



ANNUAL FINANCIAL REPORT

CITY OF COLOGNE
COLOGNE, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2025

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

	<u>Page No.</u>
Introductory Section	
Elected and Appointed Officials	7
Financial Section	
Independent Auditor’s Report	11
Management’s Discussion and Analysis	15
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Position	27
Statement of Activities	28
Fund Financial Statements	
Governmental Funds	
Balance Sheet	32
Reconciliation of the Balance Sheet to the Statement of Net Position	33
Statement of Revenues, Expenditures and Changes in Fund Balances	34
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	35
Proprietary Funds	
Statement of Net Position	36
Statement of Revenues, Expenses and Changes in Net Position	37
Statement of Cash Flows	38
Notes to the Financial Statements	39
Required Supplementary Information	
Budgetary Comparison Schedule – General Fund	64
Notes to the Required Supplementary Information – Budgetary Comparison	65
Schedule of Employer’s Share of Public Employees Retirement Association Net Pension Liability - General Employees Retirement Fund	66
Schedule of Employer’s Public Employees Retirement Association Contributions - General Employees Retirement Fund	66
Notes to the Required Supplementary Information - General Employees Retirement Fund	67
Schedule of Changes in the Fire Relief Association’s Net Pension Liability (Asset) and Related Ratios	69
Individual Fund Financial Schedule	
General Fund	
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual	73
Other Required Reports	
Independent Auditor’s Report on Minnesota Legal Compliance	79
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	80
Schedule of Findings and Responses	82

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INTRODUCTORY SECTION

CITY OF COLOGNE
COLOGNE, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2025

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

ELECTED

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Matt Lein	Mayor	12/31/2026
Carol Szaroletta	Council Member	12/31/2026
Sarah Bruss	Council Member	12/31/2028
Selmer Olson	Council Member	12/31/2026
Jeri Bowers	Council Member	12/31/2028

APPOINTED

<u>Name</u>	<u>Title</u>
Michelle Morrison	City Clerk/City Administrator
Jenna McInnis	Utility Billing

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FINANCIAL SECTION
CITY OF COLOGNE
COLOGNE, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2025

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council
City of Cologne, Minnesota

Opinions

We have audited the accompanying financial statements of governmental activities, the business-type activities, each major the aggregate remaining fund information of the City of Cologne, 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, each major fund and the aggregate remaining fund information of the City as of December 31, 2025, and the respective changes in financial position and, where applicable, cash flows 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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City's 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 and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City'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 Responsibility

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City'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.

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 respective budgetary comparison schedule and related notes, the Schedules of Employer's Share of the Net Pension Liability, the Schedules of Employer's Contributions, the related notes disclosures, and the Schedule of Changes in Net Pension Liability (Asset) and Related Ratios, starting on page 64 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinion on the financial statements that collectively comprise the City's basic financial statements. The accompanying individual fund financial schedule is presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and related directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the individual fund financial schedule is fairly stated, in all material respects, in relation to the basic financial statements as a whole.



Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2026, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



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Minneapolis, Minnesota
March 27, 2026



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Management' Discussion and Analysis

As management of the City of Cologne, Minnesota, (the City), 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 that further explains and supports 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 nonmajor 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

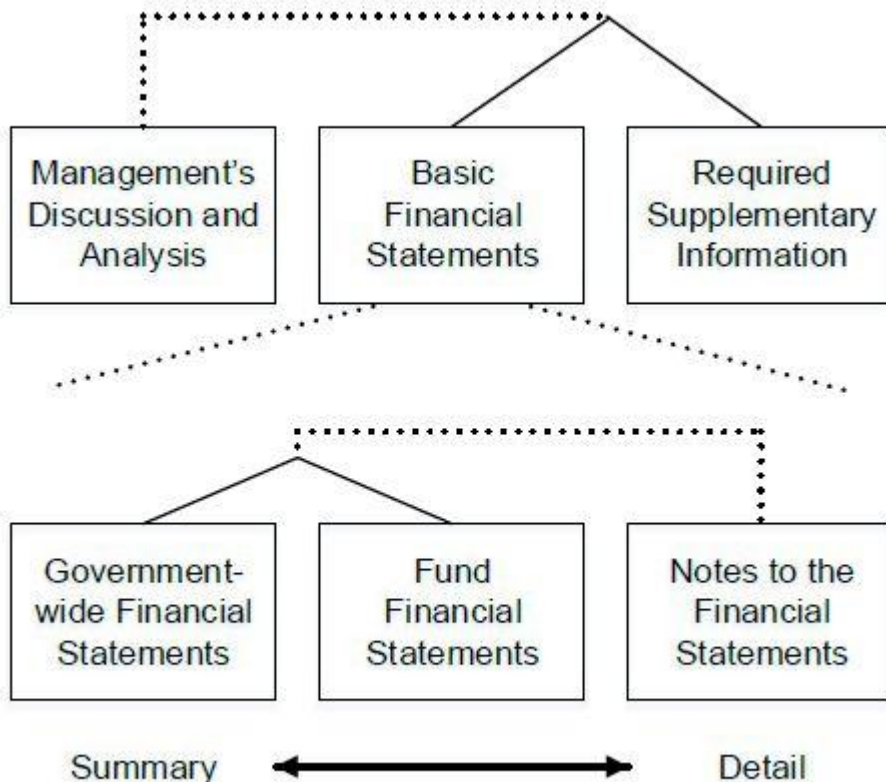


Figure 2 summarizes the major features of the City’s financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis explains the structure and contents of each of the 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 administrative, fire and parks	Activities the City operates similar to private businesses, such as the water and 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 Fund 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 in flow/out flow 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, deferred outflows of resources, 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).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenue (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, public works, culture and recreation, economic development, and interest on long-term debt. The business-type activities of the City include water, sewer, and stormwater.

The government-wide financial statements start on page 27 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 government, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary 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 for the General fund, Debt service fund, Fire Equipment Reserve, and Capital Improvements fund, all of which are considered to be major funds. Data from the remaining nonmajor fund (TIF 2-1) is presented as nonmajor in its own column as there are no other nonmajor governmental funds.

The basic governmental fund financial statements start on page 32 of this report.

Proprietary Funds. *Proprietary 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, sewer, and stormwater operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for each of the enterprise funds which are considered to be major funds of the City.

The basic proprietary fund financial statements start on page 36 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 start on page 39 of this report.

Required Supplementary Information. In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information concerning the budgetary comparison schedule and the City's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on page 64 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.

A portion of the City's net position reflects its investment in capital assets (e.g., land, buildings, infrastructure, 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. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Cologne's Summary of Net Position

	Governmental Activities			Business-type Activities		
	2025	2024	Increase (Decrease)	2025	2024	Increase (Decrease)
Assets						
Current and other assets	\$ 5,012,138	\$ 4,939,291	\$ 72,847	\$ 675,089	\$ 806,737	\$ (131,648)
Capital assets	11,409,103	11,531,491	(122,388)	14,364,175	14,216,155	148,020
Total Assets	16,421,241	16,470,782	(49,541)	15,039,264	15,022,892	16,372
Deferred Outflows of Resources						
Deferred pension resources	71,217	132,656	(61,439)	12,026	14,670	(2,644)
Liabilities						
Noncurrent liabilities outstanding	9,318,752	10,191,258	(872,506)	8,373,811	8,979,473	(605,662)
Other liabilities	262,834	237,059	25,775	63,815	75,199	(11,384)
Total Liabilities	9,581,586	10,428,317	(846,731)	8,437,626	9,054,672	(617,046)
Deferred Inflows of Resources						
Deferred pension resources	124,950	119,510	5,440	66,192	71,144	(4,952)
Net Position						
Net investment in capital assets	2,218,060	1,501,009	717,051	6,010,700	5,286,224	724,476
Restricted	1,656,682	1,727,087	(70,405)	-	-	-
Unrestricted	2,911,180	2,827,515	83,665	536,772	625,522	(88,750)
Total Net Position	\$ 6,785,922	\$ 6,055,611	\$ 730,311	\$ 6,547,472	\$ 5,911,746	\$ 635,726
Net Position as a Percent of Total						
Net investment in capital assets	32.7 %	24.8 %		91.8 %	89.4 %	
Restricted	24.4	28.5		-	-	
Unrestricted	42.9	46.7		8.2	10.6	
	<u>100.0 %</u>	<u>100.0 %</u>		<u>100.0 %</u>	<u>100.0 %</u>	

An additional portion of the City's net position represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position* may be used to meet the City's ongoing obligations to citizens and creditors. The City's total net position increased as a result of the financial performance of the governmental activities. At the end of the current fiscal year, the City is able to report positive balances in all three categories of net position, for the City as a whole.

Governmental Activities. Governmental activities increased the City's net position, as shown below.

City of Cologne's Changes in Net Position

	Governmental Activities			Business-type Activities		
	2025	2024	Increase (Decrease)	2025	2024	Increase (Decrease)
Revenues						
Program Revenues						
Charges for services	\$ 386,433	\$ 355,367	\$ 31,066	\$ 1,320,456	\$ 1,091,668	\$ 228,788
Operating grants and contributions	315,151	232,567	82,584	-	-	-
Capital grants and contributions	58,466	764,685	(706,219)	563,334	2,745,139	(2,181,805)
General Revenues						
Taxes						
Property taxes	2,002,523	1,799,384	203,139	-	-	-
Tax increment	16,733	16,614	119	-	-	-
Franchise Fees	1,000	1,374				
Grants and contributions not restricted to specific programs	367,513	329,108	38,405	-	64	(64)
Unrestricted investment earnings	52,854	62,475	(9,621)	-	-	-
Gain on sale of capital assets	52,386	5,175	47,211	-	-	-
Total Revenues	3,253,059	3,566,749	(313,316)	1,883,790	3,836,871	(1,953,081)
Expenses						
General government	388,582	277,226	111,356	-	-	-
Public safety	684,845	643,581	41,264	-	-	-
Public works	608,599	592,668	15,931	-	-	-
Culture and recreation	445,457	431,384	14,073	-	-	-
Economic development	136,967	25,651	111,316	-	-	-
Interest on long-term debt	258,298	272,085	(13,787)	-	-	-
Water	-	-	-	698,108	725,712	(27,604)
Sewer	-	-	-	480,352	465,865	14,487
Stormwater	-	-	-	69,604	62,385	7,219
Total Expenses	2,522,748	2,242,595	280,153	1,248,064	1,253,962	(5,898)
Change in Net Position	730,311	1,324,154	(593,843)	635,726	2,582,909	(1,947,183)
Net Position, January 1	6,055,611	4,731,457	1,324,154	5,911,746	3,328,837	2,582,909
Net Position, December 31	<u>\$ 6,785,922</u>	<u>\$ 6,055,611</u>	<u>\$ 730,311</u>	<u>\$ 6,547,472</u>	<u>\$ 5,911,746</u>	<u>\$ 635,726</u>

Key elements of this increase are as follows:

- An increases in property tax revenues.
- Total revenues in excess of expenses

Increases in property tax revenues

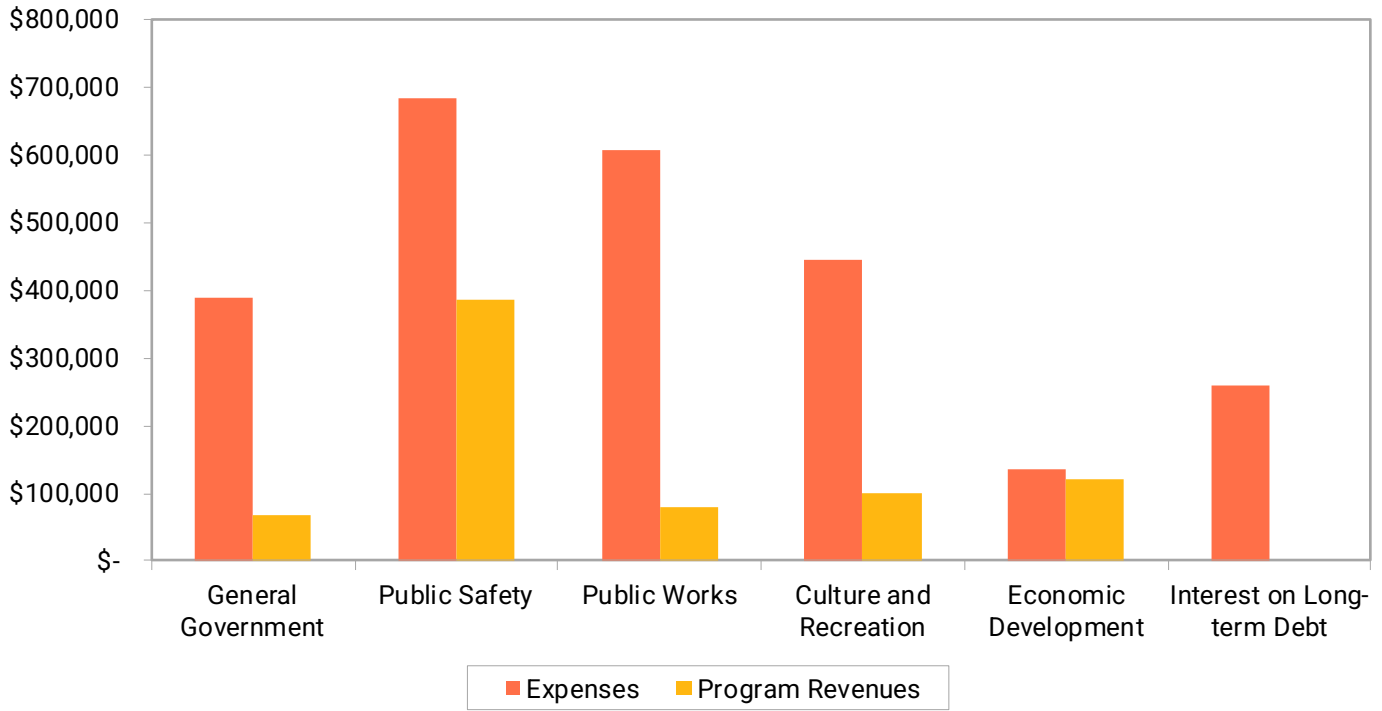
The increase is mainly due to an increase of the property tax levy of roughly 9%.

Revenues in excess of expenses

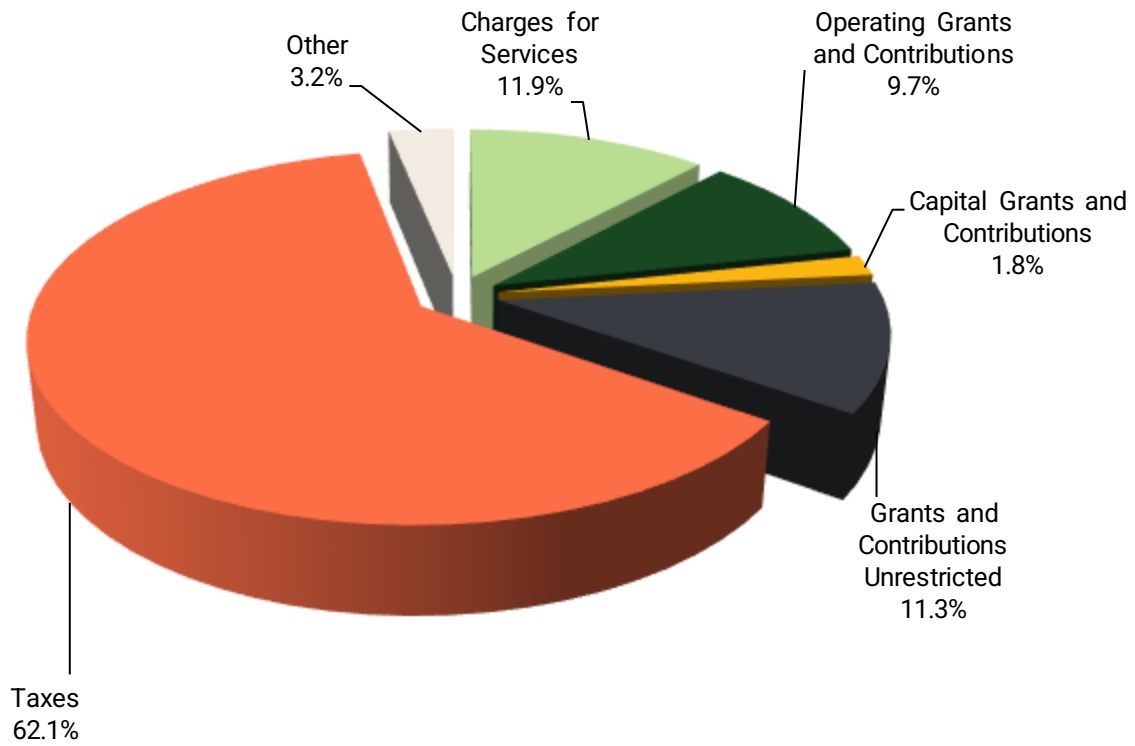
The total revenues despite some overall decrease in revenues and increase in expenses exceeded expenses during the year accounting and should be noted as part of the increase.

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

Expenses and Program Revenue - Governmental Activities



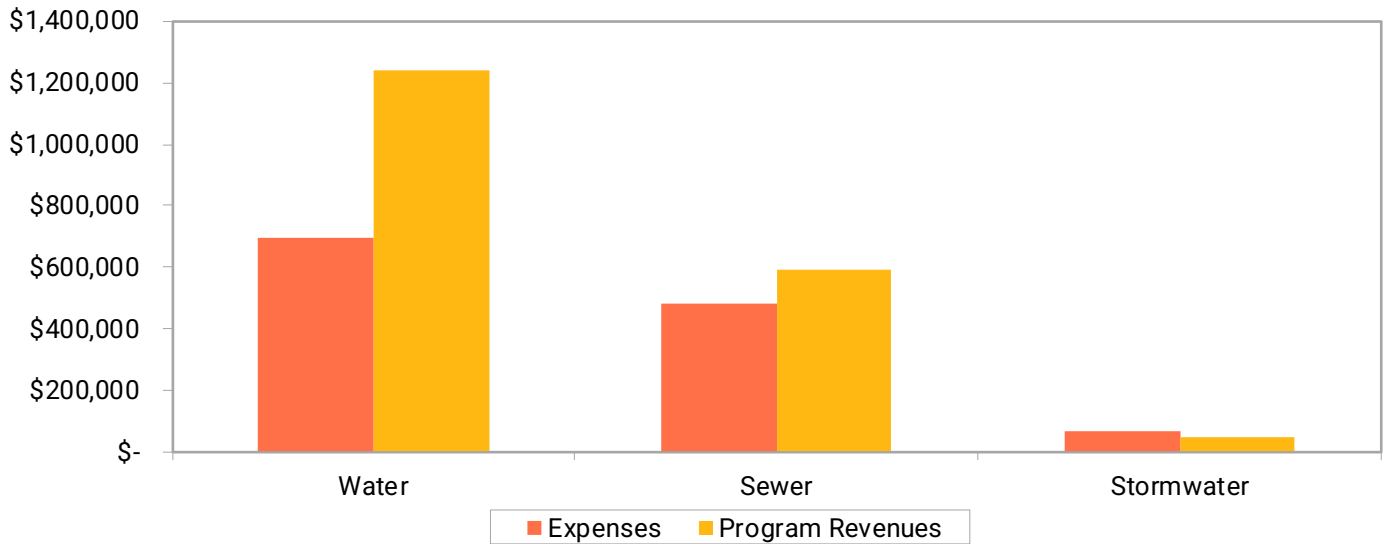
Revenue by Source - Governmental Activities



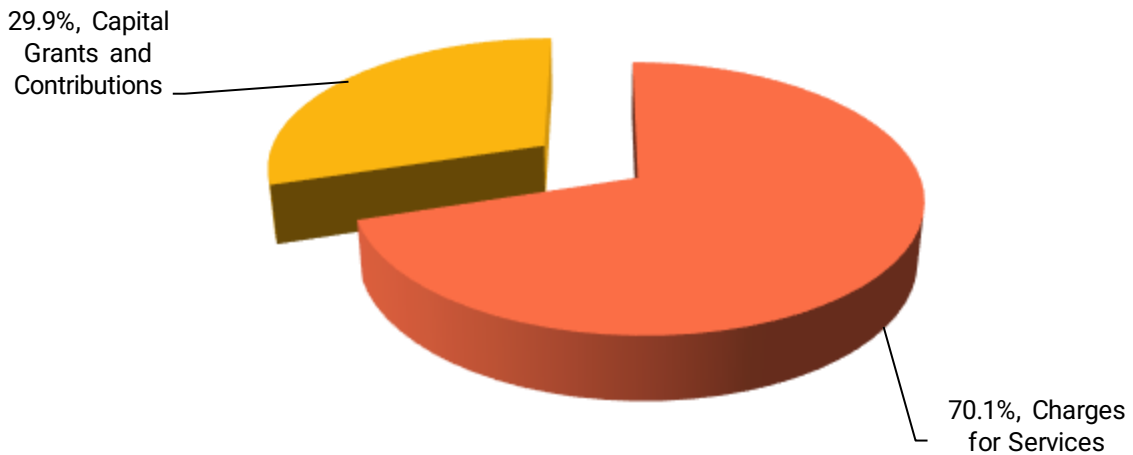
Business-type Activities. Business-type activities decreased the City's net position as noted in the table above. Key elements of the changes are listed below:

- Revenues in the business-type activities decreased mainly due to a decrease in capital grants and contributions, specifically, a decrease in developer contributions.
- Expenses in the business-type activities remained relatively consistent to that of the prior year.

Expenses and Program Revenues - Business-type Activities



Revenue by Source - Business-type 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, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

	General Fund	Debt Service Fund	Fire Equipment Reserve	City Capital Improvements	Nonmajor TIF 2-1	Total	Prior Year Total	Increase/ (Decrease)
Fund Balances								
Restricted	\$ 27,736	\$ 700,367	\$ 396,520	\$ -	\$ 4,071	\$ 1,128,694	\$ 1,134,374	\$ (5,680)
Assigned	307,264	-	-	1,350,184	-	1,657,448	2,046,410	(388,962)
Unassigned	1,383,711	-	-	-	-	1,383,711	905,930	477,781
Total Fund Balances	\$ 1,718,711	\$ 700,367	\$ 396,520	\$ 1,350,184	\$ 4,071	\$ 4,169,853	\$ 4,086,714	\$ 83,139

As of the end 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 starting on page 39 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 percentage of total expenditures.

	Fund Balance		Increase/ (Decrease)
	2025	2024	
General Fund Fund Balances			
Restricted	\$ 27,736	\$ 330,010	\$ (302,274)
Assigned	307,264	2,046,410	(1,739,146)
Unassigned	1,383,711	905,930	477,781
Total General Fund Balances	\$ 1,718,711	\$ 3,282,350	\$ (1,563,639)
General Fund expenditures	\$ 1,396,641	\$ 1,731,092	
Unassigned as a percent of expenditures	99.1%	52.3%	
Total Fund Balance as a percent of expenditures	123.1%	189.6%	

Other major governmental funds and analysis of change from the prior year is shown below:

	Fund Balance		Increase (Decrease)
	2025	2024	
Debt Service fund	\$ 700,367	\$ 801,130	\$ (100,763)
<i>The Debt Service fund balance decreased during the year mainly due to scheduled principal and interest payments made on bonds during the year exceeding tax and special assessment revenue. The ending fund balance is restricted for future debt service.</i>			
Capital Improvements	\$ 1,350,184	\$ -	\$ 1,350,184
<i>The City Capital Improvement fund balance increased during the year mainly due to operating transfers in from the General Fund to fund future operations and City capital purchases and projects.</i>			
Fire Equipment Reserve	\$ 396,520	\$ -	\$ 396,520
<i>The Fire Equipment Reserve fund balance increased during the year mainly due to operating transfers in from the General Fund to fund future fire capital purchases.</i>			

Proprietary Funds. The City’s proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Net position of the City’s proprietary funds for the current and prior year is as follows:

	Net Position		Increase/ (Decrease)
	2025	2024	
Water	\$ 2,686,760	\$ 2,142,487	\$ 544,273
<i>The increase is primarily attributed to operating revenues and water connections exceeding expenses.</i>			
Sewer	\$ 3,273,394	\$ 3,159,097	\$ 114,297
<i>The increase is primarily attributed to operating revenues and sewer connections exceeding expenses.</i>			
Stormwater	\$ 587,318	\$ 610,162	\$ (22,844)
<i>The fund net position decreased mainly due to operating expenses exceeding revenues.</i>			

Capital Asset 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 schedule of capital assets (net of depreciation). This investment in capital assets includes land, structures, improvements, machinery and equipment, park facilities, and roads.

Significant asset additions that occurred during the year as follows:

- The 2024 Chevy PW Truck and build out
- The Freightliner M2-106, 2,000-gallon tanker truck
- The North Water Tower Rehabilitation

Significant asset disposals that occurred during the year as follows:

- 2014 Chevy Pickup
- Dakota Stainless Steel Body
- Kubota X1100 CWLH

**City of Cologne’s Capital Assets
(Net of Depreciation)**

	Governmental Activities			Business-type Activities		
	2025	2024	Increase (Decrease)	2025	2024	Increase (Decrease)
Land	\$ 254,300	\$ 254,300	\$ -	\$ -	\$ -	\$ -
Construction in Progress	80,000	121,788	(41,788)	990,275	979,287	10,988
Buildings	1,456,575	1,531,668	(75,093)	11,850	73,178	(61,328)
Infrastructure	8,576,341	8,738,138	(161,797)	13,187,923	12,961,014	226,909
Machinery and Equipment	1,041,887	885,597	156,290	174,127	202,676	(28,549)
Total	\$ 11,409,103	\$ 11,531,491	\$ (122,388)	\$ 14,364,175	\$ 14,216,155	\$ 148,020
Percent increase (decrease)			-1.1%			1.0%

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

Long-term Debt. At the end of the current fiscal year, the City had total bonded debt outstanding consisting of special assessment debt, revenue related debt and 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 Cologne's Outstanding Debt

	Governmental Activities			Business-type Activities		
	2025	2024	Increase (Decrease)	2025	2024	Increase (Decrease)
General Obligation Bonds	\$ 8,942,000	\$ 9,762,000	\$ (820,000)	\$ -	\$ -	\$ -
General Obligation Revenue Bonds	-	-	-	8,243,000	8,811,000	(568,000)
Bond Premium	249,043	268,482	(19,439)	110,475	118,931	(8,456)
Total	<u>\$ 9,191,043</u>	<u>\$ 10,030,482</u>	<u>\$ (839,439)</u>	<u>\$ 8,353,475</u>	<u>\$ 8,929,931</u>	<u>\$ (576,456)</u>
Percent increase (decrease)			109.1%			106.9%

The City's total debt decreased during the current fiscal year. The key factor in the decrease was due to regularly scheduled principal repayments.

Minnesota statutes limit the amount of net general obligation debt a City may issue to 3 percent of the market value of taxable property within the City. Additional information on the City's long-term debt can be found in Note 3C starting on page 50 of this report.

Currently Known Facts, Decisions, or Conditions

- The City expects to continue seeing steady population growth in the next five to ten years.
- The City has been working with the State Legislature to secure funding to replace the existing Waste Water Treatment Facility.
- The City completed a rehabilitation of the North Water Tower in 2025 funded with EPA dollars.
- A new developer has received final plan approval for a 15 unit residential development.

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 the City Clerk, City of Cologne, 1211 Village Parkway, PO Box 120, Cologne MN, 55322.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF COLOGNE
COLOGNE, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2025

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

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and temporary investments	\$ 4,249,763	\$ 217,041	\$ 4,466,804
Receivables			
Taxes	12,674	-	12,674
Accounts	19,289	116,022	135,311
Special assessments	631,008	202,811	833,819
Due from other governments	-	139,215	139,215
Pension assets	99,404	-	99,404
Capital assets			
Land and construction in progress	334,300	990,275	1,324,575
Depreciable assets (net of accumulated depreciation)	11,074,803	13,373,900	24,448,703
Total Assets	<u>16,421,241</u>	<u>15,039,264</u>	<u>31,460,505</u>
Deferred Outflows of Resources			
Deferred pension resources	<u>71,217</u>	<u>12,026</u>	<u>83,243</u>
Liabilities			
Accounts payable	32,250	13,164	45,414
Accrued salaries payable	8,943	6,704	15,647
Accrued interest payable	168,749	43,947	212,696
Deposits payable	50,324	-	50,324
Unearned revenue	2,568	-	2,568
Noncurrent liabilities			
Due within one year			
Long-term debt	867,000	581,000	1,448,000
Due in more than one year			
Long-term debt	8,324,043	7,772,475	16,096,518
Net pension liability	127,709	20,336	148,045
Total Liabilities	<u>9,581,586</u>	<u>8,437,626</u>	<u>18,019,212</u>
Deferred Inflows of Resources			
Deferred pension resources	<u>124,950</u>	<u>66,192</u>	<u>191,142</u>
Net Position			
Net investment in capital assets	2,218,060	6,010,700	8,228,760
Restricted for			
Debt service	1,128,951	-	1,128,951
Tax increment	4,071	-	4,071
Fire equipment	396,520	-	396,520
Fire relief pension	99,404	-	99,404
Luis hall	27,736	-	27,736
Unrestricted	<u>2,911,180</u>	<u>536,772</u>	<u>3,447,952</u>
Total Net Position	<u>\$ 6,785,922</u>	<u>\$ 6,547,472</u>	<u>\$ 13,333,394</u>

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

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

Functions/Programs	Expenses	Program Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities				
General government	\$ 388,582	\$ 17,609	\$ 51,159	\$ -
Public safety	684,845	265,721	122,189	-
Public works	608,599	1,900	20,388	58,466
Culture and recreation	445,457	101,203	-	-
Economic development	136,967	-	121,415	-
Interest on long-term debt	258,298	-	-	-
Total Governmental Activities	<u>2,522,748</u>	<u>386,433</u>	<u>315,151</u>	<u>58,466</u>
Business-type Activities				
Water	698,108	727,047	-	515,334
Sewer	480,352	546,649	-	48,000
Stormwater	69,604	46,760	-	-
Total Business-type Activities	<u>1,248,064</u>	<u>1,320,456</u>	<u>-</u>	<u>563,334</u>
Total	<u>\$ 3,770,812</u>	<u>\$ 1,706,889</u>	<u>\$ 315,151</u>	<u>\$ 621,800</u>

General Revenues

Taxes

Property taxes, levied for general purposes

Property taxes, levied for debt service

Tax increments

Franchise fees

State grants and contributions not restricted to specific programs

Unrestricted investment earnings

Gain on sale of capital assets

Total General Revenues and Transfers

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
\$ (319,814)	\$ -	\$ (319,814)
(296,935)	-	(296,935)
(527,845)	-	(527,845)
(344,254)	-	(344,254)
(15,552)	-	(15,552)
(258,298)	-	(258,298)
<u>(1,762,698)</u>	<u>-</u>	<u>(1,762,698)</u>
-	544,273	544,273
-	114,297	114,297
-	(22,844)	(22,844)
<u>-</u>	<u>635,726</u>	<u>635,726</u>
<u>(1,762,698)</u>	<u>635,726</u>	<u>(1,126,972)</u>
1,068,033	-	1,068,033
934,490	-	934,490
16,733	-	16,733
1,000	-	1,000
367,513	-	367,513
52,854	-	52,854
52,386	-	52,386
<u>2,493,009</u>	<u>-</u>	<u>2,493,009</u>
730,311	635,726	1,366,037
<u>6,055,611</u>	<u>5,911,746</u>	<u>11,967,357</u>
<u>\$ 6,785,922</u>	<u>\$ 6,547,472</u>	<u>\$ 13,333,394</u>

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

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FUND FINANCIAL STATEMENTS

CITY OF COLOGNE
COLOGNE, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2025

City of Cologne, Minnesota

Balance Sheet

Governmental Funds

December 31, 2025

	101		102	103	Nonmajor	Total
	General	Debt Service	Fire Equipment Reserve	Capital Improvements	TIF 2-1	Governmental Funds
Assets						
Cash and temporary investments	\$ 1,800,370	\$ 698,618	\$ 396,520	\$ 1,350,184	\$ 4,071	\$ 4,249,763
Receivables						
Taxes	10,925	1,749	-	-	-	12,674
Accounts	19,289	-	-	-	-	19,289
Special assessments	33,675	597,333	-	-	-	631,008
	<u>1,864,259</u>	<u>1,297,700</u>	<u>396,520</u>	<u>1,350,184</u>	<u>4,071</u>	<u>4,912,734</u>
Total Assets	\$ 1,864,259	\$ 1,297,700	\$ 396,520	\$ 1,350,184	\$ 4,071	\$ 4,912,734
Liabilities						
Accounts payable	\$ 32,250	\$ -	\$ -	\$ -	\$ -	\$ 32,250
Accrued salaries payable	8,943	-	-	-	-	8,943
Deposits payable	50,324	-	-	-	-	50,324
Unearned revenue	2,568	-	-	-	-	2,568
Total Liabilities	94,085	-	-	-	-	94,085
Deferred Inflows of Resources						
Unavailable revenues - taxes	8,924	-	-	-	-	8,924
Unavailable revenues - special assessments	33,675	597,333	-	-	-	631,008
Unavailable revenues - other	8,864	-	-	-	-	8,864
Total Deferred Inflows of Resources	51,463	597,333	-	-	-	648,796
Fund Balances						
Restricted for						
Debt service	-	700,367	-	-	-	700,367
Luis hall	27,736	-	-	-	-	27,736
Capital	-	-	396,520	-	4,071	400,591
Assigned for						
Capital	-	-	-	1,350,184	-	1,350,184
Parks	307,264	-	-	-	-	307,264
Unassigned	1,383,711	-	-	-	-	1,383,711
Total Fund Balances	1,718,711	700,367	396,520	1,350,184	4,071	4,169,853
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 1,864,259	\$ 1,297,700	\$ 396,520	\$ 1,350,184	\$ 4,071	\$ 4,912,734

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

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

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

Total Fund Balances - Governmental	\$ 4,169,853
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.	
Cost of capital assets	21,565,842
Less: accumulated depreciation	(10,156,739)
Long-term assets from pensions reported in governmental activities are not financial resources and therefore are not reported as assets in the funds.	
	99,404
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds.	
Long-term liabilities at year-end consist of	
Bond principal payable	(8,942,000)
Bond premium	(249,043)
Net pension liability	(127,709)
Governmental funds do not report long-term amounts related to pensions.	
Deferred outflows of pensions resources	71,217
Deferred inflows of pension resources	(124,950)
Some receivables are not available soon enough to pay for the current period's expenditures, and therefore are unavailable in the funds.	
Taxes receivable	8,924
Special assessments receivable	631,008
Other	8,864
Governmental funds do not report a liability for accrued interest until due and payable.	(168,749)
Total Net Position - Governmental Activities	\$ 6,785,922

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

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

	101 General	Debt Service	102 Fire Equipment Reserve	103 Capital Improvements	Nonmajor TIF 2-1	Total Governmental Funds
Revenues						
Taxes	\$ 1,065,186	\$ 934,490	\$ -	\$ -	\$ 16,733	\$ 2,016,409
Licenses and permits	109,630	-	-	-	-	109,630
Intergovernmental	511,702	-	-	-	-	511,702
Charges for services	271,709	-	-	-	-	271,709
Fines and forfeitures	3,744	-	-	-	-	3,744
Special assessments	-	75,992	-	-	-	75,992
Interest on investments	52,854	-	-	-	-	52,854
Miscellaneous	76,284	-	64,751	-	-	141,035
Total Revenues	<u>2,091,109</u>	<u>1,010,482</u>	<u>64,751</u>	<u>-</u>	<u>16,733</u>	<u>3,183,075</u>
Expenditures						
Current						
General government	326,687	-	-	-	-	326,687
Public safety	471,117	-	-	-	-	471,117
Public works	172,383	-	-	-	-	172,383
Culture and recreation	271,366	-	-	-	-	271,366
Economic development	121,071	-	-	-	-	121,071
Capital outlay						
General government	4,912	-	-	-	-	4,912
Public safety	-	-	434,886	-	-	434,886
Public works	707	-	-	158,382	-	159,089
Culture and recreation	28,398	-	-	-	-	28,398
Economic development	-	-	-	-	15,896	15,896
Debt service						
Principal	-	820,000	-	-	-	820,000
Interest and other charges	-	291,245	-	-	-	291,245
Total Expenditures	<u>1,396,641</u>	<u>1,111,245</u>	<u>434,886</u>	<u>158,382</u>	<u>15,896</u>	<u>3,117,050</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>694,468</u>	<u>(100,763)</u>	<u>(370,135)</u>	<u>(158,382)</u>	<u>837</u>	<u>66,025</u>
Other Financing Sources (Uses)						
Transfers in	-	-	749,541	1,508,566	-	2,258,107
Sale of capital assets	-	-	17,114	-	-	17,114
Transfers out	(2,258,107)	-	-	-	-	(2,258,107)
Total Other Financing Sources (Uses)	<u>(2,258,107)</u>	<u>-</u>	<u>766,655</u>	<u>1,508,566</u>	<u>-</u>	<u>17,114</u>
Net Change in Fund Balances	<u>(1,563,639)</u>	<u>(100,763)</u>	<u>396,520</u>	<u>1,350,184</u>	<u>837</u>	<u>83,139</u>
Fund Balances, January 1	<u>3,282,350</u>	<u>801,130</u>	<u>-</u>	<u>-</u>	<u>3,234</u>	<u>4,086,714</u>
Fund Balances, December 31	<u>\$ 1,718,711</u>	<u>\$ 700,367</u>	<u>\$ 396,520</u>	<u>\$ 1,350,184</u>	<u>\$ 4,071</u>	<u>\$ 4,169,853</u>

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

City of Cologne, 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	\$	83,139
<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		493,549
Depreciation expense		(651,209)
<p>A gain or loss on the disposal of capital assets, including the difference between carrying value and any related sales proceeds, is included in net position. However, only the sales proceeds are included in the change in the change in fund balance.</p>		
		35,272
<p>Governmental funds report a gain (loss) on sale of capital assets to the extent of cash exchanged, whereas the disposition of the assets book value is included in the total gain (loss) in the statement of activities</p>		
Disposals		(71,431)
Depreciation on disposals		71,431
<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. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.</p>		
Principal payments		820,000
Current year amortization of bond premium		19,439
<p>Interest on long-term debt in the statement of activities differs from the amount reported in the governmental fund 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>		
		13,508
<p>Long-term pension activity is not reported in governmental funds.</p>		
Pension expense		(104,823)
Pension revenue		40,141
<p>Certain revenues are recognized as soon as it is 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>		
Special assessments		(17,526)
Property taxes		3,847
Other		(8,864)
<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 governmental funds.</p>		
Compensated absences		3,838
		3,838
Change in Net Position - Governmental Activities	\$	730,311

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

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

	Business-type Activities - Enterprise Funds			Totals
	601 Water	602 Sewer	603 Stormwater	
Assets				
Current Assets				
Cash and temporary investments	\$ (585,253)	\$ 796,252	\$ 6,042	\$ 217,041
Receivables				
Accounts	59,637	52,313	4,072	116,022
Special assessments	10,386	-	-	10,386
Due from other governments	139,215	-	-	139,215
Total Current Assets	<u>(376,015)</u>	<u>848,565</u>	<u>10,114</u>	<u>482,664</u>
Noncurrent Assets				
Special assessments	192,425	-	-	192,425
Capital assets				
Construction in progress	-	990,275	-	990,275
Buildings	368,980	1,548,834	35,252	1,953,066
Machinery and equipment	707,708	388,932	-	1,096,640
Infrastructure	12,855,665	2,344,908	1,502,855	16,703,428
Less accumulated depreciation	(3,655,781)	(2,617,825)	(105,628)	(6,379,234)
Net Capital Assets	<u>10,276,572</u>	<u>2,655,124</u>	<u>1,432,479</u>	<u>14,364,175</u>
Total Noncurrent Assets	<u>10,468,997</u>	<u>2,655,124</u>	<u>1,432,479</u>	<u>14,556,600</u>
Total Assets	<u>10,092,982</u>	<u>3,503,689</u>	<u>1,442,593</u>	<u>15,039,264</u>
Deferred Outflows of Resources				
Deferred pension resources	6,014	6,012	-	12,026
Liabilities				
Current Liabilities				
Accounts payable	7,579	5,585	-	13,164
Accrued salaries payable	3,352	3,352	-	6,704
Accrued interest payable	34,045	1,754	8,148	43,947
Bonds payable - current	530,700	8,910	41,390	581,000
Total Current Liabilities	<u>575,676</u>	<u>19,601</u>	<u>49,538</u>	<u>644,815</u>
Noncurrent Liabilities				
Net pension liability	10,167	10,169	-	20,336
Bonds payable	6,793,296	173,442	805,737	7,772,475
Total Noncurrent Liabilities	<u>6,803,463</u>	<u>183,611</u>	<u>805,737</u>	<u>7,792,811</u>
Total Liabilities	<u>7,379,139</u>	<u>203,212</u>	<u>855,275</u>	<u>8,437,626</u>
Deferred Inflows of Resources				
Deferred pension resources	33,097	33,095	-	66,192
Net Position				
Net investment in capital assets	2,952,576	2,472,772	585,352	6,010,700
Unrestricted	(265,816)	800,622	1,966	536,772
Total Net Position	<u>\$ 2,686,760</u>	<u>\$ 3,273,394</u>	<u>\$ 587,318</u>	<u>\$ 6,547,472</u>

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

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

	Business-type Activities - Enterprise Funds			Totals
	601 Water	602 Sewer	603 Stormwater	
Operating Revenues				
Charges for services	\$ 727,047	\$ 546,649	\$ 46,760	\$ 1,320,456
Operating Expenses				
Personal services	107,866	108,413	-	216,279
Supplies	27,133	71,598	-	98,731
Professional services	58,356	79,757	11,859	149,972
Insurance	13,750	-	-	13,750
Utilities	41,159	76,469	-	117,628
Repairs and maintenance	27,256	19,267	3,374	49,897
Depreciation	332,706	121,421	38,453	492,580
Total Operating Expenses	<u>608,226</u>	<u>476,925</u>	<u>53,686</u>	<u>1,138,837</u>
Operating Income (Loss)	118,821	69,724	(6,926)	181,619
Nonoperating Revenues (Expenses)				
Interest and other expense	<u>(89,882)</u>	<u>(3,427)</u>	<u>(15,918)</u>	<u>(109,227)</u>
Income (Loss) Before Contributions	<u>28,939</u>	<u>66,297</u>	<u>(22,844)</u>	<u>72,392</u>
Contributions				
Capital contributions - connection fees	49,000	48,000	-	97,000
Capital contributions - federal grants	457,479	-	-	457,479
Capital contributions - other	8,855	-	-	8,855
Total Contributions	<u>515,334</u>	<u>48,000</u>	<u>-</u>	<u>563,334</u>
Change in Net Position	544,273	114,297	(22,844)	635,726
Net Position, January 1	<u>2,142,487</u>	<u>3,159,097</u>	<u>610,162</u>	<u>5,911,746</u>
Net Position, December 31	<u>\$ 2,686,760</u>	<u>\$ 3,273,394</u>	<u>\$ 587,318</u>	<u>\$ 6,547,472</u>

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

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

	Business-type Activities - Enterprise Funds			Totals
	601 Water	602 Sewer	603 Stormwater	
Cash Flows from Operating Activities				
Receipts from customers and users	\$ 711,673	\$ 536,011	\$ 45,565	\$ 1,293,249
Payments to suppliers	(172,559)	(248,654)	(15,233)	(436,446)
Payments to employees	(123,935)	(124,482)	-	(248,417)
Net Cash Provided (Used) by Operating Activities	<u>415,179</u>	<u>162,875</u>	<u>30,332</u>	<u>608,386</u>
Cash Flows from Capital Financing Activities				
Connection fees received	49,000	48,000	-	97,000
Special assessments received	25,892	-	-	25,892
Grants received	318,264	-	-	318,264
Acquisition of capital assets	(629,612)	(10,988)	-	(640,600)
Interest paid and other on bonds	(98,862)	(4,094)	(19,019)	(121,975)
Principal paid on bonds	(517,700)	(8,910)	(41,390)	(568,000)
Net Cash Provided (Used) by Capital Financing Activities	<u>(853,018)</u>	<u>24,008</u>	<u>(60,409)</u>	<u>(889,419)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(437,839)	186,883	(30,077)	(281,033)
Cash and Cash Equivalents, January 1	<u>(147,414)</u>	<u>609,369</u>	<u>36,119</u>	<u>498,074</u>
Cash and Cash Equivalents, December 31	<u><u>\$ (585,253)</u></u>	<u><u>\$ 796,252</u></u>	<u><u>\$ 6,042</u></u>	<u><u>\$ 217,041</u></u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities				
Operating income (loss)	\$ 118,821	\$ 69,724	\$ (6,926)	\$ 181,619
Adjustments to reconcile operating income to net cash provided by operating activities				
Depreciation	332,706	121,421	38,453	492,580
Other income related to operations	-	-	-	-
(Increase) decrease in assets				
Accounts receivable	(15,374)	(10,638)	(1,195)	(27,207)
(Increase) decrease in deferred outflows of resources				
Pension resources	1,322	1,322	-	2,644
Increase (decrease) in liabilities				
Accounts payable	(4,905)	(1,563)	-	(6,468)
Accrued salaries payable	(312)	(312)	-	(624)
Net pension liability	(13,165)	(13,165)	-	(26,330)
Compensated absences payable	(1,438)	(1,438)	-	(2,876)
Increase (decrease) in deferred inflows of resources				
Pension resources	(2,476)	(2,476)	-	(4,952)
Net Cash Provided (Used) by Operating Activities	<u><u>\$ 415,179</u></u>	<u><u>\$ 162,875</u></u>	<u><u>\$ 30,332</u></u>	<u><u>\$ 608,386</u></u>
Noncash Capital Financing and Investing Activities				
Amortization of bond premium	<u><u>\$ 5,379</u></u>	<u><u>\$ 545</u></u>	<u><u>\$ 2,532</u></u>	<u><u>\$ 8,456</u></u>

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

Note 1: Summary of Significant Accounting Policies

A. Reporting Entity

The City of Cologne, Minnesota (the City) is a municipal corporation governed by a mayor and a four-member council elected by eligible voters of the City. The financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

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. Blended component units, although legally separate entities are, in substance, part of the City's operations and so data from these units are combined with data of the City. Based on this criteria, there are no organizations considered to be component units of the City.

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 primary government and its component units. The effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the City is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. 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 and major individual enterprise 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*, as are the proprietary funds financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. 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.

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

Note 1: Summary of Significant Accounting Policies (Continued)

Property taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is 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.

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 general government, except those required to be accounted for in another fund.

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

The *Fire Equipment Reserve* fund is used for City fire capital purchases.

The *City Capital Improvement* fund is used for City capital purchases and capital projects.

The City reports the following major proprietary funds:

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

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

As a general rule the effect of interfund activity has been eliminated from government-wide financial statements. Exceptions to this general rule are other 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.

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

Note 1: Summary of Significant Accounting Policies (Continued)

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

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

Deposits and Investments

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

Cash balances from all funds are pooled and invested, to the extent available, in certificates of deposit and other authorized investments. Earnings from such investments are allocated on the basis of applicable participation by each of the funds.

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.

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

Note 1: Summary of Significant Accounting Policies (Continued)

Property Taxes

The City Council annually adopts a tax levy in December and certifies it 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, July and December each year.

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

Accounts Receivable

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

Special Assessments

Special assessments represent the financing for public improvements paid for by benefiting property owners. These assessments are recorded as receivables upon certification to the County. Special assessments are recognized as revenue when they are received in cash or within 60 days after year end. All governmental special assessments receivable are offset by a deferred inflow of resources in the 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 one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

In the case of initial capitalization of general infrastructure assets (i.e., those reported by governmental activities) the City chose to include items dating back to June 30, 1980. The City was able to estimate the historical cost for the initial reporting of these assets through back trending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). As the City constructs or acquires capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate.

Capital assets of the City are depreciated using the straight-line method over the following estimated useful lives:

Assets	Useful Lives in Years
Land improvements	20 - 40
Buildings and Improvements	20 - 40
Infrastructure	20 - 40
Machinery and Equipment	5 - 20

Note 1: Summary of Significant Accounting Policies (Continued)

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 one item that qualifies for reporting in this category. Accordingly, the deferred pension resources are reported only in the statements of net position. These items result from actuarial calculations and current year pension contributions made subsequent to the measurement date.

Compensated Absences

The City provides Personal Time Off (PTO) to full-time employees. PTO is accrued based on years of service in accordance with the City's personnel policy. Employees may not use accrued PTO during the initial probationary period unless approved. If employment is terminated during the probationary period, no PTO is payable. Upon separation after completion of the probationary period, employees are compensated for unused, accrued PTO in accordance with City policy. Earned Sick and Safe Time (ESST) is provided in accordance with state law and is not paid out upon termination.

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.

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

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.

For purposes of measuring the net pension liability (asset), deferred outflows of resources related to pensions, and pension expense, information about the fiduciary net position of the defined benefit plan for the Cologne Firefighter's Relief Association and additions to and deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the plan. Investments are reported at fair value. The General fund is typically used to liquidate the governmental net pension liability.

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

Note 1: Summary of Significant Accounting Policies (Continued)

The total pension expense for the City is as follows:

	GERP	Fire Relief Association	Total
City's proportionate share	\$ (27,248)	\$ 176,196	\$ 148,948
Proportionate share of State's contribution	(548)	-	(548)
Total pension expense	\$ (27,796)	\$ 176,196	\$ 148,400

Deferred Inflows of Resources

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net assets that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government 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 three sources: property taxes, special assessments, and other revenues. These amounts are 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.

Fund Balance

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

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

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

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

Assigned - Amounts constrained for specific purposes that are internally imposed. Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as committed. Assigned amounts represent intended uses established by the City Council itself or by the Finance Director to which the governing body delegates the authority. The City Council delegates the authority to assign amounts for specific purposes to the City Clerk/Administrator.

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 a formal fund balance policy to maintain 50% of the current operating budget.

Note 1: Summary of Significant Accounting Policies (Continued)

Net Position

In the government-wide financial statements, 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 balances restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.
- c. Unrestricted net position - All other net position balances that do not meet the definition of "restricted" or "net investment in capital assets".

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

Note 2: Stewardship, Compliance and Accountability

Budgetary Information

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

The City Council adopts budgets prior to January 1, the appropriated budget is prepared by fund, function and department. The City's department heads, with the approval of the City Administrator, may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the City Council. The legal level of budgetary control is at the department level. The City did not amended the budget during the year.

Note 3: Detailed Notes on All Funds

A. Deposits and Investments

Deposits

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

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

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

Note 3: Detailed Notes on All Funds (Continued)

Authorized collateral in lieu of a corporate surety bond includes:

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

At year end, the City's carrying amount of deposits was \$3,557,881 and the bank balance was \$3,806,226. The bank balance was partially covered by federal depository insurance while the remaining balance was covered by collateral held by the City's agent in the City's name.

Investments

The City's investment policy incorporates Minnesota statutes as described above which reduces the City's exposure to credit risk, custodial credit risk, concentration of credit risk, and interest rate risks. Specific risk information for the City is as noted in the City investment policy is as follows:

- *Credit Risk.* Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Ratings are provided by various credit rating agencies and where applicable, indicate associated credit risk. Minnesota statutes and the City's investment policy limit the City's investments to the list above. To ensure safety, it is the policy of the City that when considering an investment, all depositories under consideration be cross-checked against existing investments to make certain that funds in excess of insurance limits are not made in the same institution unless collateralized as outlined below. Furthermore, the City Council will approve all financial institutions, brokers, and advisers with which the City will do business.
- *Custodial Credit Risk.* Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The City will minimize deposit custodial credit risk, by obtaining collateral or bond for all uninsured amounts on deposit, and by obtaining necessary documentation to show compliance with state law and a perfected security interest under federal law.
- *Concentration of Credit Risk.* Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The investment portfolio must be diversified by individual financial institution, government agency, or by corporation (in the case of commercial paper) to reduce the exposure to risk of loss.
- *Interest Rate Risk.* Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City will minimize Interest Rate Risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity.

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

Note 3: Detailed Notes on All Funds (Continued)

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

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

Types of Investments	Credit Quality/ Rating	Segmented Time Distribution	Amount
Pooled Investments at Amortized Costs			
4M	N/A	less than 1 year	<u>\$ 908,673</u>

A reconciliation of cash and investments as shown on the statement of net position for the City follows:

Carrying Amount of Deposits	\$ 3,557,881
Investments	908,673
Petty Cash on Hand	<u>250</u>
Total	<u>\$ 4,466,804</u>

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

Note 3: Detailed Notes on All Funds (Continued)

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	\$ 254,300	\$ -	\$ -	\$ 254,300
Construction in progress	121,788	462,867	(504,655)	80,000
Total Capital Assets not being Depreciated	<u>376,088</u>	<u>462,867</u>	<u>(504,655)</u>	<u>334,300</u>
Capital Assets, being Depreciated				
Buildings	3,453,963	-	-	3,453,963
Infrastructure	13,307,614	-	-	13,307,614
Machinery and equipment	3,970,787	570,609	(71,431)	4,469,965
Total Capital Assets being Depreciated	<u>20,732,364</u>	<u>570,609</u>	<u>(71,431)</u>	<u>21,231,542</u>
Less Accumulated Depreciation for				
Buildings	(1,922,295)	(75,093)	-	(1,997,388)
Infrastructure	(4,569,476)	(161,797)	-	(4,731,273)
Machinery and equipment	(3,085,190)	(414,319)	71,431	(3,428,078)
Total Accumulated Depreciation	<u>(9,576,961)</u>	<u>(651,209)</u>	<u>71,431</u>	<u>(10,156,739)</u>
Total Capital Assets being Depreciated, Net	<u>11,155,403</u>	<u>(80,600)</u>	<u>-</u>	<u>11,074,803</u>
Governmental Activities Capital Assets, Net	<u>\$ 11,531,491</u>	<u>\$ 382,267</u>	<u>\$ (504,655)</u>	<u>\$ 11,409,103</u>

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

Note 3: Detailed Notes on All Funds (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type Activities				
Capital Assets not being Depreciated				
Construction in progress	\$ 979,287	\$ 10,988	\$ -	\$ 990,275
Capital Assets being Depreciated				
Buildings	1,855,915	-	-	1,855,915
Infrastructure	16,109,069	629,612	-	16,738,681
Machinery and equipment	1,158,538	-	-	1,158,538
Total Capital Assets being Depreciated	<u>19,123,522</u>	<u>629,612</u>	<u>-</u>	<u>19,753,134</u>
Less Accumulated Depreciation for				
Buildings	(1,782,737)	(61,328)	-	(1,844,065)
Infrastructure	(3,148,055)	(402,703)	-	(3,550,758)
Machinery and equipment	(955,862)	(28,549)	-	(984,411)
Total Accumulated Depreciation	<u>(5,886,654)</u>	<u>(492,580)</u>	<u>-</u>	<u>(6,379,234)</u>
Total Capital Assets being Depreciated, Net	<u>13,236,868</u>	<u>137,032</u>	<u>-</u>	<u>13,373,900</u>
Business-type Activities Capital Assets, Net	<u>\$ 14,216,155</u>	<u>\$ 148,020</u>	<u>\$ -</u>	<u>\$ 14,364,175</u>

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

Governmental Activities		
General government		\$ 73,676
Public safety		77,400
Public works		346,223
Culture and recreation		<u>153,910</u>
Total Depreciation Expense - Governmental Activities		<u>\$ 651,209</u>
Business-type Activities		
Water		\$ 332,706
Sewer		121,421
Stormwater		<u>38,453</u>
Total Depreciation Expense - Business-type Activities		<u>\$ 492,580</u>

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

Note 3: Detailed Notes on All Funds (Continued)

C. Interfund Transfers

The City made transfers during the year as shown and described below:

Fund	Transfer in		Total
	City Capital Improvement	Fire Equipment Reserve	
Transfer out General	\$ 1,508,566	\$ 749,541	\$ 2,258,107

During the year ended December 31, 2025, the City made the following transfers:

- The General fund transferred \$1,508,566 to the Capital Improvement fund to establish the fund for future capital improvements.
- The General fund transferred \$749,541 to the nonmajor governmental Fire Equipment Reserves fund future fire equipment and other fire purchases.

D. Long-term Debt

General Obligation Bonds

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for proprietary activities. These bonds are reported in the proprietary funds as they are expected to be repaid from proprietary fund revenues. In addition, bonds have been issued to refund general obligation bonds.

The following bonds will be repaid from future tax levies.

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
G.O. Refunding Bonds, Series 2013A	\$ 8,020,000	2.00 - 3.25 %	06/19/13	02/01/33	\$ 3,380,000
G.O. Equipment Certificates Bonds, Series 2019A	693,000	2.60 - 2.75	02/01/22	02/01/28	252,000
G.O. Bonds Series 2020A	2,955,000	2.00 - 3.00	05/18/20	02/01/41	2,480,000
G.O. Bonds Series 2021A	385,000	1.40	08/04/21	02/01/32	270,000
G.O. Bonds Series 2023A	2,610,000	4.00 - 5.00	10/05/23	02/01/44	<u>2,560,000</u>
Total General Obligation Bonds					<u>\$ 8,942,000</u>

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

Note 3: Detailed Notes on All Funds (Continued)

The annual service requirements to maturity for the general obligation bonds are as follows:

Year Ending December 31,	Governmental Activities		
	Principal	Interest	Total
2026	\$ 867,000	\$ 266,415	\$ 1,133,415
2027	894,000	241,183	1,135,183
2028	931,000	214,114	1,145,114
2029	880,000	185,745	1,065,745
2030	550,000	162,644	712,644
2031 - 2035	2,315,000	557,106	2,872,106
2036 - 2040	1,605,000	286,437	1,891,437
2041 - 2044	900,000	62,537	962,537
Total	<u>\$ 8,942,000</u>	<u>\$ 1,976,181</u>	<u>\$ 10,918,181</u>

General Obligation Revenue Bonds

The following bonds were issued to finance capital improvements in the enterprise funds. They will be retired from net revenues of the enterprise funds.

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
G.O. Refunding Bonds, Series 2013A	\$ 8,020,000	2.00 - 3.25 %	06/19/13	02/01/29	\$ 430,000
G.O. PFA Bonds, Series 2014A	839,216	1.00	09/02/14	08/20/34	402,000
G.O. PFA Bonds, Series 2017A	7,715,623	1.00	11/23/16	08/20/46	5,176,000
G.O. Bonds Series 2020A	2,330,000	2.00 - 3.00	05/18/20	02/01/41	1,955,000
G.O. Bonds Series 2021A	395,000	1.40	08/04/21	02/01/32	280,000
Total G.O. Revenue Bonds					<u>\$ 8,243,000</u>

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

Year Ending December 31,	Business-type Activities		
	Principal	Interest	Total
2026	\$ 581,000	\$ 111,532	\$ 692,532
2027	593,000	100,688	693,688
2028	451,000	91,410	542,410
2029	464,000	83,790	547,790
2030	432,000	76,615	508,615
2031 - 2035	2,062,997	295,790	2,358,787
2036 - 2040	1,924,997	165,860	2,090,857
2041 - 2045	1,464,006	54,800	1,518,806
2046	270,000	2,700	272,700
Total	<u>\$ 8,243,000</u>	<u>\$ 983,185</u>	<u>\$ 9,226,185</u>

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

Note 3: Detailed Notes on All Funds (Continued)

Annual revenues from charges for services, principal and interest payments, and percentage of revenue required to cover principal and interest payments are as follows:

	Water	Sewer	Stormwater
Operating Revenues	\$ 727,047	\$ 546,649	\$ 46,760
Principal and Interest	616,562	13,004	60,409
Percentage of Revenues	118 %	4,204 %	77 %

Conduit Debt

In 2014 the City of Cologne issued \$13,960,000 of conduit bonds to finance the acquisition of the Cologne Academy charter school facility and the construction and equipping the facility. The loan is secured by a mortgage on the related land, building, and building contents, as well as the assignment of future lease revenue. The loan represents the proceeds of two lease revenue bond issued. The first issue is \$13,630,000 of Charter School Lease Revenue Bonds, Series 2014A, which bear interest ranging from 4% to 5% and have a final maturity of July 1, 2045. The second issue is the \$330,000 of Taxable Charter School Lease Revenue Bonds, Series 2014B, which bear an interest rate of 5% and have a final maturity of July 1, 2018. Through the terms of the agreement, the Building Company assumes all responsibility for the bonds issued by the City of Cologne and must make loan payments sufficient to meet the scheduled semi-annual debt service payments to retire the bonds. As of December 31, 2025 the total bonds outstanding were \$11,885,000.

Changes in Long-term Liabilities

Noncurrent liability activity for the year ended December 31, 2025 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Governmental Activities					
General obligation bonds	\$ 9,762,000	\$ -	\$ (820,000)	\$ 8,942,000	\$ 867,000
Bond Premium	268,482	-	(19,439)	249,043	-
Compensated Absences	3,838	-	(3,838)	-	-
Governmental Activity Long-term Liabilities	<u>\$ 10,034,320</u>	<u>\$ -</u>	<u>\$ (843,277)</u>	<u>\$ 9,191,043</u>	<u>\$ 867,000</u>
Business-type Activities					
General Obligation Revenue Bonds	\$ 8,811,000	\$ -	\$ (568,000)	\$ 8,243,000	\$ 581,000
Bond Premium	118,931	-	(8,456)	110,475	-
Compensated Absences	2,876	-	(2,876)	-	-
Business-type Activity Long-term Liabilities	<u>\$ 8,932,807</u>	<u>\$ -</u>	<u>\$ (579,332)</u>	<u>\$ 8,353,475</u>	<u>\$ 581,000</u>

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.

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.

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

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

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 \$32,023. 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 \$148,045 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 \$3,571.

City's proportionate share of the net pension liability	\$	148,045
State of Minnesota's proportionate share of the net pension liability associated with the City		3,571
Total	\$	151,616

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 0.0045% at the end of the measurement period and 0.0055% for the beginning of the period.

For the year ended December 31, 2025, the City recognized pension expense of negative \$27,248 for its proportionate share of the General Employees Plan's pension expense. In addition, the City recognized an additional negative \$548 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

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

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

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 14,105	\$ -
Changes in actuarial assumptions	3,567	34,065
Net difference between projected and actual investment earnings	-	58,908
Changes in proportion	7,840	59,347
Employer contributions subsequent to the measurement date	17,291	-
Total	\$ 42,803	\$ 152,320

The \$17,291 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	\$ (30,901)
2027	(49,992)
2028	(35,391)
2029	(10,524)

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 %	

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

F. Actuarial Assumptions

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

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

Salary growth assumptions in the General Employees Plan range in annual increments from 11.5% after one year of service to 3% after 27 years of service.

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

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

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

General Employees Fund

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

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

G. Discount Rate

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

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

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

H. Pension Liability Sensitivity

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

	1 Percent Decrease (6.00%)	Current (7.00%)	1 Percent Increase (8.00%)
General Employees Fund	\$ 359,578	\$ 148,045	\$ (23,556)

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

Note 5: Defined Benefit Pension Plan - Fire Relief Association

A. Plan Description

The Cologne Fire Department (the Department) participates in the Statewide Volunteer Firefighter Retirement Plan (accounted for in the Volunteer Firefighter Fund), an agent multiple-employer lump-sum [or monthly] defined benefit pension plan administered by the Public Employees Retirement Association of Minnesota (PERA). The Volunteer Firefighter Plan covers volunteer firefighters of municipal fire departments or independent nonprofit firefighting corporations that have elected to join the plan. As of December 31, 2024, the plan covered 31 active firefighters and 9 vested terminated firefighters whose pension benefits are deferred. The plan is established and administered in accordance with *Minnesota Statutes*, Chapter 353 G.

B. Benefits Provided

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

C. Contribution

The Volunteer Firefighter Plan is funded by fire state aid, investment earnings and, if necessary, employer contributions as specified in *Minnesota Statutes*, and voluntary City contributions (if applicable). The State of Minnesota contributed \$34,564 in fire state aid to the fund for the year ended December 31, 2024. Required employer contributions are calculated annually based on statutory provisions. The City's contributions were equal to the required contributions as set by state statute. In addition, the City made voluntary contributions of \$40,000 to the plan.

D. Pension Costs

At December 31, 2025, the City reported a net pension asset of \$99,404 for the Volunteer Firefighter Fund. The net pension asset was measured as of December 31, 2024. The total pension liability used to calculate the net pension asset in accordance with GASB 68 was determined by PERA applying an actuarial formula to specific census data certified by the Department. The following table presents the changes in net pension liability (asset) during the year:

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a-b)
Beginning Balance January 1, 2024	\$ 912,173	\$ 896,437	\$ 15,736
Changes for the Year			
Service cost	26,585	-	26,585
Interest on pension liability (asset)	56,176	-	56,176
Asset transfer/other	-	30,148	(30,148)
Contributions (Municipal)	-	40,000	(40,000)
Contributions (State)	-	34,564	(34,564)
Projected investment earnings	-	56,707	(56,707)
Asset (gain)/loss	-	38,822	(38,822)
Benefit payouts	(5,000)	(5,000)	-
Administrative costs	-	(2,340)	2,340
Total Net Changes	<u>77,761</u>	<u>192,901</u>	<u>(115,140)</u>
Ending Balance December 31, 2024	<u>\$ 989,934</u>	<u>\$ 1,089,338</u>	<u>\$ (99,404)</u>

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

Note 5: Defined Benefit Pension Plan - Fire Relief Association (Continued)

For the year ended December 31, 2025 the Fire Department recognized pension expense of \$176,196.

The City reported deferred inflows and outflows of resources and its contributions subsequent to the measurement date related to the fire relief pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net Difference Between Projected and Actual Earnings on Plan Investments Contributions Subsequent to the Measurement Date	\$ -	\$ 31,058
	40,000	-
Total	\$ 40,000	\$ 31,058

Deferred outflows of resources totaling \$40,000 related to pensions resulting from the City's contributions to the plan subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2025. Other amounts reported as deferred outflows of resources related to the plan will be recognized in pension expense as follows:

2026	\$ (7,764)
2027	(7,764)
2028	(7,764)
2029	(7,766)

E. Actuarial Assumptions

The total pension liability at December 31, 2024, was determined using the entry age normal actuarial cost method and the following actuarial assumptions:

- Retirement eligibility at the later of age 50 or when fully vested
- Investment rate of return of 6.0 percent

Assumption Changes: Administrative Expenses were updated to \$60 per participant beginning in plan year 2025.

F. Discount Rate

The discount rate used to measure the total pension liability was six percent. The projection of cash flows used to determine the discount rate assumed that contributions to the Volunteer Firefighter Fund will be made at a rate equal to the actuarially determined contribution rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

Note 5: Defined Benefit Pension Plan - Fire Relief Association (Continued)

G. Pension Liability Sensitivity

The following presents the City's net pension liability (asset) for the plan, calculated using the discount rate disclosed in the preceding paragraph, as well as what the City's net pension liability (asset) would be if it were calculated using a discount rate 1 percent lower or 1 percent higher than the current discount rate:

	1 Percent Decrease (5.00%)	Current (6.00%)	1 Percent Increase (7.00%)
SVF	\$ (111,836)	\$ (99,404)	\$ (140,356)

H. Investment Policy

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

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

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

I. Asset Allocation

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

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic Stocks	35.0 %	5.10 %
International Stocks	15.0	5.30
Bonds	45.0	0.75
Unallocated Cash	5.0	-
Total	100.0 %	

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

Note 5: Defined Benefit Pension Plan - Fire Relief Association (Continued)

J. Pension Plan Fiduciary Net Position

The Association issues a publicly available financial report. The report may be obtained by writing to the Cologne Fire Department Relief Association, 110 Louis St. W, Cologne, MN 55322.

Note 6: Other Information

A. Legal Debt Margin

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

B. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which the City carries insurance. The City obtains insurance through participation in the League of Minnesota Cities Insurance Trust (LMCIT), which is a risk sharing pool with approximately 800 other governmental units. The City pays an annual premium to LMCIT for its workers compensation and property and casualty insurance. The LMCIT is self-sustaining through member premiums and will reinsure for claims above a prescribed dollar amount for each insurance event. Settled claims have not exceeded the City's coverage in any of the past three fiscal years.

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

C. Tax Increment Financing Districts

The City's tax increment districts are subject to review by the State of Minnesota Office of the State Auditor (OSA). Any disallowed claims or misuse of tax increments could become a liability of the applicable fund. Management has indicated that they are not aware of any instances of noncompliance which would have a material effect on the financial statements.

D. Concentrations

The City receives a significant amount of its annual General fund revenue from the State of Minnesota from the Local Government Aid (LGA). The amount received in 2025 was \$316,527 This accounted for 15.1 percent of General fund revenues.

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REQUIRED SUPPLEMENTARY INFORMATION

CITY OF COLOGNE
COLOGNE, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2025

City of Cologne, Minnesota
 Budgetary Comparison Schedule
 General Fund
 For the Year Ended December 31, 2025

	Original & Final Budget Amounts	Actual Amounts	Variance with Final Budget
Revenues			
Taxes	\$ 1,067,057	\$ 1,065,186	\$ (1,871)
Licenses and permits	115,075	109,630	(5,445)
Intergovernmental	332,527	511,702	179,175
Charges for services	202,500	271,709	69,209
Fines and forfeitures	2,000	3,744	1,744
Interest on investments	30,000	52,854	22,854
Miscellaneous	62,700	76,284	13,584
Total Revenues	<u>1,811,859</u>	<u>2,091,109</u>	<u>279,250</u>
Expenditures			
Current			
General government	452,741	326,687	126,054
Public safety	465,634	471,117	(5,483)
Public works	342,212	172,383	169,829
Culture and recreation	294,272	271,366	22,906
Economic development	118,000	121,071	(3,071)
Capital outlay			
General government	5,000	4,912	88
Public safety	45,000	-	45,000
Public works	10,000	707	9,293
Culture and recreation	79,000	28,398	50,602
Total Expenditures	<u>1,811,859</u>	<u>1,396,641</u>	<u>415,218</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	-	694,468	694,468
Other Financing Sources (Uses)			
Transfers out	-	(2,258,107)	(2,258,107)
Net Change in Fund Balances	-	(1,563,639)	(1,563,639)
Fund Balances, January 1	<u>3,282,350</u>	<u>3,282,350</u>	<u>-</u>
Fund Balances, December 31	<u>\$ 3,282,350</u>	<u>\$ 1,718,711</u>	<u>\$ (1,563,639)</u>

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

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

Notes to the Required Supplementary Information

Budgetary Reporting

A. Budgetary Comparison Schedule

The budgetary comparison schedule presents the comparison of the original and legally amended budget with actual amounts on a departmental level for the General Fund. The departmental level budgets are adopted on a basis consistent with generally accepted accounting principles. The fund balance reports revenue in the period in which they become measurable and available.

B. Summary of Significant Budget Variances

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

Revenues:

- Intergovernmental revenues exceeded budgeted amounts due other county grants and aids, specifically the pass through grant from Carver County Community Development Agency.

Expenditures:

- General government expenditures were under budgeted amounts mainly due to the City establishing the new fund, Capital Improvements to account for previously budgeted General Fund expenditures.
- Public works expenditures were under budgeted amounts mainly due to the City establishing the new fund, Capital Improvements to account for previously budgeted General Fund expenditures.

C. Budgetary Compliance

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

City of Cologne, Minnesota
Required Supplementary Information (Continued)
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	0.0045 %	\$ 148,045	\$ 3,571	\$ 151,616	\$ 404,597	36.6 %	90.8 %
6/30/2024	0.0055	203,604	5,265	208,869	466,127	43.7	89.1
6/30/2023	0.0060	335,513	9,151	344,664	456,724	73.5	83.1
6/30/2022	0.0054	427,682	12,632	440,314	423,756	100.9	76.7
6/30/2021	0.0058	247,686	7,593	255,279	414,014	59.8	87.0
6/30/2020	0.0054	323,755	9,864	333,619	364,553	88.8	79.1
6/30/2019	0.0049	270,910	8,333	279,243	341,900	79.2	80.2
6/30/2018	0.0050	277,380	9,162	286,542	335,860	82.6	79.5
6/30/2017	0.0052	331,965	4,154	336,119	166,700	199.1	75.9
6/30/2016	0.0051	414,095	5,339	419,434	260,166	159.2	68.9

Schedule of Employer's PERA Contributions - General Employees Fund

Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	City's Covered Payroll (c)	Contributions as a Percentage of Covered Payroll (b/c)
12/31/2025	\$ 32,023	\$ 32,023	\$ -	\$ 426,973	7.50 %
12/31/2024	31,238	31,238	-	416,508	7.50
12/31/2023	37,235	37,235	-	496,463	7.50
12/31/2022	32,679	32,679	-	435,714	7.50
12/31/2021	32,122	32,122	-	428,297	7.50
12/31/2020	28,772	28,772	-	383,627	7.50
12/31/2019	25,911	25,911	-	345,480	7.50
12/31/2018	25,374	25,374	-	338,320	7.50
12/31/2017	25,005	25,005	-	333,400	7.50
12/31/2016	20,755	20,755	-	276,733	7.50

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

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

Changes in Plan Provisions

2025 - The post-retirement benefit increase formula changed to 100% of the Social Security annual increase, between 1% and 1.75% , beginning January 1, 2026. If the funded ratio (on a market value of assets basis) is less than 85% for the last two consecutive annual valuations or is less than 80% in the most recent actuarial valuation, the maximum is reduced to 1.5%. Previously, the benefit increase was 50% of the Social Security annual increase, between 1% and 1.5%. The 1% additional employer contribution is eliminated when the plan reaches 98% funded status (on an actuarial value of assets basis); this contribution was previously scheduled to stop when the plan reached 100% funded status.

2024 - The workers' compensation offset for disability benefits was eliminated. The actuarial equivalent factors updated to reflect the changes in assumptions.

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

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

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

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

2019 - The employer supplemental contribution was changed prospectively, decreasing from \$31.0 million to \$21.0 million per year. The state's special funding contribution was changed prospectively, requiring \$16.0 million due per year through 2031.

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

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

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

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

Schedule of Changes in the Fire Relief Association's Net Pension Liability (Asset) and Related Ratios

	2025 (Fire Relief Report Date 2024)	2024 (Fire Relief Report Date 2023)	2023 (Fire Relief Report Date 2022)	2022 (Fire Relief Report Date 2021)	2021 (Fire Relief Report Date 2020)	2020 (Fire Relief Report Date 2019)
Total Pension Liability						
Service cost	\$ 26,585	\$ 19,638	\$ 19,159	\$ 22,353	\$ 21,808	\$ 21,276
Interest	56,176	43,115	40,946	37,672	34,678	35,070
Other	112,024	-	-	-	-	-
Gain or loss	-	(17,161)	-	(5,064)	-	-
Changes of assumptions	-	(9,720)	-	(3,729)	-	-
Benefit payments, including refunds of contributions	(5,000)	-	(42,271)	-	-	(128,677)
Net Change in Total Pension Liability	189,785	35,872	17,834	51,232	56,486	(72,331)
Total Pension Liability - January 1	800,149	764,277	746,443	695,211	638,725	711,056
Total Pension Liability - December 31 (a)	\$ 989,934	\$ 800,149	\$ 764,277	\$ 746,443	\$ 695,211	\$ 638,725
Plan Fiduciary Net Position						
Fire State aid	\$ 34,564	\$ 4	\$ 28,859	\$ 24,979	\$ 23,920	\$ 25,623
Municipal contributions	40,000	30,144	28,141	29,271	24,080	56,936
Net investment income	56,707	-	51,778	60,655	70,125	103,559
Benefit payments, including refunds of contributions	(5,000)	-	(42,271)	-	-	(128,677)
Administrative expense	(2,340)	(7,400)	(4,342)	(2,450)	(2,506)	(2,563)
Gain or Loss	38,822	80,005	(174,563)	-	-	-
Net Change in Plan Fiduciary Net Position	162,753	102,753	(112,398)	112,455	115,619	54,878
Plan Fiduciary Net Position - January 1	926,585	823,832	936,230	823,775	708,156	653,278
Plan Fiduciary Net Position - December 31 (b)	\$ 1,089,338	\$ 926,585	\$ 823,832	\$ 936,230	\$ 823,775	\$ 708,156
Fire Relief's Net Pension Liability (Asset) - December 31 (a-b)	\$ (99,404)	\$ (126,436)	\$ (59,555)	\$ (189,787)	\$ (128,564)	\$ (69,431)
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (b/a)	110.04%	115.80%	107.79%	125.43%	118.49%	110.87%
Covered-employee Payroll	N/A	N/A	N/A	N/A	N/A	N/A
Fire Relief's Net Pension Liability (Asset) as a Percentage of Covered-employee Payroll	N/A	N/A	N/A	N/A	N/A	N/A

Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.

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INDIVIDUAL FUND FINANCIAL SCHEDULE

CITY OF COLOGNE
COLOGNE, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2025

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City of Cologne, Minnesota
General Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual (Continued on the Following Pages)
For the Year Ended December 31, 2025

	Original & Final Budget Amounts	Actual Amounts	Variance with Final Budget
Revenues			
Property taxes	\$ 1,066,057	\$ 1,064,186	\$ (1,871)
Franchise fees	1,000	1,000	-
Total	<u>1,067,057</u>	<u>1,065,186</u>	<u>(1,871)</u>
Licenses and permits	<u>115,075</u>	<u>109,630</u>	<u>(5,445)</u>
Intergovernmental			
State			
Local government aid	316,527	316,527	-
Small city assistance	-	20,388	20,388
Police and fire	3,000	53,372	50,372
County	13,000	121,415	108,415
Total intergovernmental	<u>332,527</u>	<u>511,702</u>	<u>179,175</u>
Charges for services			
General government	-	1,705	1,705
Public safety	115,000	166,901	51,901
Public works	4,000	1,900	(2,100)
Park and recreation	83,500	101,203	17,703
Total charges for services	<u>202,500</u>	<u>271,709</u>	<u>69,209</u>
Fines and forfeitures	<u>2,000</u>	<u>3,744</u>	<u>1,744</u>
Interest on investments	<u>30,000</u>	<u>52,854</u>	<u>22,854</u>
Miscellaneous			
Rents and leases	1,200	1,350	150
Refunds and reimbursements	45,000	60,023	15,023
Donations and other	14,500	4,066	(10,434)
Miscellaneous	2,000	10,845	8,845
Total miscellaneous	<u>62,700</u>	<u>76,284</u>	<u>13,584</u>
Total Revenues	<u>1,811,859</u>	<u>2,091,109</u>	<u>279,250</u>
Expenditures			
Current			
General government			
Mayor and city council			
Personal services	<u>13,817</u>	<u>11,842</u>	<u>1,975</u>
Financial services			
Personal services	168,024	136,657	31,367
Supplies	6,400	6,916	(516)
Other services and charges	58,900	59,612	(712)
Total financial services	<u>233,324</u>	<u>203,185</u>	<u>30,139</u>

City of Cologne, Minnesota
 General Fund
 Schedule of Revenues, Expenditures and Changes in Fund Balances -
 Budget and Actual (Continued)
 For the Year Ended December 31, 2025

	Original & Final Budget Amounts	Actual Amounts	Variance with Final Budget
Expenditures (Continued)			
Current (continued)			
Assessor	\$ 18,500	\$ 16,880	\$ 1,620
Legal and Accounting	42,800	13,795	29,005
Engineering	70,000	18,210	51,790
Planning and Zoning	35,000	24,978	10,022
City buildings			
Other services and charges	39,300	37,797	1,503
Total general government	452,741	326,687	126,054
Public safety			
Police			
Other services and charges	180,600	180,458	142
Fire			
Personal services	107,204	89,324	17,880
Supplies	48,750	45,753	2,997
Other services and charges	89,080	128,211	(39,131)
Total fire	245,034	263,288	(18,254)
Building inspection			
Other services and charges	40,000	27,371	12,629
Total public safety	465,634	471,117	(5,483)
Public works			
Streets and other			
Personal services	95,223	84,857	10,366
Supplies	33,520	28,895	4,625
Other services and charges	184,225	28,649	155,576
Total streets and other	312,968	142,401	170,567
Street lighting			
Other services and charges	29,244	29,982	(738)
Total public works	342,212	172,383	169,829

City of Cologne, Minnesota
General Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual (Continued)
For the Year Ended December 31, 2025

	Original & Final Budget Amounts	Actual Amounts	Variance with Final Budget
Expenditures (Continued)			
Current (continued)			
Culture and recreation			
Parks and recreation			
Personal services	\$ 99,057	\$ 79,225	\$ 19,832
Supplies	7,000	3,455	3,545
Other services and charges	62,500	57,947	4,553
Total park and recreation	<u>168,557</u>	<u>140,627</u>	<u>27,930</u>
Community center			
Personal services	29,635	25,291	4,344
Supplies	10,000	6,567	3,433
Other services and charges	86,080	98,881	(12,801)
Total community center	<u>125,715</u>	<u>130,739</u>	<u>(5,024)</u>
Total parks and recreation	<u>294,272</u>	<u>271,366</u>	<u>22,906</u>
Economic development			
Community development			
Other services and charges	118,000	121,071	(3,071)
Total current	<u>1,672,859</u>	<u>1,362,624</u>	<u>310,235</u>
Capital outlay			
General government	5,000	4,912	88
Public safety	45,000	-	45,000
Public works	10,000	707	9,293
Culture and recreation	79,000	28,398	50,602
Total capital outlay	<u>139,000</u>	<u>34,017</u>	<u>104,983</u>
Total Expenditures	<u>1,811,859</u>	<u>1,396,641</u>	<u>415,218</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	-	694,468	694,468
Other Financing Sources (Uses)			
Transfers out	-	(2,258,107)	(2,258,107)
Net Change in Fund Balances	-	(1,563,639)	(1,563,639)
Fund Balances, January 1	3,282,350	3,282,350	-
Fund Balances, December 31	<u>\$ 3,282,350</u>	<u>\$ 1,718,711</u>	<u>\$ (1,563,639)</u>

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OTHER REQUIRED REPORTS

CITY OF COLOGNE
COLOGNE, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2025

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

Honorable Mayor and City Council
City of Cologne, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Cologne, 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 27, 2026.

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

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



Abdo
Minneapolis, Minnesota
March 27, 2026

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

Honorable Mayor and City Council
City of Cologne, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Cologne, Minnesota (the City), as of and for the year ended December 31, 2025, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements, and have issued our report thereon dated March 27, 2026.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control that we consider to be a material weakness and a significant deficiency. We consider items 2025-001, 2025-002 and 2025-003 to be significant deficiencies.

Compliance and Other Matters

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

The City's Response to Findings

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

Purpose of this Report

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



Abdo
Minneapolis, Minnesota
March 27, 2026



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

<u>Finding</u>	<u>Description</u>
2025-001	Limited Segregation of Duties
<i>Condition:</i>	During our audit we reviewed procedures over cash receipts, cash disbursements, payroll, financial reporting, utility billing, capital assets, and journal entries and found the City to have limited segregation of duties over those transaction cycles.
<i>Criteria:</i>	There are four general categories of duties: authorization, custody, recording and reconciliation. In an ideal system, different employees perform each of these four major functions. In other words, no one person has control of two or more of these responsibilities.
<i>Cause:</i>	One employee of the City (City Clerk/Treasurer) is responsible for all four general categories in the transaction cycles listed above.
<i>Effect:</i>	The existence of this limited segregation of duties increases the risk of fraud and error.
<i>Recommendation:</i>	While we recognize the number of staff is not large enough to eliminate this deficiency, we recommend that the City evaluate the current procedures and segregate duties where possible and implement any compensating controls. It is important that the City Council is aware of this condition and monitor all financial information.
<i>Management Response:</i>	
Management recognizes that it is not economically feasible to correct this finding, however is aware of the deficiency and is relying on oversight by management and the City Council to monitor this deficiency.	
2025-002	Quarterly Reports and Monitoring
<i>Condition:</i>	During our audit, we noted that City Council is not consistently receiving or reviewing financial reports to monitor the financial health of the City.
<i>Criteria:</i>	The City Council is ultimately responsible for overseeing financial reporting. Reviewing accounting reports, including budget verse actual reports, for all funds is important in making all financial decisions. It is also important from a monitoring standpoint since there is limited segregation of duties.
<i>Cause:</i>	The budget reports did not appear to be included in the City Council packet on a monthly or quarterly basis.
<i>Effect:</i>	Without formal approval, the City Council appears to have not been provided with sufficient information throughout the year to analyze and monitor activity.
<i>Recommendation:</i>	We recommend that City Council formally receive and closely review report quarterly at a minimum, including budget verse actual as well as cash balances for each fund compared to the previous quarter.
<i>Management Response:</i>	
The City agrees with the finding and will review the financial reporting transaction cycle to ensure the deficiency in control does not happen in future years.	

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

<u>Finding</u>	<u>Description</u>
2025-003	Preparation of Financial Statements
<i>Condition:</i>	We were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. Auditing standards require auditors to communicate this situation to the City Council as an internal control deficiency. Ultimately, it is management's responsibility to provide for the preparation of your statements and footnotes, and the responsibility of the auditor to determine the fairness of presentation of those statements. It is our responsibility to inform you that this deficiency could result in a material misstatement to the financial statements that could have been prevented or detected by your management. Essentially, the auditors cannot be part of your internal control process.
<i>Criteria:</i>	Internal controls should be in place to provide reasonable assurance over financial reporting.
<i>Cause:</i>	From a practical standpoint we do both for you at the same time in connection with our audit. This is not unusual for us to do with an organization of your size.
<i>Effect:</i>	The effectiveness of the internal control system relies on enforcement by management. The effect of deficiencies in internal controls can result in undetected errors in financial reporting.
<i>Recommendation:</i>	It is your responsibility to make the ultimate decision to accept this degree of risk associated with this condition because of cost or other considerations. We have instructed management to review a draft of the auditor prepared financials in detail for their accuracy; we have answered any questions they might have, and have encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification of disclosure in your statements. While the City is reviewing the financial statements, we recommend that the City agree its financial software to the numbers reported in the financial statements.
<i>Management Response:</i>	
	For now, the City accepts the degree of risk associated with this condition and thoroughly reviews a draft of the financial statements.