>1,785,371</u>	<u>(484,313)</u>	<u>416,500</u>	<u>371,531</u>	<u>44,969</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>247,900</u>	<u>(133,546)</u>	<u>(381,446)</u>	<u>(247,900)</u>	<u>(176,017)</u>	<u>71,883</u>
Other Financing Sources (Uses)						
Sale of fixed assets	-	-	-	-	39,250	39,250
Transfers in	-	589,001	589,001	-	-	-
Transfers out	-	-	-	-	(589,001)	(589,001)
Total Other Financing Sources (Uses)	<u>-</u>	<u>589,001</u>	<u>589,001</u>	<u>-</u>	<u>(549,751)</u>	<u>(549,751)</u>
Net Change in Fund Balances	247,900	455,455	207,555	(247,900)	(725,768)	(477,868)
Fund Balances, January 1	<u>3,125,343</u>	<u>3,125,343</u>	<u>-</u>	<u>725,768</u>	<u>725,768</u>	<u>-</u>
Fund Balances, December 31	<u>\$ 3,373,243</u>	<u>\$ 3,580,798</u>	<u>\$ 207,555</u>	<u>\$ 477,868</u>	<u>\$ -</u>	<u>\$ (477,868)</u>

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

City of Empire, Minnesota
 Required Supplementary Information (Continued)
 December 31, 2025

Notes to the Required Supplemental Information

Budgetary Reporting

A. Budgetary Information

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

In July/August of each year, the proposed budget is prepared by the Council and management. The Council holds public hearing in September at the continuation of the annual meeting. A final budget is prepared and adopted prior to the beginning of the year.

The appropriated budget is prepared by fund, function and department for the General and Road and Bridge funds. There was no budget adopted for the ARPA fund as the City is not legally required to adopt one. Transfers of appropriations between funds require the approval of the Council. The legal level of budgetary control is the fund level. Budgeted amounts are as originally adopted, or as amended by the Council. There were no budget amendments made during 2025.

B. Excess of Expenditures over Appropriations

Fund	Budget	Actual	Excess of Expenditures Over Appropriations
General Fund	\$ 1,301,058	\$ 1,785,371	\$ 484,313

The excess expenditures over appropriation were funded by a transfer in from the Road and Bridge fund.

C. Summary of Significant Budget Variances

The General fund revenues and expenditures varied from final budget amounts as noted below:

Revenues

- Charges for services in the general government exceeded final budgeted amounts due to more zoning and subdivision fee revenues than anticipated at time of final budget approval

Expenditures

- General government planning expenditures were over final budgeted amounts due to more planning fees than anticipated. This was due to a large environmental study in 2025.
- Public safety expenditures were over final budgeted amounts due to fire contract expenditures being more than anticipated.

The Road and Bridge fund revenues varied from final budget amounts as noted below:

Revenues

- Gravel tax exceeded the final budgeted amounts due to receiving more Gravel tax than anticipated.

City of Empire, Minnesota
Required Supplementary Information (Continued)
December 31, 2025

Notes to the Required Supplemental Information (Continued)

Expenditures

- Public works expenditures were under budget because of less road maintenance costs than anticipated.

D. Budgetary Compliance

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

City of Empire, 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	0.0041 %	\$ 137,512	\$ 3,317	\$ 140,829	\$ 378,812	36.3 %	90.8 %
6/30/2024	0.0043	158,509	4,099	162,608	367,955	43.1	89.1
6/30/2023	0.0449	234,859	6,451	241,310	334,612	70.2	83.1
6/30/2022	0.0442	316,801	9,249	326,050	296,280	106.9	76.7
6/30/2021	0.0424	175,088	5,441	180,529	298,611	58.6	87.0
6/30/2020	0.0419	239,818	7,353	247,171	136,480	175.7	79.1

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	\$ 29,226	\$ 29,226	\$ -	\$ 389,675	7.50 %
12/31/2024	29,553	29,553	-	394,040	7.50
12/31/2023	25,640	25,640	-	341,870	7.50
12/31/2022	23,323	23,323	-	310,974	7.50
12/31/2021	21,894	21,894	-	291,914	7.50
12/31/2020	21,912	21,912	-	292,160	7.50

City of Empire, 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 Empire, 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.

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OTHER REQUIRED REPORT

CITY OF EMPIRE
EMPIRE, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2025

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

Management and City Council
City of Empire
Empire, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the governmental activities, the business-type activities, and each major fund of City of Empire, 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 13, 2026.

In connection with our audit, nothing came to our attention that caused us to believe that the City of Empire 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. 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.

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



Abdo
Minneapolis, Minnesota
March 13, 2026