PRELIMINARY OFFICIAL STATEMENT DATED SEPTEMBER 17, 2026

In the opinion of Taft Stettinius & Hollister LLP, Bond Counsel, based on present federal and Minnesota laws, regulations, rulings and decisions, at the time of the issuance of the Bonds, the interest on the Bonds is excluded from gross income for federal income tax purposes and is excluded, to the same extent, from both gross income and taxable net income for State of Minnesota income tax purposes (other than Minnesota franchise taxes measured by income and imposed on corporations and financial institutions). Interest on the Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals or for purposes of the Minnesota alternative minimum tax applicable to individuals, estates or trusts; however, interest on the Bonds is taken into account in determining "annual adjusted financial statement income" for the purpose of computing the federal alternative minimum tax imposed on certain corporations. No opinion will be expressed by Bond Counsel regarding other state or federal tax consequences. See "TAX EXEMPTION" herein.

The City will designate the Bonds as "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended, relating to the ability of financial institutions to deduct from income for federal income tax purposes, interest expense that is allocable to carrying and acquiring tax-exempt obligations.

New Issue | **Rating Application Made: S&P Global Ratings**

CITY OF CLARA CITY, MINNESOTA
(Chippewa County)

$1,070,000* GENERAL OBLIGATION IMPROVEMENT AND STREET RECONSTRUCTION PLAN BONDS, SERIES 2026A

PROPOSAL OPENING: September 29, 2026, 10:00 A.M., C.T. **CONSIDERATION**: September 29, 2026, 6:30 P.M., C.T.

PURPOSE/AUTHORITY/SECURITY: The $1,070,000* General Obligation Improvement and Street Reconstruction Plan Bonds, Series 2026A (the "Bonds") are being issued pursuant to Minnesota Statutes, Section 475.58, subd. 3b, and Minnesota Statutes, Chapters 429 and 475, as amended, by the City of Clara City, Minnesota (the "City"), to finance with grant funds, for the reconstruction of Division Street North and 4th Avenue and the mill and overlay of various other streets as described in the City's Five-Year Street Reconstruction & Overlay Plan, dated August 25, 2026. The Bonds will be general obligations of the City for which its full faith and credit and taxing powers are pledged. Delivery is subject to receipt of an approving legal opinion of Taft Stettinius & Hollister LLP, Minneapolis, Minnesota.

DATE OF BONDS: October 15, 2026

MATURITY: February 1 as follows:

Year	Amount*	Year	Amount*	Year	Amount*
2028	$40,000	2033	$70,000	2038	$85,000
2029	55,000	2034	70,000	2039	85,000
2030	55,000	2035	70,000	2040	85,000
2031	55,000	2036	75,000	2041	90,000
2032	65,000	2037	75,000	2042	95,000

***MATURITY ADJUSTMENTS:** The City reserves the right to increase or decrease the principal amount of the Bonds on the day of sale, in increments of $5,000 each. Increases or decreases may be made in any maturity. If any principal amounts are adjusted, the purchase price proposed will be adjusted to maintain the same gross spread per $1,000.

TERM BONDS: See "Term Bond Option" herein.

INTEREST: August 1, 2027 and semiannually thereafter.

OPTIONAL REDEMPTION: Bonds maturing on February 1, 2037 and thereafter are subject to call for prior optional redemption on February 1, 2036 or any date thereafter, at a price of par plus accrued interest to the date of optional redemption.

MINIMUM PROPOSAL: $1,053,950.

GOOD FAITH DEPOSIT: A good faith deposit in the amount of $21,400 shall be made by the winning bidder by wire transfer of funds.

PAYING AGENT: Bond Trust Services Corporation.

BOND COUNSEL: Taft Stettinius & Hollister LLP.

MUNICIPAL ADVISOR: Ehlers and Associates, Inc.

BOOK-ENTRY-ONLY: See "Book-Entry-Only System" herein (unless otherwise specified by the purchaser).

REPRESENTATIONS

No dealer, broker, salesperson or other person has been authorized by the City to give any information or to make any representation other than those contained in this Preliminary Official Statement and, if given or made, such other information or representations must not be relied upon as having been authorized by the City. ***This Preliminary Official Statement does not constitute an offer to sell or a solicitation of an offer to buy any of the Bonds in any jurisdiction to any person to whom it is unlawful to make such an offer or solicitation in such jurisdiction.***

This Preliminary Official Statement is not to be construed as a contract with the Underwriter (Syndicate Manager). Statements contained herein which involve estimates or matters of opinion are intended solely as such and are not to be construed as representations of fact. Ehlers and Associates, Inc. prepared this Preliminary Official Statement and any addenda thereto relying on information of the City and other sources for which there is reasonable basis for believing the information is accurate and complete. Bond Counsel has not participated in the preparation of this Preliminary Official Statement and is not expressing any opinion as to the completeness or accuracy of the information contained therein. Compensation of Ehlers and Associates, Inc., payable entirely by the City, is contingent upon the delivery of the Bonds.

COMPLIANCE WITH S.E.C. RULE 15c2-12

Certain municipal obligations (issued in an aggregate amount over $1,000,000) are subject to Rule 15c2-12 promulgated by the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended (the "Rule").

Preliminary Official Statement: This Preliminary Official Statement was prepared for the City for dissemination to potential investors. Its primary purpose is to disclose information regarding the Bonds to prospective underwriters in the interest of receiving competitive proposals in accordance with the sale notice contained herein. Unless an addendum is posted prior to the sale, this Preliminary Official Statement shall be deemed nearly final for purposes of the Rule subject to completion, revision and amendment in a Final Official Statement as defined below.

Review Period: This Preliminary Official Statement has been distributed to prospective bidders for review. Comments or requests for the correction of omissions or inaccuracies must be submitted to Ehlers and Associates, Inc. at least two business days prior to the sale. Requests for additional information or corrections in the Preliminary Official Statement received on or before this date will not be considered a qualification of a proposal received from an underwriter. If there are any changes, corrections or additions to the Preliminary Official Statement, interested bidders will be informed by an addendum prior to the sale.

Final Official Statement: Copies of the Final Official Statement will be delivered to the Underwriter (Syndicate Manager) within seven business days following the proposal acceptance.

Continuing Disclosure: Subject to certain exemptions, issues in an aggregate amount over $1,000,000 may be required to comply with provisions of the Rule which require that underwriters obtain from the issuers of municipal securities (or other obligated party) an agreement for the benefit of the owners of the securities to provide continuing disclosure with respect to those securities. This Preliminary Official Statement describes the conditions under which the City is required to comply with the Rule.

CLOSING CERTIFICATES

Upon delivery of the Bonds, the Underwriter (Syndicate Manager) will be furnished with the following items: (1) a certificate of the appropriate officials to the effect that at the time of the sale of the Bonds and all times subsequent thereto up to and including the time of the delivery of the Bonds, this Preliminary Official Statement did not and does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (2) a receipt signed by the appropriate officer evidencing payment for the Bonds; (3) a certificate evidencing the due execution of the Bonds, including statements that (a) no litigation of any nature is pending, or to the knowledge of signers, threatened, restraining or enjoining the issuance and delivery of the Bonds, (b) neither the corporate existence or boundaries of the City nor the title of the signers to their respective offices is being contested, and (c) no authority or proceedings for the issuance of the Bonds have been repealed, revoked or rescinded; and (4) a certificate setting forth facts and expectations of the City which indicates that the City does not expect to use the proceeds of the Bonds in a manner that would cause them to be arbitrage bonds within the meaning of Section 148 of the Internal Revenue Code of 1986, as amended, or within the meaning of applicable Treasury Regulations.

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PROPOSAL FORM

CITY OF CLARA CITY
CITY COUNCIL

		Term Expires
Daniel Pieper	Mayor	January 2027
Mark Miller	Council Member & Acting Mayor	January 2027
Steve Kruger	Council Member	January 2029
Ryan Niemeyer	Council Member	January 2029
LeAnn Nord	Council Member	January 2027

ADMINISTRATION

Julie Aalfs, City Administrator/Clerk

PROFESSIONAL SERVICES

Stermer & Sellner, Chartered, City Attorney, Montevideo, Minnesota

Taft Stettinius & Hollister LLP, Bond Counsel, Minneapolis, Minnesota

Ehlers and Associates, Inc., Municipal Advisors, Minneapolis, Minnesota
(*Other office located in Waukesha, Wisconsin*)

INTRODUCTORY STATEMENT

This Preliminary Official Statement contains certain information regarding the City of Clara City, Minnesota (the "City") and the issuance of its $1,070,000* General Obligation Improvement and Street Reconstruction Plan Bonds, Series 2026A (the "Bonds"). Any descriptions or summaries of the Bonds, statutes, or documents included herein are not intended to be complete and are qualified in their entirety by reference to such statutes and documents and the form of the Bonds to be included in the resolution authorizing the issuance and sale of the Bonds ("Award Resolution") to be adopted by the City Council on September 29, 2026.

Inquiries may be directed to Ehlers and Associates, Inc. ("Ehlers" or the "Municipal Advisor"), Minneapolis, Minnesota, (651) 697-8500, the City's municipal advisor. A copy of this Preliminary Official Statement may be downloaded from Ehlers' web site at www.ehlers-inc.com by connecting to the Bond Sales link and following the directions at the top of the site.

THE BONDS

GENERAL

The Bonds will be issued in fully registered form as to both principal and interest in denominations of $5,000 each or any integral multiple thereof, and will be dated, as originally issued, as of October 15, 2026. The Bonds will mature on February 1 in the years and amounts set forth on the cover of this Preliminary Official Statement. Interest will be payable on February 1 and August 1 of each year, commencing August 1, 2027, to the registered owners of the Bonds appearing of record in the bond register as of the close of business on the 15th day (whether or not a business day) of the immediately preceding month. Interest will be computed upon the basis of a 360-day year of twelve 30-day months and will be rounded pursuant to rules of the Municipal Securities Rulemaking Board ("MSRB"). **The rate for any maturity may not be more than 1.00% less than the rate for any preceding maturity. (For example, if a rate of 4.50% is proposed for the 2028 maturity, then the lowest rate that may be proposed for any later maturity is 3.50%.)** All Bonds of the same maturity must bear interest from the date of issue until paid at a single, uniform rate. Each rate must be expressed in an integral multiple of 5/100 or 1/8 of 1%.

Unless otherwise specified by the purchaser, the Bonds will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). (See "Book-Entry-Only System" herein.) As long as the Bonds are held under the book-entry system, beneficial ownership interests in the Bonds may be acquired in book-entry form only, and all payments of principal of, premium, if any, and interest on the Bonds shall be made through the facilities of DTC and its participants. If the book-entry system is terminated, principal of, premium, if any, and interest on the Bonds shall be payable as provided in the Award Resolution.

The City has selected Bond Trust Services Corporation, Minneapolis, Minnesota ("BTSC") to act as paying agent (the "Paying Agent"). BTSC and Ehlers are affiliate companies. The City will pay the charges for Paying Agent services. The City reserves the right to remove the Paying Agent and to appoint a successor.

*Preliminary, subject to change.

OPTIONAL REDEMPTION

At the option of the City, the Bonds maturing on or after February 1, 2037 shall be subject to optional redemption prior to maturity on February 1, 2036 or any date thereafter, at a price of par plus accrued interest to the date of optional redemption.

Redemption may be in whole or in part of the Bonds subject to prepayment. If redemption is in part, the selection of the amounts and maturities of the Bonds to be redeemed shall be at the discretion of the City. If only part of the Bonds having a common maturity date are called for redemption, then the City or Paying Agent, if any, will notify DTC of the particular amount of such maturity to be redeemed. DTC will determine by lot the amount of each participant's interest in such maturity to be redeemed and each participant will then select by lot the beneficial ownership interest in such maturity to be redeemed.

Notice of redemption shall be sent by mail not more than 60 days and not less than 30 days prior to the date fixed for redemption to the registered owner of each Bond to be redeemed at the address shown on the registration books.

AUTHORITY; PURPOSE

The Bonds are being issued pursuant to Minnesota Statutes, Section 475.58, subd. 3b, and Minnesota Statutes, Chapters 429 and 475, as amended, by the City, to finance with grant funds, for the reconstruction of Division Street North and 4th Avenue (the "Improvement Portion"); and the mill and overlay of various other streets as described in the City's Five-Year Street Reconstruction & Overlay Plan, dated August 25, 2026 (the "Street Reconstruction Portion").

The Street Reconstruction Portion of the Bonds requires a public hearing and a 30-day reverse referendum period to allow for the issuance of the Bonds and to approve the street reconstruction plan. The public hearing was held on August 25, 2026. The reverse referendum period ends on September 24, 2026.

ESTIMATED SOURCES AND USES*

Sources	**Improvement Portion**	**Street Reconstruction Portion**	**Total Bond Issue**
Par Amount of Bonds	$770,000	$300,000	$1,070,000
LRIP Grant	1,411,218	-	1,411,218
Total Sources	**$2,181,218**	**$300,000**	**$2,481,218**
Uses			
Total Underwriter's Discount (1.500%)	$11,550	$4,500	$16,050
Costs of Issuance	43,178	16,822	60,000
Deposit to Construction Fund	2,125,068	275,751	2,400,819
Rounding Amount	1,423	2,927	4,350
Total Uses	**$2,181,218**	**$300,000**	**$2,481,218**

*Preliminary, subject to change.

Breakdown of Principal Payments*:

Payment Date	Improvement Portion	Street Reconstruction Portion	Total Bond Issue
2/01/2028	$30,000	$10,000	$40,000
2/01/2029	40,000	15,000	55,000
2/01/2030	40,000	15,000	55,000
2/01/2031	40,000	15,000	55,000
2/01/2032	45,000	20,000	65,000
2/01/2033	50,000	20,000	70,000
2/01/2034	50,000	20,000	70,000
2/01/2035	50,000	20,000	70,000
2/01/2036	55,000	20,000	75,000
2/01/2037	55,000	20,000	75,000
2/01/2038	60,000	25,000	85,000
2/01/2039	60,000	25,000	85,000
2/01/2040	60,000	25,000	85,000
2/01/2041	65,000	25,000	90,000
2/01/2042	70,000	25,000	95,000
Total	**$770,000**	**$300,000**	**$1,070,000**

*Preliminary, subject to change.

SECURITY

The Bonds will be general obligations of the City for which its full faith and credit and taxing powers are pledged without limitation as to rate or amount.

The City anticipates that the debt service on the Improvement Portion of the Bonds will be paid from a combination of special assessments levied against properties benefitted by improvements financed by the Improvement Portion of the Bonds and from ad valorem property taxes. Receipt of special assessments and collection of ad valorem taxes will be sufficient to provide not less than 105% of principal and interest on the Improvement Portion of the Bonds as required by Minnesota law.

The City anticipates that the debt service on the Street Reconstruction Portion of the Bonds will be paid from ad valorem property taxes. In accordance with Minnesota Statutes, the City will levy each year an amount not less than 105% of the debt service requirements on the Street Reconstruction Portion of the Bonds .

Should the special assessments and/or ad valorem property taxes pledged for payment of the Bonds be insufficient to pay the principal and interest as the same shall become due, the City is required to pay maturing principal and interest from moneys on hand in any other fund of the City not pledged for another purpose and/or to levy a tax for this purpose upon all the taxable property in the City, without limitation as to rate or amount to make up any deficiency.

RATING

General obligation debt of the City, with the exception of any outstanding credit enhanced issues, is currently rated "A+"/Stable outlook by S&P Global Ratings ("S&P").

The City has requested a rating on the Bonds from S&P, and bidders will be notified as to the assigned rating prior to the sale. Such rating reflects only the views of such organization and explanations of the significance of such rating may be obtained from S&P.

Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by such rating agency, if in the judgment of such rating agency circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

Such rating is not to be construed as a recommendation of the rating agency to buy, sell or hold the Bonds, and the rating assigned by the rating agency should be evaluated independently. Except as may be required by the Disclosure Undertaking described under the heading "CONTINUING DISCLOSURE" neither the City nor the underwriter undertake responsibility to bring to the attention of the owner of the Bonds any proposed changes in or withdrawal of such rating or to oppose any such revision or withdrawal.

CONTINUING DISCLOSURE

In order to assist brokers, dealers, and municipal securities dealers, in connection with their participation in the offering of the Bonds, to comply with Rule 15c2-12 promulgated by the Securities and Exchange Commission, pursuant to the Securities and Exchange Act of 1934, as amended (the "Rule"), the City shall agree to provide certain information to the Municipal Securities Rulemaking Board ("MSRB") through its Electronic Municipal Market Access ("EMMA") system, or any system that may be prescribed in the future. The Rule was last amended, effective February 27, 2019, to include an expanded list of material events.

On the date of issue and delivery, the City shall execute and deliver a Continuing Disclosure Certificate, under which the City will covenant for the benefit of holders including beneficial holders, to provide electronically, or in a manner otherwise prescribed, certain financial information annually and to provide notices of the occurrence of certain events enumerated in the Rule (the "Disclosure Undertaking"). The details and terms of the Disclosure Undertaking for the City are set forth in Appendix D. Such Disclosure Undertaking will be in substantially the form attached hereto.

A failure by the City to comply with any Disclosure Undertaking will not constitute an event of default on the Bonds. However, such a failure may adversely affect the transferability and liquidity of the Bonds and their market price.

In the previous five years, the City believes it has not failed to comply in all material respects with its prior undertakings under the Rule. The City has reviewed its continuing disclosure responsibilities along with any changes to the Rule, to ensure compliance. Ehlers is currently engaged as dissemination agent for the City.

LEGAL OPINION

An opinion as to the validity of the Bonds and the exemption from taxation of the interest thereon will be furnished by Taft Stettinius & Hollister LLP, Minneapolis, Minnesota, Bond Counsel to the City ("Bond Counsel"), and will be available at the time of delivery of the Bonds. The legal opinion will state that the Bonds are valid and binding general obligations of the City; provided that the rights of the owners of the Bonds and the enforceability of the Bonds may be limited by bankruptcy, insolvency, reorganization, moratorium, and other similar laws affecting creditors' rights and by equitable principles (which may be applied in either a legal or equitable proceeding). See "FORM OF LEGAL OPINION" found in Appendix B.

By expressing its opinion, Bond Counsel is expressing its professional judgment and does not become an insurer or guarantor of the result indicated by that expression of professional judgment or of the transaction or the future performance of the parties to the transaction. Ownership of the Bonds may result in other state and local tax consequences to certain taxpayers. Bond Counsel expresses no opinion regarding any such collateral consequences arising with respect to the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding the applicability of any such state and local taxes.

STATEMENT REGARDING BOND COUNSEL PARTICIPATION

Bond Counsel has neither been engaged nor undertaken to prepare or independently verify the accuracy of any portion of the Official Statement, including the financial or operational information of the Issuer and risks associated with the purchase of the Bonds, except for statements under "TAX EXEMPTION" herein that summarize certain provisions of the Internal Revenue Code of 1986, as amended, the Bonds and any opinion rendered by Bond Counsel. Bond Counsel has prepared the form of legal opinion attached hereto as "APPENDIX B – FORM OF LEGAL OPINION."

TAX EXEMPTION

On the date of issuance of the Bonds, Taft Stettinius & Hollister LLP, Bond Counsel, will render an opinion, that, based on present federal and Minnesota laws, regulations, rulings and decisions, at the time of the issuance of the Bonds, the interest on the Bonds is excluded from gross income for federal income tax purposes and is excluded, to the same extent, from both gross income and taxable net income for State of Minnesota income tax purposes (other than Minnesota franchise taxes measured by income and imposed on corporations and financial institutions). Interest on the Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals or for purposes of the Minnesota alternative minimum tax applicable to individuals, estates or trusts; however, interest on the Bonds is taken into account in determining "annual adjusted financial statement income" for the purpose of computing the federal alternative minimum tax imposed on certain corporations. The opinions are subject to the condition that the City complies with all applicable federal tax requirements. Failure to comply with certain of such requirements may cause interest on the Bonds to be included in gross income and taxable net income, retroactive to their date of issuance. No opinion will be expressed by Bond Counsel regarding other state or federal tax consequences.

Other Federal and State Tax Considerations

Other Tax Considerations

Though excluded from gross income, interest on the Bonds is subject to federal income taxation for certain types of taxpayers and certain income taxes, including without implied limitation, taxation to the extent it is included as part of (a) the adjusted current earnings of a corporation for purposes of the alternative minimum tax, (b) effectively connected earnings and profits of a foreign corporation for purposes of the branch profits tax on dividend equivalent amounts, (c) excess net passive income of an S Corporation which has Subchapter C earnings and profits, or (d) minimum effectively connected net investment income of a foreign insurance company. Interest on the Bonds is also taken into account in other ways for federal income tax purposes, including without implied limitation, (a) reducing loss reserve deductions of property and casualty insurance companies, (b) reducing interest expense deductions of financial institutions, and (c) causing certain taxpayers to include in gross income a portion of social security benefits and railroad retirement benefits. Ownership of the Bonds may result in other collateral federal income tax consequences to certain taxpayers. Bond Counsel expresses no opinion as to any of such consequences, and prospective purchasers who may be subject to such collateral consequences should consult their tax advisers.

Original Issue Discount

Some of the Bonds ("the OID Bonds") may be sold at initial public offering prices which are less than the principal amounts payable at maturity. For each maturity of OID Bonds, original issue discount is the excess of the stated redemption price at maturity of such Bonds over the initial offering price to the public, excluding underwriters and other intermediaries, at which price a substantial amount of such Bonds are sold. The appropriate portion of such original issue discount allocable to the original and each subsequent holder will be treated as interest and excluded from gross income for federal income tax purposes and will increase a holders' tax basis in such Bonds for purposes of determining gain or loss upon sale, exchange, redemption, or payment at maturity. Owners of such Bonds should consult their own tax advisors with respect to the computation and determination of the portion of original issue discount which will be treated as interest and added to a holder's tax basis during the period such Bonds are held.

Original Issue Premium

Some of the Bonds may be sold at initial public offering prices which are greater than the principal amounts payable at maturity. Bondholders who acquire Bonds at a premium should consult their tax advisors concerning the calculation of bond premium and the timing and rate of premium amortization, as well as the federal, state and local tax consequences of owning and selling Bonds acquired at a premium.

Proposed Changes in Federal and State Tax Law

From time to time, there are Presidential proposals, proposals of various federal committees, and legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to herein or adversely affect the marketability or market value of the Bonds or otherwise prevent holders of the Bonds from realizing the full benefit of the tax exemption of interest on the Bonds. Further, such proposals may impact the marketability or market value of the Bonds simply by being proposed. No prediction is made whether such provisions will be enacted as proposed or concerning other future legislation affecting the tax treatment of interest on the Bonds. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value, marketability or tax status of the Bonds. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the Bonds would be impacted thereby.

The above is not a comprehensive list of all federal tax consequences that may arise from the receipt of interest on the Bonds. The receipt of interest on the Bonds may otherwise affect the federal or State of Minnesota income tax liability of the recipient based on the particular taxes to which the recipient is subject and the particular tax status of other items or deductions. Bond Counsel expresses no opinion regarding any such consequences. All prospective purchasers of the Bonds are advised to consult their own tax advisors as to the tax consequences of, or tax considerations for, purchasing or holding the Bonds.

QUALIFIED TAX-EXEMPT OBLIGATIONS

The City will designate the Bonds as "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Code relating to the ability of financial institutions to deduct from income for federal income tax purposes, interest expense that is allocable to carrying and acquiring tax-exempt obligations.

MUNICIPAL ADVISOR

Ehlers has served as municipal advisor to the City in connection with the issuance of the Bonds. The Municipal Advisor cannot participate in the underwriting of the Bonds. The financial information included in this Preliminary Official Statement has been compiled by the Municipal Advisor. Such information does not purport to be a review, audit or certified forecast of future events and may not conform with accounting principles applicable to compilations of financial information. Ehlers is not a firm of certified public accountants. Ehlers is registered with the Securities and Exchange Commission and the MSRB as a municipal advisor. Ehlers makes no representation, warranty or guarantee regarding the accuracy or completeness of the information in this Preliminary Official Statement, and its assistance in preparing this Preliminary Official Statement should not be construed as a representation that it has independently verified such information.

MUNICIPAL ADVISOR AFFILIATED COMPANIES

BTSC and Ehlers Investment Partners, LLC ("EIP") are affiliate companies of Ehlers. BTSC is chartered by the State of Minnesota and authorized in Minnesota, Wisconsin, Colorado, and Illinois to transact the business of a limited purpose trust company. BTSC provides paying agent services to debt issuers. EIP is a Registered Investment Advisor with the Securities and Exchange Commission. EIP assists issuers with the investment of bond proceeds or investing other issuer funds. This includes escrow bidding agent services. Issuers, such as the City, have retained or may retain BTSC and/or EIP to provide these services. If hired, BTSC and/or EIP would be retained by the City under an agreement separate from Ehlers.

INDEPENDENT AUDITORS

The basic financial statements of the City for the fiscal year ended December 31, 2025 have been audited by Conway, Deuth & Schmiesing, PLLP, Willmar, Minnesota, independent auditors (the "Auditor"). The report of the Auditor, together with the basic financial statements, component units financial statements, and notes to the financial statements are attached hereto as "APPENDIX A – FINANCIAL STATEMENTS". The Auditor has not been engaged to perform and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. The Auditor also has not performed any procedures relating to this Preliminary Official Statement.

RISK FACTORS

The following is a description of possible risks to holders of the Bonds without weighting as to probability. This description of risks is not intended to be all-inclusive, and there may be other risks not now perceived or listed here.

Taxes: The Bonds are general obligations of the City, the ultimate payment of which rests in the City's ability to levy and collect sufficient taxes to pay debt service should other revenue (special assessments) be insufficient. In the event of delayed billing, collection or distribution of property taxes, sufficient funds may not be available to the City in time to pay debt service when due.

State Actions: Many elements of local government finance, including the issuance of debt and the levy of property taxes, are controlled by state government. Future actions of the State of Minnesota (the "State") may affect the overall financial condition of the City, the taxable value of property within the City, and the ability of the City to levy and collect property taxes.

Future Changes in Law: Various State and federal laws, regulations and constitutional provisions apply to the City and to the Bonds. The City can give no assurance that there will not be a change in or interpretation of any such applicable laws, regulations and provisions which would have a material effect on the City or the taxing authority of the City.

Ratings; Interest Rates: In the future, the City's credit rating may be reduced or withdrawn, or interest rates for this type of obligation may rise generally, either possibility resulting in a reduction in the value of the Bonds for resale prior to maturity.

Tax Exemption: If the federal government or the State taxes all or a portion of the interest on municipal obligations, directly or indirectly, or if there is a change in federal or state tax policy, the value of the Bonds may fall for purposes of resale. Noncompliance following the issuance of the Bonds with certain requirements of the Code and covenants of the Award Resolution may result in the inclusion of interest on the Bonds in gross income of the recipient for United States income tax purposes or in taxable net income of individuals, estates or trusts for State income tax purposes. No provision has been made for redemption of the Bonds, or for an increase in the interest rate on the Bonds, in the event that interest on the Bonds becomes subject to federal or State income taxation, retroactive to the date of issuance.

Continuing Disclosure: A failure by the City to comply with the Disclosure Undertaking for continuing disclosure (see "CONTINUING DISCLOSURE") will not constitute an event of default on the Bonds. Any such failure must be reported in accordance with the Rule and must be considered by any broker, dealer, or municipal securities dealer before recommending the purchase or sale of the Bonds in the secondary market. Such a failure may adversely affect the transferability and liquidity of the Bonds and their market price.

Levy Limits: The State Legislature has periodically imposed limitations on the ability of municipalities to levy property taxes. While these limitations have expired, the potential exists for future legislation to limit the ability of local governments to levy property taxes. All previous limitations have not limited the ability to levy for the payment of debt service on bonded indebtedness. For more detailed information about Minnesota levy limits, contact the Minnesota Department of Revenue or Ehlers.

State Economy; State Aids: State cash flow problems could affect local governments and possibly increase property taxes.

Book-Entry-Only System: The timely credit of payments for principal and interest on the Bonds to the accounts of the Beneficial Owners of the Bonds may be delayed due to the customary practices, standing instructions or for other unknown reasons by DTC participants or indirect participants. Since the notice of redemption or other notices to holders of these obligations will be delivered by the City to DTC only, there may be a delay or failure by DTC, DTC participants or indirect participants to notify the Beneficial Owners of the Bonds.

Economy: A combination of economic, climatic, political or civil disruptions or terrorist actions outside of the control of the City, including loss of major taxpayers or major employers, could affect the local economy and result in reduced tax collections and/or increased demands upon local government. Real or perceived threats to the financial stability of the City may have an adverse effect on the value of the Bonds in the secondary market.

Secondary Market for the Bonds: No assurance can be given that a secondary market will develop for the purchase and sale of the Bonds or, if a secondary market exists, that such Bonds can be sold for any particular price. The underwriters are not obligated to engage in secondary market trading or to repurchase any of the Bonds at the request of the owners thereof. Prices of the Bonds as traded in the secondary market are subject to adjustment upward and downward in response to changes in the credit markets and other prevailing circumstances. No guarantee exists as to the future market value of the Bonds. Such market value could be substantially different from the original purchase price.

Bankruptcy: The rights and remedies of the holders may be limited by and are subject to the provisions of federal bankruptcy laws, to other laws, or equitable principles that may affect the enforcement of creditors' rights, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against local governments. The opinion of Bond Counsel to be delivered with respect to the Bonds will be similarly qualified.

Cybersecurity: The City is dependent on electronic information technology systems to deliver services. These systems may contain sensitive information or support critical operational functions which may have value for unauthorized purposes. As a result, the electronic systems and networks may be targets of cyberattack. There can be no assurance that the City will not experience an information technology breach or attack with financial consequences that could have a material adverse impact.

The foregoing is intended only as a summary of certain risk factors attendant to an investment in the Bonds. In order for potential investors to identify risk factors and make an informed investment decision, potential investors should be thoroughly familiar with this entire Preliminary Official Statement and the Appendices hereto.

VALUATIONS

OVERVIEW

All non-exempt property is subject to taxation by local taxing districts. Exempt real property includes Indian lands, public property, and educational, religious and charitable institutions. Most personal property is exempt from taxation (except investor-owned utility mains, generating plants, etc.).

The valuation of property in Minnesota consists of three elements. (1) The estimated market value is set by city or county assessors. Not less than 20% of all real properties are to be appraised by local assessors each year. (2) The taxable market value is the estimated market value adjusted by all legislative exclusions. (3) The tax capacity (taxable) value of property is determined by class rates set by the State Legislature. The tax capacity rate varies according to the classification of the property. Tax capacity represents a percent of taxable market value.

The property tax rate for a local taxing jurisdiction is determined by dividing the total tax capacity or market value of property within the jurisdiction into the dollars to be raised from the levy. State law determines whether a levy is spread on tax capacity or market value. Major classifications and the percentages by which tax capacity is determined are:

Type of Property	2023/24	2024/25	2025/26
Residential homestead[1]	First $500,000 - 1.00% Over $500,000 - 1.25%	First $500,000 - 1.00% Over $500,000 - 1.25%	First $500,000 - 1.00% Over $500,000 - 1.25%
Agricultural homestead[1]	First $500,000 HGA - 1.00% Over $500,000 HGA - 1.25% First $2,150,000 - 0.50% [2] Over $2,150,000 - 1.00% [2]	First $500,000 HGA - 1.00% Over $500,000 HGA - 1.25% First $3,500,000 - 0.50% [2] Over $3,500,000 - 1.00% [2]	First $500,000 HGA - 1.00% Over $500,000 HGA - 1.25% First $3,500,000 - 0.50% [2] Over $3,500,000 - 1.00% [2]
Agricultural non-homestead	Land - 1.00% [2]	Land - 1.00% [2]	Land - 1.00% [2]
Seasonal recreational residential	First $500,000 - 1.00% [3] Over $500,000 - 1.25% [3]	First $500,000 - 1.00% [3] Over $500,000 - 1.25% [3]	First $500,000 - 1.00% [3] Over $500,000 - 1.25% [3]
Residential non-homestead:	1 unit - 1st $500,000 - 1.00% Over $500,000 - 1.25% 2-3 units - 1.25% 4 or more - 1.25% Small City[4] - 1.25% Affordable Rental: First $174,000 - 0.75% Over $174,000 - 0.25%	1 unit - 1st $500,000 - 1.00% Over $500,000 - 1.25% 2-3 units - 1.25% 4 or more - 1.25% Small City [4] - 1.25% Affordable Rental: – 0.25%	1 unit - 1st $500,000 - 1.00% Over $500,000 - 1.25% 2-3 units - 1.25% 4 or more - 1.25% Small City [4] - 1.25% Affordable Rental – 0.25%
Industrial/Commercial/Utility[5]	First $150,000 - 1.50% Over $150,000 - 2.00%	First $150,000 - 1.50% Over $150,000 - 2.00%	First $150,000 - 1.50% Over $150,000 - 2.00%

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1 A residential property qualifies as "homestead" if it is occupied by the owner or a relative of the owner on the assessment date.

2 Applies to land and buildings. Exempt from referendum market value tax.

3 Exempt from referendum market value tax.

4 Cities of 5,000 population or less and located entirely outside the seven-county metropolitan area and the adjacent nine-county area and whose boundaries are 15 miles or more from the boundaries of a Minnesota city with a population of over 5,000.

5 The estimated market value of utility property is determined by the Minnesota Department of Revenue.

CURRENT PROPERTY VALUATIONS

2025/26 Economic Market Value	$115,249,516[1]
2025/26 Assessor's Estimated Market Value	
Real Estate	$109,480,900
Personal Property	565,600
Total Valuation	$110,046,500
2025/26 Net Tax Capacity	
Real Estate	$1,132,109
Personal Property	10,945
Net Tax Capacity	$1,143,054
Less: Captured Tax Increment Tax Capacity[2]	(87,273)
Taxable Net Tax Capacity	$1,055,781

2025/26 NET TAX CAPACITY BY CLASSIFICATION

	2025/26 Net Tax Capacity	Percent of Total Net Tax Capacity
Residential homestead	$555,617	48.61%
Agricultural	46,792	4.09%
Commercial/industrial	404,796	35.41%
Public utility	9,988	0.87%
Railroad operating property	10,428	0.91%
Non-homestead residential	104,488	9.14%
Personal property	10,945	0.96%
Total	$1,143,054	100.00%

[1] According to the Minnesota Department of Revenue, the Assessor's Estimated Market Value (the "AEMV") for the City was about 95.53% of the actual selling prices of property sold in the City. The sales ratio was calculated by comparing the selling prices with the AEMV. Dividing the AEMV of real estate by the sales ratio and adding the AEMV of personal property and utility, railroads and minerals, if any, results in an Economic Market Value ("EMV") for the City of $115,249,516.

[2] The captured tax increment value shown above represents the captured net tax capacity of tax increment financing districts in the City.

TREND OF VALUATIONS

Levy Year	Assessor's Estimated Market Value	Assessor's Taxable Market Value	Net Tax Capacity[1]	Taxable Net Tax Capacity[2]	Percent Increase/Decrease in Estimated Market Value
2021/22	$77,880,600	$67,135,061	$827,080	$801,842	4.93%
2022/23	94,269,200	83,731,352	992,329	966,875	21.04%
2023/24	105,711,000	95,422,923	1,106,458	1,081,386	12.14%
2024/25	111,581,900	97,999,395	1,161,337	1,074,240	5.55%
2025/26	110,046,500	95,981,263	1,143,054	1,055,781	-1.38%

LARGEST TAXPAYERS

Taxpayer	Type of Property	2025/26 Net Tax Capacity	Percent of City's Total Net Tax Capacity
Prinsburg Farmers Co-op	Commercial	$141,572	12.39%
Citizens Alliance Bank	Commercial	84,411	7.38%
Dammermann Family LP	Commercial	39,092	3.42%
Donner's Service, Inc.	Commercial	22,598	1.98%
Individual	Residential	14,470	1.27%
Individual	Residential	13,630	1.19%
Milk Specialties Company	Commercial	12,882	1.13%
Clara City Telephone Co.	Commercial	11,145	0.98%
Xcel Energy	Utility	10,542	0.92%
Burlington Northern, Inc.	Railroad	10,428	0.91%
Total		$360,770	31.56%

City's Total 2025/26 Net Tax Capacity $1,143,054

Source: Current Property Valuations, Net Tax Capacity by Classification, Trend of Valuations and Largest Taxpayers have been furnished by Chippewa County.

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1 Net Tax Capacity includes tax increment values.

2 Taxable Net Tax Capacity does not include tax increment values.

DEBT

DIRECT DEBT[1]

General Obligation Debt (see schedules following)

Total G.O. debt secured by hospital and nursing home revenues	$1,565,000
Total G.O. debt secured by special assessments and taxes (includes the Improvement Portion of the Bonds)*	4,000,000
Total G.O. debt secured by tax abatement revenues	745,000
Total G.O. debt secured by taxes (includes the Street Reconstruction Portion of the Bonds)*	540,000
Total G.O. debt secured by utility revenues	1,092,000
Total G.O. debt secured by housing revenues (EDA)	1,965,000
Total General Obligation Debt*	$7,942,000

*Preliminary, subject to change.

Lease Purchase Obligations (see schedule following)

Total lease purchase obligations paid by annual appropriations[2]	$81,067

Other Obligations

Issue Date	Original Amount	Name of Issue	Final Maturity	Principal Outstanding
8/31/2013	$348,072	Note Agreement	8/31/2037	$166,686

DEBT PAYMENT HISTORY

The City has no record of default in the payment of principal and interest on its debt.

FUTURE FINANCING

The City plans to issue approximately $11,970,000 in general obligation bonds for its Phase 1 street and utility project and an additional $2,000,000 for water treatment plant improvements in 2027 or 2028. The City is also exploring whether grant funding may be available for these projects.

[1] Outstanding debt is as of the dated date of the Bonds.

[2] Non-general obligation debt has not been included in the debt ratios.

DEBT LIMIT

The statutory limit on net debt of Minnesota municipalities other than school districts or cities of the first class (Minnesota Statutes, Section 475.53, subd. 1) is 3% of the Assessor's Estimated Market Value of all taxable property within its boundaries. "Net debt" means the amount remaining after deducting from gross debt the amount of current revenues which are applicable within the current fiscal year to the payment of any debt and the aggregate principal of certain obligations enumerated under Minnesota Statutes, Section 475.51, subd. 4, including the following: (1) obligations issued for improvements payable wholly or partly from special assessments levied against benefitted property (includes the Improvement Portion of the Bonds); (2) warrants or orders having no definite or fixed maturity; (3) obligations payable wholly from the income of revenue producing conveniences; (4) obligations issued to create or maintain a permanent improvement revolving fund; (5) obligations issued to finance any revenue producing public convenience; (6) funds held as sinking funds for payment of principal and interest on debt other than those deductible under Minnesota Statutes, Section 475.51, subd. 4; (7) obligations to repay energy conservation investment loans under Minnesota Statutes, Section 216C.37; (8) obligations issued to pay certain postemployment benefit liabilities; (9) obligations issued to pay certain judgments against the City; and (10) all other obligations which are not to be included in computing the net debt of a municipality under the provisions of the law authorizing their issuance.

2025/26 Assessor's Estimated Market Value	$110,046,500
Multiply by 3%	0.03
Statutory Debt Limit	$3,301,395
Less: Long-Term Debt Outstanding Being Paid Solely from Taxes (includes the Street Reconstruction Portion of the Bonds)*	(540,000)
Unused Debt Limit*	$2,761,395

*Preliminary, subject to change.

City of Clara City, Minnesota
Schedule of Bonded Indebtedness
General Obligation Debt Secured by Nursing Home Revenues
(As of 10/15/2026)

	Nursing Home Revenue Bonds Series 2014E		Nursing Home Revenue Refunding Bonds Series 2016A							
Dated	10/02/2014		05/11/2016							
Amount	$2,455,000		$690,000							
Maturity	02/01		02/01							
Calendar Year Ending	**Principal**	**Interest**	**Principal**	**Interest**	**Total Principal**	**Total Interest**	**Total P & I**	**Principal Outstanding**	**% Paid**	**Calendar Year Ending**
2027	125,000	45,330	50,000	5,258	175,000	50,588	225,588	1,390,000	11.18%	**2027**
2028	130,000	41,375	50,000	4,283	180,000	45,658	225,658	1,210,000	22.68%	**2028**
2029	135,000	37,135	55,000	3,163	190,000	40,298	230,298	1,020,000	34.82%	**2029**
2030	140,000	32,525	50,000	1,955	190,000	34,480	224,480	830,000	46.96%	**2030**
2031	145,000	27,538	60,000	690	205,000	28,228	233,228	625,000	60.06%	**2031**
2032	145,000	22,100			145,000	22,100	167,100	480,000	69.33%	**2032**
2033	155,000	16,100			155,000	16,100	171,100	325,000	79.23%	**2033**
2034	160,000	9,800			160,000	9,800	169,800	165,000	89.46%	**2034**
2035	165,000	3,300			165,000	3,300	168,300	0	100.00%	**2035**
	1,300,000	235,203	265,000	15,348	1,565,000	250,550	1,815,550			

City of Clara City, Minnesota
Schedule of Bonded Indebtedness
General Obligation Debt Secured by Special Assessments and Taxes
(As of 10/15/2026)

	Improvement Bonds Series 2014C		Improvement Bonds Series 2014D		Improvement Bonds Series 2016B		Improvement Bonds 1) Series 2018A		Improvement Refunding Bonds Series 2020A	
Dated	06/05/2014		06/05/2014		11/01/2016		08/02/2018		04/01/2020	
Amount	$2,585,000		$710,000		$1,040,000		$1,265,000		$990,000	
Maturity	02/01		02/01		02/01		02/01		02/01	
Calendar Year Ending	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**
2027	210,000	36,738	50,000	6,525	70,000	9,220	85,000	22,660	150,000	1,500
2028	345,000	28,413	55,000	4,813	75,000	7,770	85,000	20,110		
2029	350,000	17,550	55,000	2,888	75,000	6,270	90,000	17,485		
2030	365,000	5,931	55,000	963	75,000	4,620	90,000	14,785		
2031					75,000	2,820	100,000	11,835		
2032					80,000	960	100,000	8,635		
2033							105,000	5,276		
2034							105,000	1,759		
2035										
2036										
2037										
2038										
2039										
2040										
2041										
2042										
	1,270,000	88,631	215,000	15,188	450,000	31,660	760,000	102,545	150,000	1,500

1) This represents the $1,265,000 Improvement and Water Project portions of the $1,820,000 General Obligation Bonds, Series 2018A.

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City of Clara City, Minnesota
Schedule of Bonded Indebtedness continued
General Obligation Debt Secured by Special Assessments and Taxes
(As of 10/15/2026)

	Improvement Bonds 2) Series 2023A		Improvement Bonds 3) Series 2026A							
Dated	05/25/2023		10/15/2026							
Amount	$460,000		$770,000*							
Maturity	02/01		02/01							
Calendar Year Ending	**Principal**	**Interest**	**Principal**	**Estimated Interest**	**Total Principal**	**Total Interest**	**Total P & I**	**Principal Outstanding**	**% Paid**	**Calendar Year Ending**
2027	40,000	16,650	0	25,677	605,000	118,970	723,970	3,395,000	15.13%	**2027**
2028	45,000	14,525	30,000	30,318	635,000	105,948	740,948	2,760,000	31.00%	**2028**
2029	45,000	12,275	40,000	29,153	655,000	85,620	740,620	2,105,000	47.38%	**2029**
2030	45,000	10,025	40,000	27,793	670,000	64,116	734,116	1,435,000	64.13%	**2030**
2031	50,000	7,650	40,000	26,383	265,000	48,688	313,688	1,170,000	70.75%	**2031**
2032	50,000	5,400	45,000	24,841	275,000	39,836	314,836	895,000	77.63%	**2032**
2033	55,000	3,300	50,000	23,058	210,000	31,634	241,634	685,000	82.88%	**2033**
2034	55,000	1,100	50,000	21,108	210,000	23,966	233,966	475,000	88.13%	**2034**
2035			50,000	19,108	50,000	19,108	69,108	425,000	89.38%	**2035**
2036			55,000	16,968	55,000	16,968	71,968	370,000	90.75%	**2036**
2037			55,000	14,699	55,000	14,699	69,699	315,000	92.13%	**2037**
2038			60,000	12,298	60,000	12,298	72,298	255,000	93.63%	**2038**
2039			60,000	9,763	60,000	9,763	69,763	195,000	95.13%	**2039**
2040			60,000	7,198	60,000	7,198	67,198	135,000	96.63%	**2040**
2041			65,000	4,494	65,000	4,494	69,494	70,000	98.25%	**2041**
2042			70,000	1,540	70,000	1,540	71,540	0	100.00%	**2042**
	385,000	70,925	770,000	294,393	4,000,000	604,842	4,604,842			

* Preliminary, subject to change.

2) This represents the $460,000 Improvement portion of the $795,000 General Obligation Bonds, Series 2023A.

3) This represents the $770,000 Improvement Portion of the $1,070,000 General Obligation Improvement and Street Reconstruction Plan Bonds, Series 2026A.

City of Clara City, Minnesota
Schedule of Bonded Indebtedness
General Obligation Debt Secured by Tax Abatement Revenues
(As of 10/15/2026)

	Tax Abatement Bond Series 2016C		Tax Abatement Bonds 1) Series 2018A							
Dated	12/19/2016		08/02/2018							
Amount	$1,490,000		$155,000							
Maturity	02/01		02/01							
Calendar Year Ending	**Principal**	**Interest**	**Principal**	**Interest**	**Total Principal**	**Total Interest**	**Total P & I**	**Principal Outstanding**	**% Paid**	**Calendar Year Ending**
2027	105,000	12,653	10,000	2,695	115,000	15,348	130,348	630,000	15.44%	**2027**
2028	105,000	10,448	10,000	2,395	115,000	12,843	127,843	515,000	30.87%	**2028**
2029	110,000	8,190	10,000	2,095	120,000	10,285	130,285	395,000	46.98%	**2029**
2030	110,000	5,880	10,000	1,795	120,000	7,675	127,675	275,000	63.09%	**2030**
2031	110,000	3,570	10,000	1,485	120,000	5,055	125,055	155,000	79.19%	**2031**
2032	115,000	1,208	10,000	1,165	125,000	2,373	127,373	30,000	95.97%	**2032**
2033			15,000	754	15,000	754	15,754	15,000	97.99%	**2033**
2034			15,000	251	15,000	251	15,251	0	100.00%	**2034**
	655,000	41,948	90,000	12,635	745,000	54,583	799,583			

1) This represents the $155,000 Tax Abatement portion of the $1,820,000 General Obligation Bonds, Series 2018A.

City of Clara City, Minnesota
Schedule of Bonded Indebtedness
General Obligation Debt Secured by Taxes
(As of 10/15/2026)

	Street Reconstruction Bonds 1) Series 2018A		Street Reconstruction Bonds 2) Series 2026A							
Dated	08/02/2018		10/15/2026							
Amount	$400,000		$300,000*							
Maturity	02/01		02/01							
Calendar Year Ending	**Principal**	**Interest**	**Principal**	**Estimated Interest**	**Total Principal**	**Total Interest**	**Total P & I**	**Principal Outstanding**	**% Paid**	**Calendar Year Ending**
2027	25,000	7,173	0	10,013	25,000	17,185	42,185	515,000	4.63%	**2027**
2028	30,000	6,348	10,000	11,850	40,000	18,198	58,198	475,000	12.04%	**2028**
2029	30,000	5,448	15,000	11,434	45,000	16,881	61,881	430,000	20.37%	**2029**
2030	30,000	4,548	15,000	10,924	45,000	15,471	60,471	385,000	28.70%	**2030**
2031	30,000	3,618	15,000	10,395	45,000	14,013	59,013	340,000	37.04%	**2031**
2032	30,000	2,658	20,000	9,760	50,000	12,418	62,418	290,000	46.30%	**2032**
2033	30,000	1,675	20,000	9,010	50,000	10,685	60,685	240,000	55.56%	**2033**
2034	35,000	586	20,000	8,230	55,000	8,816	63,816	185,000	65.74%	**2034**
2035			20,000	7,430	20,000	7,430	27,430	165,000	69.44%	**2035**
2036			20,000	6,615	20,000	6,615	26,615	145,000	73.15%	**2036**
2037			20,000	5,790	20,000	5,790	25,790	125,000	76.85%	**2037**
2038			25,000	4,850	25,000	4,850	29,850	100,000	81.48%	**2038**
2039			25,000	3,794	25,000	3,794	28,794	75,000	86.11%	**2039**
2040			25,000	2,725	25,000	2,725	27,725	50,000	90.74%	**2040**
2041			25,000	1,644	25,000	1,644	26,644	25,000	95.37%	**2041**
2042			25,000	550	25,000	550	25,550	0	100.00%	**2042**
	240,000	32,051	300,000	115,013	540,000	147,064	687,064			

* Preliminary, subject to change.

1) This represents the $400,000 Street Reconstruction portion of the $1,820,000 General Obligation Bonds, Series 2018A.

2) This represents the $300,000 Street Reconstruction Portion of the $1,070,000 General Obligation Improvement and Street Reconstruction Plan Bonds, Series 2026A.

City of Clara City, Minnesota
Schedule of Bonded Indebtedness
General Obligation Debt Secured by Utility Revenues
(As of 10/15/2026)

	Sewer Revenue Bonds Series 2020B	Sewer Revenue Bonds Series 2020C	Utility Revenue Bonds Series 2022A	Utility Revenue Bonds 1) Series 2023A
Dated	07/01/2020	08/27/2020	08/04/2022	05/25/2023
Amount	$417,000	$187,000	$580,000	$335,000
Maturity	02/01	02/01	02/01	02/01

Calendar Year Ending	2020B Principal	2020B Interest	2020C Principal	2020C Interest	2022A Principal	2022A Interest	2023A Principal	2023A Interest	Total Principal	Total Interest	Total P & I	Principal Outstanding	% Paid	Calendar Year Ending
2027	42,000	3,960	19,000	1,593	35,000	15,094	30,000	12,050	126,000	32,697	158,697	966,000	11.54%	**2027**
2028	43,000	3,110	19,000	1,251	40,000	14,140	30,000	10,550	132,000	29,051	161,051	834,000	23.63%	**2028**
2029	44,000	2,240	20,000	900	40,000	13,020	30,000	9,050	134,000	25,210	159,210	700,000	35.90%	**2029**
2030	45,000	1,350	20,000	540	40,000	11,900	35,000	7,425	140,000	21,215	161,215	560,000	48.72%	**2030**
2031	45,000	450	20,000	180	40,000	10,780	35,000	5,675	140,000	17,085	157,085	420,000	61.54%	**2031**
2032					40,000	9,660	40,000	4,000	80,000	13,660	93,660	340,000	68.86%	**2032**
2033					40,000	8,400	40,000	2,400	80,000	10,800	90,800	260,000	76.19%	**2033**
2034					40,000	7,000	40,000	800	80,000	7,800	87,800	180,000	83.52%	**2034**
2035					45,000	5,513			45,000	5,513	50,513	135,000	87.64%	**2035**
2036					45,000	3,938			45,000	3,938	48,938	90,000	91.76%	**2036**
2037					45,000	2,363			45,000	2,363	47,363	45,000	95.88%	**2037**
2038					45,000	788			45,000	788	45,788	0	100.00%	**2038**
	219,000	11,110	98,000	4,464	495,000	102,594	280,000	51,950	1,092,000	170,118	1,262,118			

1) This represents the $335,000 Utility Revenue portion of the $795,000 General Obligation Bonds, Series 2023A.

City of Clara City, Minnesota
Schedule of Bonded Indebtedness
Non-General Obligation Debt Secured by Annual Appropriation
(As of 10/15/2026)

	Small Wheel Loader Lease Series 2020								
Dated	12/01/2020								
Amount	$202,553								
Maturity	12/01								
Calendar Year Ending	**Principal**	**Interest**	**Total Principal**	**Total Interest**	**Total P & I**	**Principal Outstanding**	**% Paid**	**Calendar Year Ending**
2026	21,333	2,424	21,333	2,424	23,757	59,734	26.32%	**2026**
2027	59,734	1,786	59,734	1,786	61,520	0	100.00%	**2027**
	81,067	4,210	81,067	4,210	85,277			

Clara City Economic Development Authority, Minnesota
Schedule of Bonded Indebtedness
General Obligation Debt Secured by Housing Revenues
(As of 10/15/2026)

	Housing Revenue Refunding Bonds Series 2021A								
Dated	09/30/2021								
Amount	$2,585,000								
Maturity	12/01								
Calendar Year Ending	**Principal**	**Interest**	**Total Principal**	**Total Interest**	**Total P & I**	**Principal Outstanding**	**% Paid**	**Calendar Year Ending**
2026	165,000	16,418	165,000	16,418	181,418	1,800,000	8.40%	**2026**
2027	165,000	29,535	165,000	29,535	194,535	1,635,000	16.79%	**2027**
2028	170,000	26,235	170,000	26,235	196,235	1,465,000	25.45%	**2028**
2029	175,000	22,835	175,000	22,835	197,835	1,290,000	34.35%	**2029**
2030	175,000	19,335	175,000	19,335	194,335	1,115,000	43.26%	**2030**
2031	180,000	17,323	180,000	17,323	197,323	935,000	52.42%	**2031**
2032	185,000	14,893	185,000	14,893	199,893	750,000	61.83%	**2032**
2033	180,000	12,395	180,000	12,395	192,395	570,000	70.99%	**2033**
2034	185,000	9,605	185,000	9,605	194,605	385,000	80.41%	**2034**
2035	190,000	6,738	190,000	6,738	196,738	195,000	90.08%	**2035**
2036	195,000	3,413	195,000	3,413	198,413	0	100.00%	**2036**
	1,965,000	178,723	1,965,000	178,723	2,143,723			

OVERLAPPING DEBT[1]

Taxing District	2025/26 Taxable Net Tax Capacity	% In City	Total G.O. Debt[2]	City's Proportionate Share
Chippewa County	$34,567,002	3.0543%	$4,255,000	$129,960
I.S.D. No. 2180 (MACCRAY Public Schools)	18,931,759	5.5768%	34,745,000[3]	1,937,659
City's Share of Total Overlapping Debt				$2,067,620

1 Overlapping debt is as of the dated date of the Bonds. Only those taxing jurisdictions with general obligation debt outstanding are included in this section. It does ***not*** include non-general obligation debt, self-supporting general obligation revenue debt, short-term general obligation debt, or general obligation tax/aid anticipation certificates of indebtedness.

2 Outstanding debt is based on information in Official Statements obtained on EMMA and the Municipal Advisor's records.

3 Minnesota School Districts may qualify for aid from the State of Minnesota through the Debt Service Equalization Formula, School Building Bond Agricultural Credit and Long Term Facilities Maintenance Revenue programs. While some of the districts listed may receive these aids, Ehlers has not attempted to estimate the portion of debt service payments that would be financed by State aids for the purposes of the Bonds.

DEBT RATIOS

	G.O. Debt	Debt/Economic Market Value $115,249,516	Debt/ Per Capita 1,385[1]
Direct G.O. Debt Secured By:			
Hospital & Nursing Home Revenues	$1,565,000		
Special Assessments & Taxes*	4,000,000		
Tax Abatement Revenues	745,000		
Taxes*	540,000		
Utility Revenues	1,092,000		
Housing Revenues (EDA)	1,965,000		
Total General Obligation Debt*	$7,942,000		
Less: G.O. Debt Paid Entirely from Revenues[2]	(4,622,000)		
Tax Supported General Obligation Debt*	$3,320,000	2.88%	$2,397.11
City's Share of Total Overlapping Debt	$2,067,620	1.79%	$1,492.87
Total*	$5,387,620	4.67%	$3,889.98

*Preliminary, subject to change.

1 Estimated 2025 population.

2 Debt service on the City's general obligation revenue debt is being paid entirely from revenues and therefore is considered self-supporting debt.

TAX LEVIES, COLLECTIONS AND RATES

TAX LEVIES AND COLLECTIONS

Tax Year	Net Tax Levy[1]	Total Collected Following Year	Collected to Date	% Collected
2021/22	$1,293,980	$1,284,928	$1,291,668	99.82%
2022/23	1,337,685	1,318,514	1,332,547	99.62%
2023/24	1,369,927	1,346,163	1,362,213	99.44%
2024/25	1,406,797	1,383,641	1,383,641	98.35%
2025/26	1,445,506	In process of collection		

Property taxes are collected in two installments in Minnesota--the first by May 15 and the second by October 15.[2] Mobile home taxes are collectible in full by August 31. Minnesota Statutes require that levies (taxes and special assessments) for debt service be at least 105% of the actual debt service requirements to allow for delinquencies.

TAX CAPACITY RATES[3]

	2021/22	2022/23	2023/24	2024/25	2025/26
Chippewa County	48.333%	45.025%	41.477%	45.506%	49.401%
City of Clara City	163.513%	140.174%	128.622%	132.999%	138.984%
I.S.D. No. 2180 (MACCRAY Public Schools)	26.026%	22.100%	20.503%	19.317%	19.889%
Chippewa County HRA	0.285%	0.213%	0.173%	0.305%	0.308%
Region 6W	0.335%	0.294%	0.247%	0.246%	0.251%
Referendum Market Value Rates:					
I.S.D. No. 2180 (MACCRAY Public Schools)	0.39005%	0.36984%	0.36385%	0.34455%	0.35076%

Source: Tax Levies and Collections and Tax Capacity Rates have been furnished by Chippewa County.

1 This reflects the Final Levy Certification of the City after all adjustments have been made.

2 Second half tax payments on agricultural property are due on November 15 of each year.

3 After reduction for State aids. Does not include the statewide general property tax against commercial/industrial, non-homestead resorts and seasonal recreational residential property.

THE ISSUER

CITY GOVERNMENT

The City was organized as a municipality in 1888. The City operates under a statutory form of government consisting of a five-member City Council of which the Mayor is a voting member. The City Administrator/Clerk is responsible for administrative details and financial records.

EMPLOYEES; PENSIONS; UNIONS

The City currently has 5 full-time, 27 part-time, and 17 seasonal employees. All full-time and certain part-time employees of the City are covered by defined benefit pension plans administered by the Public Employee Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund (GERF) and the Public Employees Police and Fire Fund (PEPFF) which are cost-sharing multiple-employer retirement plans. PERA members belong to either the Coordinated Plan or the Basic Plan. Coordinated members are covered by Social Security. See the Notes to Financial Statements in Appendix A for a detailed description of the Plans.

Recognized and Certified Bargaining Unit

Bargaining Unit	Expiration Date of Current Contract
AFSCME Council 65, AFL-CIO (General Unit)	December 31, 2027

POST EMPLOYMENT BENEFITS

The City does not pay directly for retirees' post-employment benefits. The City has some obligations for post-employment benefits as mandated by State Statutes. Specifically, the City is required to allow retirees to be covered by the City's health care plan as long as the retiree pays his/her premiums. Retiree membership in a health care plan typically increases costs of the premiums. This increased cost is commonly known as implicit price subsidy.

LITIGATION

There is no litigation threatened or pending questioning the organization or boundaries of the City or the right of any of its officers to their respective offices or in any manner questioning their rights and power to execute and deliver the Bonds or otherwise questioning the validity of the Bonds.

MUNICIPAL BANKRUPTCY

Municipalities are prohibited from filing for bankruptcy under Chapter 11 (reorganization) or Chapter 7 (liquidation) of the U.S. Bankruptcy Code (11 U.S.C. §§ 101-1532) (the "Bankruptcy Code"). Instead, the Bankruptcy Code permits municipalities to file a petition under Chapter 9 of the Bankruptcy Code, but only if certain requirements are met. These requirements include that the municipality must be "specifically authorized" under State law to file for relief under Chapter 9. For these purposes, "State law" may include, without limitation, statutes of general applicability enacted by the State legislature, special legislation applicable to a particular municipality, and/or executive orders issued by an appropriate officer of the State's executive branch.

As of the date hereof, Minnesota Statutes, Section 471.831, as amended, authorizes municipalities to file for bankruptcy relief under Chapter 9 of the Bankruptcy Code. A municipality is defined in United States Code, title 11, section 101, as amended through December 31, 1996, but limited to a county, statutory or home rule charter city, or town; or a housing and redevelopment authority, economic development authority, or rural development financing authority established under Chapter 469, a home rule charter or special law.

FUNDS ON HAND (as of July 31, 2026)

Fund	Total Cash and Investments
General	$1,843,287
Enterprise Funds	10,050,417
Clara City Care Center (owed to the City)	1,091,950
Total Funds on Hand	$12,985,654

ENTERPRISE FUNDS

Revenues available for debt service on the City's enterprise funds have been as follows as of December 31 each year:

	2023 Audited	2024 Audited	2025 Audited
Water			
Total Operating Revenues	$536,088	$538,391	$565,181
Less: Operating Expenses	(329,711)	(294,281)	(330,602)
Operating Income	$206,377	$244,110	$234,579
Plus: Depreciation	96,427	97,957	135,519
Revenues Available for Debt Service	$302,804	$342,067	$370,098
Sewer			
Total Operating Revenues	$512,556	$521,131	$542,069
Less: Operating Expenses	(408,175)	(407,887)	(407,193)
Operating Income	$104,381	$113,244	$134,876
Plus: Depreciation	148,299	149,301	158,166
Revenues Available for Debt Service	$252,680	$262,545	$293,042
Ambulance Service			
Total Operating Revenues	$118,254	$140,168	$127,621
Less: Operating Expenses	(106,526)	(116,442)	(132,344)
Operating Income	$11,728	$23,726	($4,723)
Plus: Depreciation	26,255	26,255	26,919
Revenues Available for Debt Service	$37,983	$49,981	$22,196
Congregrate Housing			
Total Operating Revenues	$305,907	$336,159	$375,594
Less: Operating Expenses	(311,464)	(311,258)	(324,218)
Operating Income	($5,557)	$24,901	$51,376
Plus: Depreciation	36,834	41,152	43,311
Revenues Available for Debt Service	$31,277	$66,053	$94,687

Continued on next page

ENTERPRISE FUNDS CONTINUED

	2023 Audited	2024 Audited	2025 Audited
Assisted Living[1]			
Total Operating Revenues	$1,247,508	$1,263,376	$1,442,679
Less: Operating Expenses	(1,100,140)	(1,356,467)	(1,426,029)
Operating Income	$147,368	($93,091)	$16,650
Plus: Depreciation	65,765	68,311	72,109
Revenues Available for Debt Service	$213,133	($24,780)	$88,759
Care Center[2]			
Total Operating Revenues	$4,947,152	$5,097,852	$5,293,280
Less: Operating Expenses	(5,040,875)	(5,380,042)	(5,422,378)
Operating Income	($93,723)	($282,190)	($129,098)
Plus: Depreciation	166,892	164,162	168,420
Revenues Available for Debt Service	$73,169	($118,028)	$39,322

1 The higher-than-normal operating expenses in 2024 and 2025 were primarily due to a staff shortage, which required the care campus to hire pooled nursing staff at significantly higher wage rates. The shortage also resulted in increased overtime costs for nursing and other staff at the Assisted Living and Care Center facilities. In addition, turnover in the RN nursing manager/director position at the Assisted Living facility required the use of temporary coverage at a higher wage rate during the recruitment period.

2 As of September 30 in the years shown.

SUMMARY GENERAL FUND INFORMATION

The following are summaries of the revenues, expenditures and fund balances for the City's General Fund. These summaries are not purported to be the complete audited financial statements of the City, and potential purchasers should read the included financial statements in their entirety for more complete information concerning the City. Copies of the complete statements are available upon request. Appendix A includes the 2025 audited financial statements.

COMBINED STATEMENT	FISCAL YEAR ENDING DECEMBER 31				
	2021 Audited	2022 Audited[1]	2023 Audited[2]	2024 Audited	2025 Audited
Revenues					
Property taxes	$684,004	$695,178	$738,442	$765,215	$750,077
Special assessments	12	2,186	3	79	43,468
Licenses and permits	3,239	5,159	4,520	2,692	2,662
Intergovernmental	518,523	633,197	791,966	668,055	566,677
Charges for services	128,259	140,902	181,089	186,617	165,481
Fine and forfeitures	15,074	7,231	2,409	3,044	2,232
Contributions	16,914	25,505	22,397	10,697	6,088
Interest income	7,002	6,113	23,620	36,220	37,268
Miscellaneous	22,439	13,910	66,673	116,390	103,873
Total Revenues	$1,395,466	$1,529,381	$1,831,119	$1,789,009	$1,677,826
Expenditures					
General government	$376,745	$392,130	$639,782	$677,369	$401,492
Public safety	358,939	383,696	396,288	399,112	465,678
Public works	249,052	263,670	354,679	355,612	363,779
Parks and recreation	193,704	202,538	241,776	216,116	344,262
Economic development	200	6,756	193,157	87,750	0
Other	12,319	7,683	7,670	13,075	3,141
Capital outlay	101,008	139,152	17,220	38,856	74,225
Debt service	40,556	40,556	40,556	40,556	40,556
Total Expenditures	$1,332,523	$1,436,181	$1,891,128	$1,828,446	$1,693,133
Excess of revenues over (under) expenditures	$62,943	$93,200	($60,009)	($39,437)	($15,307)
Other Financing Sources (Uses)					
Gain on sale of assets	$0	$30,000	$0	$0	$0
Transfers in	140,600	199,000	190,500	192,460	195,540
Transfers (out)	0	(139,444)	0	0	0
Total Other Financing Sources (Uses)	$140,600	$89,556	$190,500	$192,460	$195,540
Net changes in Fund Balances	$203,543	$182,756	$130,491	$153,023	$180,233
General Fund Balance January 1	$1,953,737	$2,157,280	$2,340,036	$2,470,527	$2,642,426
Prior Period Adjustment	0	0	0	18,876	0
General Fund Balance December 31	$2,157,280	$2,340,036	$2,470,527	$2,642,426	$2,822,659
DETAILS OF DECEMBER 31 FUND BALANCE					
Nonspendable	$27,989	$29,119	$23,227	$23,227	$23,227
Committed	961,015	967,672	1,002,444	796,504	835,511
Unassigned	1,168,276	1,343,245	1,444,856	1,822,695	1,963,921
Total	$2,157,280	$2,340,036	$2,470,527	$2,642,426	$2,822,659

1 The large transfer-out in Fiscal Year Ending 2022 consisted of ARPA funds that were transferred to the Series 2022A Water Sewer Capital Project Fund for use on the project.

2 The higher-than-normal economic development expense in Fiscal Year Ending 2023 resulted from the City receiving Community Development Block Grant funds from the State and subsequently passing those funds through to the Upper Minnesota Regional Development Commission.

GENERAL FUND BUDGET SUMMARY

COMBINED STATEMENT	FISCAL YEAR ENDING DECEMBER 31 2026 Adopted Budget[1]
Revenues	
Property taxes	$1,431,563
Special assessments	58,009
Licenses and permits	3,450
State sources	567,299
Charges for services	93,700
Fine and forfeitures	5,000
Other	62,500
Interest income	5,000
Miscellaneous	8,400
Total Revenues	$2,234,921
Expenditures	
General government	$358,200
Public safety	419,393
Public works	351,969
Parks and recreation	231,500
Other	129,900
Capital outlay	124,250
Debt service	951,415
Total Expenditures	$2,566,627
Excess of revenues over (under) expenditures	($331,706)
Other Financing Sources (Uses)	
Transfers (out)	$366,197
Total Other Financing Sources (Uses)	$366,197
Net changes in Fund Balances	$34,491
General Fund Balance January 1	$2,822,659
General Fund Balance December 31	$2,857,150

Note: The higher-than-normal debt service expense in Fiscal Year Endign 2026 includes both the general fund levy and debt service fund levies. The budget also includes the debt service payments made by the debt service funds. This is reported differently than in the audits because it reflects the combined budgets of the general fund and the debt service funds. The large transfer-out also relates to debt service payments. The transfer-in represents amounts received from the water and sewer funds to cover their share of those debt service payments within the debt service funds. As with other items, this is reported differently than in the audits.

[1] The 2026 budget was adopted on December 9, 2025.

GENERAL INFORMATION

LOCATION

The City, with a 2020 U.S. Census population of 1,423 and a 2025 population estimate of 1,385, and comprising an area of 1.74 square miles, is located approximately 120 miles west of St. Paul, Minnesota.

LARGER EMPLOYERS[1]

Larger employers in the City include the following:

Firm	Type of Business/Product	Estimated No. of Employees
I.S.D. No. 2180 (MACCRAY Public Schools)	Elementary and secondary education	136
Clara City Care Center	Senior living facility	102
Farmers Cooperative Oil Co.	Farm management services and station	50
The City	Municipal government and services	49[2]
Milk Specialties Global	Food manufacturing facility	35
Donner's Crossroads	Truck stop and restaurant	35
Palmer Bus Service, Inc.	Transportation services	25
Citizens Alliance Bank	Bank	25
Almich's Market	Grocery store	20
Vreeman Construction	Drainage contractor	20

Source: Data Axle Reference Solutions, written and telephone survey, and the Minnesota Department of Employment and Economic Development.

BUILDING PERMITS

The City issues zoning permits in place of building permits. The individual project valuations are not tracked and cannot be represented.

1 This does not purport to be a comprehensive list and is based on available data obtained through a survey of individual employers, as well as the sources identified above.

2 Includes part-time and seasonal employees.

U.S. CENSUS DATA

Population Trend: The City

2010 U.S. Census population	1,360
2020 U.S. Census population	1,423
Percent of Change 2010 - 2020	4.63%
2025 State Demographer Population Estimate	1,385

Income and Age Statistics

	The City	Chippewa County	State of Minnesota	United States
2024 per capita income	$30,732	$35,718	$48,237	$44,673
2024 median household income	$63,636	$71,458	$89,062	$80,734
2024 median family income	$72,434	$92,442	$113,993	$99,999
2024 median gross rent	$1,068	$869	$1,280	$1,413
2024 median value owner occupied units	$114,300	$156,100	$329,300	$332,700
2024 median age	36.9 yrs.	41.7 yrs.	38.8 yrs.	38.9 yrs.

	State of Minnesota	United States
City % of 2024 per capita income	63.71%	68.79%
City % of 2024 median family income	63.54%	72.43%

Housing Statistics

	The City		
	2020	2025	Percent of Change
All Housing Units	565	557	-1.42%

Source: 2010 and 2020 Census of Population and Housing, and 2024 American Community Survey (Based on a five-year estimate), U.S. Census Bureau (https://data.census.gov), and Minnesota State Demographer (https://mn.gov/admin/demography/data-by-topic/population-data/our-estimates/).

EMPLOYMENT/UNEMPLOYMENT DATA

Rates are not compiled for individual communities within counties.

	Average Employment	Average Unemployment	
Year	Chippewa County	Chippewa County	State of Minnesota
2022	5,943	2.4%	2.5%
2023	5,945	2.9%	2.8%
2024	6,034	3.2%	3.1%
2025	5,889	4.4%	3.9%
2026, July	5,682	5.3%	4.6%

Source: Minnesota Department of Employment and Economic Development.

APPENDIX A

FINANCIAL STATEMENTS

Potential purchasers should read the included financial statements in their entirety for more complete information concerning the City's financial position. Such financial statements have been audited by the Auditor, to the extent and for the periods indicated thereon. The City has not requested or engaged the Auditor to perform, and the Auditor has not performed, any additional examination, assessments, procedures or evaluation with respect to such financial statements since the date thereof or with respect to this Preliminary Official Statement, nor has the City requested that the Auditor consent to the use of such financial statements in this Preliminary Official Statement. Although the inclusion of the financial statements in this Preliminary Official Statement is not intended to demonstrate the fiscal condition of the City since the date of the financial statements, in connection with the issuance of the Bonds, the City represents that there have been no material adverse change in the financial position or results of operations of the City, nor has the City incurred any material liabilities, which would make such financial statements misleading.

Copies of the complete audited financial statements for the past three years and the current budget are available upon request from Ehlers.

CITY OF CLARA CITY, MINNESOTA

AUDITED FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

DECEMBER 31, 2025

CONWAY, DEUTH & SCHMIESING, PLLP
CPAS & ADVISORS
WILLMAR, MINNESOTA

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CITY OF CLARA CITY, MINNESOTA

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CITY OF CLARA CITY, MINNESOTA

ELECTED AND APPOINTED OFFICIALS
DECEMBER 31, 2025

Position	Member Name	Term Expires
Mayor	Daniel Pieper	12/31/2026
Council Member	LeAnn Nord	12/31/2026
Council Member	Mark Miller	12/31/2026
Council Member	Ryan Niemeyer	12/31/2028
Council Member	Steve Kruger	12/31/2028
City Administrator/Clerk	Julie Aalfs	Appointed

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members of the City Council
City of Clara City
Clara City, Minnesota

Report on the Audit of the Financial Statements

Opinions

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

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

We did not audit the financial statements of the Clara City Care Center as of September 30, 2025, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Care Center is based solely on the report of the other auditors.

Basis for Opinion

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

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Morris Office
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Litchfield Office
820 Sibley Ave N
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Sartell Office
Ste 110
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Sartell, MN 56377
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(800) 862-1337

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Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS and *Government Auditing Standards,* we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, 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, Schedule of Proportionate Share of the Net Pension Liability, Schedules of Employer Contributions, the Schedule of Changes in the City's Net Pension Liability and Related Ratios, and related notes as listed in the table of contents 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 opinions on the financial statements that collectively comprise the City's basic financial statements. The statements and schedules listed in the table of contents as supplementary information 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 relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information 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 included in the annual report. The other information comprises the Elected and Appointed Officials section but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated June 9, 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.

Conway, Deuth & Schmiesing, PLLP

CONWAY, DEUTH & SCHMIESING, PLLP
CPAS & ADVISORS
WILLMAR, MINNESOTA

June 9, 2026

REQUIRED SUPPLEMENTARY INFORMATION

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2025

This section of the basic financial statements of the City of Clara City, Minnesota (the City) presents a discussion and analysis of the City's financial performance during the fiscal year ended December 31, 2025. Please read it in conjunction with the City's basic financial statements following this section.

Financial Highlights

- The assets and deferred outflows of resources of the City exceeded liabilities and deferred inflows of resources by $13.5 million.

- The City's total net position increased by $839,260 from normal operations.

- The City's governmental funds reported combined ending fund balances of $5,124,188. Of this total amount, approximately 35% is available for spending at the City's discretion.

- At the end of the current fiscal year, unassigned fund balance for the General Fund was $1,963,921 or 116% of total General Fund expenditures of $1,693,133.

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements are presented after the Statement of Activities. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's funds. The notes to the basic financial statements provide information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. This report also contains other supplementary information in addition to the basic financial statements.

The City as a Whole: Statement of Net Position and Statement of Activities

Our analysis of the City begins with the Statement of Net Position and the Statement of Activities. One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities both report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and deferred outflows of resources and liabilities and deferred inflows of resources using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the City's net position and changes in them. You can think of the City's net position, the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources, as one way to measure the City's financial health. Over time, increases or decreases in the City's net position is one indicator of whether the City's financial health is improving or deteriorating.

You will need to consider other nonfinancial factors, however, to assess the overall health of the City.

In the Statement of Net Position and the Statement of Activities, we divide the City into two kinds of activities:

Governmental Activities - Most of the City's basic services are reported here, including public safety, public works, recreation and parks, economic development and general administration. Property taxes, franchise fees, state and federal grants, and charges for services finance most of these activities.

The City as a Whole: Statement of Net Position and Statement of Activities (Cont'd)

Business-Type Activities - The City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's Water, Sewer, Ambulance Service, Congregate Housing, Assisted Living and Care Center funds are reported here.

The City's Most Significant Funds: Fund Financial Statements

Our analysis of the City’s major funds begins with the fund financial statements. These statements provide detailed information about the most significant funds, not the City as a whole. Some funds are required to be established by state law and by bond covenants. However, the City Council establishes other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The City's two kinds of funds-governmental and proprietary-use different accounting approaches.

Governmental Funds - Most of the City’s basic services are reported in governmental funds. Governmental funds focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City’s general government operations and the basic services it provides. Governmental fund information helps the reader of the statements determine whether there are more or fewer financial resources that can be spent in the near future to finance the City’s programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in a reconciliation after the fund financial statements.

The governmental fund financial statements can be found on pages 16-21 of this report.

Proprietary Funds - When the City charges customers for the services it provides—whether to outside customers or to other units of the City—these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the City’s enterprise funds are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.

The proprietary fund financial statements can be found on pages 22-26 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 27-68 of this report.

Statement of Net Position

The City of Clara City's overall net position increased from a year ago. Our analysis focuses on the net position of the City's governmental (Table 1) and business-type activities (Table 2).

Table 1
Comparative Condensed Statement of Net Position

	Governmental Activities		
	2025	2024	Change
Current and Other Assets	$ 6,474,015	$ 6,211,726	$ 262,289
Net Capital Assets	7,968,119	8,191,982	(223,863)
Total Assets	14,442,134	14,403,708	38,426
Deferred Outflows of Resources	52,853	245,884	(193,031)
Total Assets and Deferred Outflows of Resources	$ 14,494,987	$ 14,649,592	$ (154,605)
Current Liabilities	$ 500,400	$ 508,419	$ (8,019)
Long-Term Liabilities	6,229,012	7,088,286	(859,274)
Total Liabilities	6,729,412	7,596,705	(867,293)
Deferred Inflows of Resources	485,702	629,770	(144,068)
Net Position			
Net Investment in Capital Assets	2,547,228	2,715,294	(168,066)
Restricted for Debt Service	1,598,986	1,369,934	229,052
Restricted for Tax Increment	28,417		28,417
Unrestricted	3,105,242	2,337,889	767,353
Total Net Position	7,279,873	6,423,117	856,756
Total Liabilities, Deferred Inflows of Resources and Net Position	$ 14,494,987	$ 14,649,592	$ (154,605)

Statement of Net Position (Cont'd)

Table 2
Comparative Condensed Statement of Net Position

	Business-Type Activities 2025	Business-Type Activities 2024	Change
Current and Other Assets	$ 1,951,778	$ 2,364,285	$ (412,507)
Net Capital Assets	11,279,353	11,772,143	(492,790)
Total Assets	13,231,131	14,136,428	(905,297)
Deferred Outflows of Resources	271,240	219,535	51,705
Total Assets and Deferred Outflows of Resources	$ 13,502,371	$ 14,355,963	$ (853,592)
Current Liabilities	$ 1,093,591	$ 1,383,612	$ (290,021)
Long-Term Liabilities	5,457,722	5,853,458	(395,736)
Total Liabilities	6,551,313	7,237,070	(685,757)
Deferred Inflows of Resources	770,403	920,742	(150,339)
Net Position			
Net Investment in Capital Assets	7,091,375	7,174,318	(82,943)
Restricted for Donor Restrictions	19,246	19,166	80
Restricted for Debt Service	177,034	177,115	(81)
Unrestricted	(1,107,000)	(1,172,448)	65,448
Total Net Position	6,180,655	6,198,151	(17,496)
Total Liabilities, Deferred Inflows of Resources and Net Position	$ 13,502,371	$ 14,355,963	$ (853,592)

Governmental Activities

Net position of the City's governmental activities increased by $856,756. The increase was due to a decrease in capital contributions and economic development and general government expenditures compared to 2024.

Business-Type Activities

The net position of the business-type activities decreased $17,496. The decrease is attributable to the following funds increase in net position: Water - $52,781, Sewer - $25,373, Ambulance - $86,273, and Congregate Housing - $41,727. Those increases were offset by a decrease in net position in the following funds: Assisted Living - $29,591 and Care Center - $194,059.

Statement of Activities

The following tables indicate the changes in net position for the City's governmental (Table 3) and business-type activities (Table 4):

Table 3
Comparative Condensed Statement of Activities

	Governmental Activities		
	2025	2024	Change
REVENUES			
Program Revenues			
Fees, Fines, and Charges for Services	$ 185,623	$ 188,371	$ (2,748)
Operating Grants and Contributions	52,227	141,682	(89,455)
Capital Grants and Contributions	73,358	203,007	(129,649)
General Revenues			
Property Taxes	1,573,081	1,412,881	160,200
Franchise Fees	59,324	61,234	(1,910)
Grants and Contributions not Restricted	516,911	520,869	(3,958)
Unrestricted Investment Earnings	51,515	55,779	(4,264)
Other	84,794	115,911	(31,117)
Total Revenues	2,596,833	2,699,734	(102,901)
EXPENSES			
General Government	393,316	576,218	(182,902)
Public Safety	343,772	324,213	19,559
Public Works	773,797	763,998	9,799
Recreation and Parks	298,116	295,042	3,074
Economic Development	108,269	384,162	(275,893)
Other	3,141	13,075	(9,934)
Interest on Long-Term Debt	179,294	204,851	(25,557)
Total Expenses	2,099,705	2,561,559	(461,854)
Change in Net Position Before Transfers and Capital Contributions	497,128	138,175	358,953
TRANSFERS	359,628	327,180	32,448
CAPITAL CONTRIBUTIONS		(922,378)	922,378
Change in Net Position	856,756	(457,023)	1,313,779
NET POSITION, BEGINNING OF YEAR	6,423,117	6,880,140	(457,023)
NET POSITION, END OF YEAR	$ 7,279,873	$ 6,423,117	$ 856,756

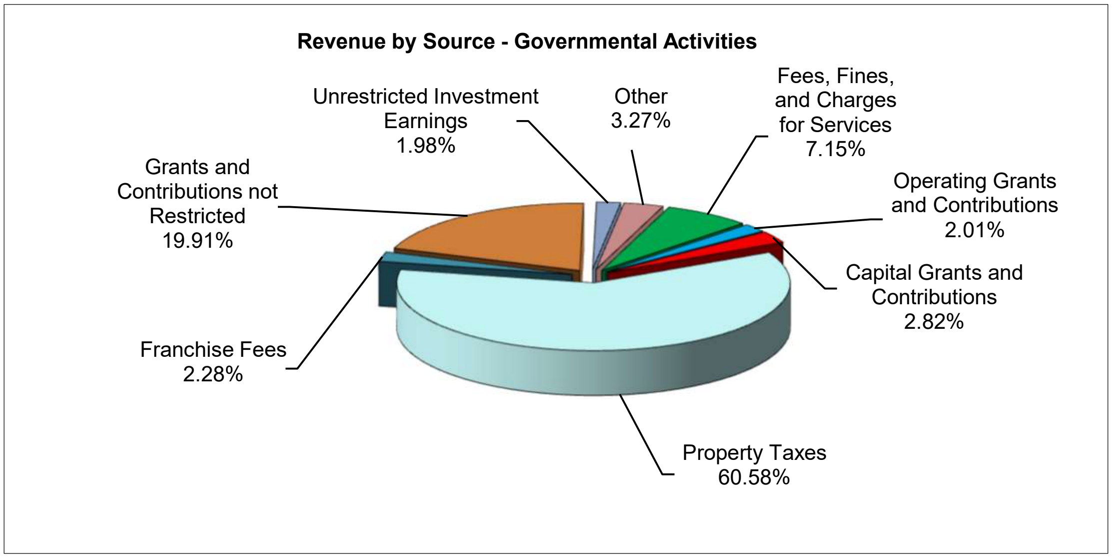
Statement of Activities (Cont'd)

Table 4
Comparative Condensed Statement of Activities

	Business-Type Activities 2025	Business-Type Activities 2024	Change
REVENUES			
Program Revenues			
Fees, Fines, and Charges for Services	$ 8,346,424	$ 7,897,077	$ 449,347
Operating Grants and Contributions	97,898	27,088	70,810
Capital Grants and Contributions		457,697	(457,697)
General Revenues			
Unrestricted Investment Earnings	12,833	11,809	1,024
Other	22,919	72,041	(49,122)
Total Revenues	8,480,074	8,465,712	14,362
EXPENSES			
Water	330,602	294,281	36,321
Sewer	414,575	416,393	(1,818)
Ambulance Service	132,344	116,442	15,902
Congregate Housing	324,218	311,258	12,960
Assisted Living	1,456,946	1,390,699	66,247
Care Center	5,481,757	5,447,962	33,795
Total Expenses	8,140,442	7,977,035	163,407
Change in Net Position Before Transfers and Capital Contributions	339,632	488,677	(149,045)
TRANSFERS	(357,128)	(327,180)	(29,948)
CAPITAL CONTRIBUTIONS		922,378	(922,378)
Change in Net Position	(17,496)	1,083,875	(1,101,371)
NET POSITION, BEGINNING OF YEAR	6,198,151	5,114,276	1,083,875
NET POSITION, END OF YEAR	$ 6,180,655	$ 6,198,151	$ (17,496)

Governmental Activities

Revenues - The following chart visually illustrates the City's revenue by source for its governmental activities:



Financial Analysis of the City's Funds

General Fund - The increase in the City's General Fund balance was $180,233. The increase was more than the prior year increase of $153,023 due to the decrease in general government current expenditures outpacing the decrease in revenues.

Special Revenue Funds - The City's Special Revenue fund balances increased by $79,640, compared to $35,122 in 2024. This is mainly due to a decrease in professional service expenditures.

Debt Service Funds - The Debt Service fund balances increased by $70,061. This was due to an increase in transfers as a result of closing capital project funds in 2025.

Capital Project Funds - The Capital Project fund balances decreased by $76,374. This was due to transfers to close out the various capital project funds.

Water Fund - The Water Fund net position increased $52,781 which was lower than the increase of $834,571 in 2024 due to not receiving a capital contribution in 2025.

Sewer Fund - The Sewer Fund net position increased $25,373, which was lower than the increase of $181,262 in 2024. This was due to not receiving a capital contribution in 2025.

Ambulance Service Fund - The Ambulance Service Fund net position increased $86,273 which was higher than the increase of $51,747 in 2024 due to using a state grant to cover costs in 2025.

Congregate Housing Fund - The Congregate Housing Fund net position increased $41,727 compared to the increase of $15,559 in 2024 due to an increase in the rental income in 2025.

Financial Analysis of the City's Funds (Cont'd)

Assisted Living Fund - The Assisted Living Fund net position decreased $29,591 in 2025 compared to a decrease in 2024 of $151,203. The increase is due to an increase in charges for services and rental income in 2025.

Care Center Fund - The Care Center Fund net position decreased $194,059 in 2025 compared to an increase in 2024 of $151,939. A decrease in state grants caused a decrease in the change in net position.

General Fund Budgetary Highlights

Over the course of the year, the City of Clara City Council did not revise the budget. The General Fund budget included expenditures over revenues, after transfers, resulting in a budgeted increase in fund balance of $154,625. The actual increase in fund balance was $180,233. The General Fund actual revenues were over budgeted amounts by $304,897 consisting of additional intergovernmental, charges for services, special assessments, and miscellaneous revenue. Expenditures were over budgeted amounts by $293,604. This was due to the City under budgeting for fire department supplies and pool and library repair and maintenance costs in 2025.

Capital Assets

At the end of 2025, the City of Clara City had $36,326,107 invested in a broad range of capital assets. Refer to Note 5 of the Notes to the Financial Statements for a schedule showing the City's capital asset activity.

Long-Term Liabilities

At year-end of the year, the City of Clara City had $10,440,103 in bonds and other long-term liabilities outstanding. Refer to Note 7 of the Notes to the Financial Statements for a schedule showing the City's long-term liability activity.

Economic Factors and Next Year's Budget

The City of Clara City’s appointed officials considered many factors when setting the fiscal year 2026 budget, rates, and fees that will be charged by the funds of the City. The major factor accounted for when adopting the General Fund budget is to hold all line items as much as possible to the 2025 final Budget.

Contacting the City's Financial Management

This financial report is designed to provide our residents, customers, and creditors with a general overview of the City of Clara City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional information, contact the City of Clara City, 215 Northwest First Street, P.O. Box 560, Clara City, Minnesota 56222, (320) 847-2142, or cityofcc@hcinet.net. If you have any questions about the Care Center report, please contact the administrator at Clara City Care Center, 1012 N Division Street, Clara City, Minnesota 56222.

BASIC FINANCIAL STATEMENTS

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CITY OF CLARA CITY, MINNESOTA

STATEMENT OF NET POSITION
DECEMBER 31, 2025

	Governmental Activities	Business-Type Activities	Total
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			
Cash	$ 2,625,657	$ 2,219,763	$ 4,845,420
Restricted Cash		177,034	177,034
Receivables			
Accounts, Net of Allowance for Uncollectibles	89,194	851,493	940,687
Accrued Interest	8,357		8,357
Taxes	70,230	298	70,528
Special Assessments	330,004		330,004
Notes	223,838		223,838
Lease	216,426		216,426
Other		432	432
Internal Balances	2,141,899	(1,297,242)	844,657
Prepaid Items	8,276		8,276
Land Held for Resale	405,435		405,435
Capital and Right to Use Assets			
Assets Not Being Depreciated	197,509	78,336	275,845
Other Capital and Right to Use Assets, Net of Depreciation and Amortization	7,770,610	11,201,017	18,971,627
Net Pension Asset	354,699		354,699
Total Assets	14,442,134	13,231,131	27,673,265
Deferred Outflows of Resources	52,853	271,240	324,093
Total Assets and Deferred Outflows of Resources	$ 14,494,987	$ 13,502,371	$ 27,997,358
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION			
Liabilities			
Current Liabilities			
Accounts Payable	$ 422,666	$ 823,780	$ 1,246,446
Accrued Interest Payable	73,422	13,708	87,130
Accrued Salaries	4,178	173,660	177,838
Accrued Expenses - Other		988	988
Customer Deposits		73,350	73,350
Unearned Revenue	134	8,105	8,239
Long-Term Liabilities			
Resident Trust Funds		2,885	2,885
Net Pension Liability	94,061	1,149,685	1,243,746
Other Long-Term Liabilities Due Within One Year	820,552	527,508	1,348,060
Other Long-Term Liabilities Due in More Than One Year	5,314,399	3,777,644	9,092,043
Total Liabilities	6,729,412	6,551,313	13,280,725
Deferred Inflows of Resources			
Related to Pensions	269,276	770,403	1,039,679
Related to Leases	216,426		216,426
Total Deferred Inflows of Resources	485,702	770,403	1,256,105
Net Position			
Net Investment in Capital Assets	2,547,228	7,091,375	9,638,603
Restricted for Donor Restrictions		19,246	19,246
Restricted for Debt Service	1,598,986	177,034	1,776,020
Restricted for Tax Increment	28,417		28,417
Unrestricted	3,105,242	(1,107,000)	1,998,242
Total Net Position	7,279,873	6,180,655	13,460,528
Total Liabilities, Deferred Inflows of Resources and Net Position	$ 14,494,987	$ 13,502,371	$ 27,997,358

See Accompanying Notes to the Financial Statements

CITY OF CLARA CITY, MINNESOTA

STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2025

		Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Expenses	Fees, Fines, and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
GOVERNMENTAL ACTIVITIES							
General Government	$ 393,316	$ 16,834	$	$	$ (376,482)	$	$ (376,482)
Public Safety	343,772	82,168	39,281		(222,323)		(222,323)
Public Works	773,797	36,781		16,573	(720,443)		(720,443)
Recreation and Parks	298,116	29,201	10,000		(258,915)		(258,915)
Economic Development	108,269	20,639	2,946		(84,684)		(84,684)
Other	3,141				(3,141)		(3,141)
Interest on Long-Term Debt	179,294			56,785	(122,509)		(122,509)
Total Governmental Activities	2,099,705	185,623	52,227	73,358	(1,788,497)	0	(1,788,497)
BUSINESS-TYPE ACTIVITIES							
Water	330,602	565,181				234,579	234,579
Sewer	414,575	542,069				127,494	127,494
Ambulance Service	132,344	127,621	89,398			84,675	84,675
Congregate Housing	324,218	375,594				51,376	51,376
Assisted Living	1,456,946	1,442,679	8,500			(5,767)	(5,767)
Care Center	5,481,757	5,293,280				(188,477)	(188,477)
Total Business-Type Activities	8,140,442	8,346,424	97,898	0	0	303,880	303,880
Total	$ 10,240,147	$ 8,532,047	$ 150,125	$ 73,358	(1,788,497)	303,880	(1,484,617)
GENERAL REVENUES							
Property Taxes					1,573,081		1,573,081
Franchise Fees					59,324		59,324
Grants and Contributions Not Restricted to Specific Programs					516,911		516,911
Unrestricted Investment Earnings					51,515	12,833	64,348
Other					84,794	22,919	107,713
TRANSFERS					359,628	(357,128)	2,500
Total General Revenues and Transfers					2,645,253	(321,376)	2,323,877
Change in Net Position					856,756	(17,496)	839,260
NET POSITION, BEGINNING OF YEAR					6,423,117	6,198,151	12,621,268
NET POSITION, END OF YEAR					$ 7,279,873	$ 6,180,655	$ 13,460,528

See Accompanying Notes to the Financial Statements

CITY OF CLARA CITY, MINNESOTA

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2025

	General	Economic Development Authority	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash	$ 686,506	$ 523,090	$ 1,416,061	$ 2,625,657
Receivables				
Accounts	89,194			89,194
Accrued Interest	8,357			8,357
Taxes	27,701	236	42,293	70,230
Special Assessments			330,004	330,004
Notes		223,838		223,838
Lease	216,426			216,426
Prepaid Items	8,276			8,276
Land Held for Resale		405,435		405,435
Due from Other Funds	2,157,481	153,301		2,310,782
Advance to Other Funds	23,227			23,227
Total Assets	$ 3,217,168	$ 1,305,900	$ 1,788,358	$ 6,311,426
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE				
Liabilities				
Accounts Payable	$ 127,799	$ 207,708	$ 87,159	$ 422,666
Accrued Salaries	4,178			4,178
Unearned Revenue	134			134
Due to Other Funds	39,488		152,622	192,110
Total Liabilities	171,599	207,708	239,781	619,088
Deferred Inflows of Resources				
Unavailable Revenues				
Property Taxes - Delinquent	6,484	167	15,069	21,720
Special Assessments			330,004	330,004
Lease	216,426			216,426
Total Deferred Inflows of Resources	222,910	167	345,073	568,150
Fund Balance				
Nonspendable				
Prepaid Items	8,276			8,276
Advance to Other Funds	23,227			23,227
Restricted				
Debt Service			1,327,335	1,327,335
Tax Increment			28,417	28,417
Committed	835,511			835,511
Assigned for Fund Operations		1,098,025		1,098,025
Unassigned	1,963,921		(152,248)	1,811,673
Total Fund Balance	2,822,659	1,098,025	1,203,504	5,124,188
Total Liabilities, Deferred Inflows of Resources and Fund Balance	$ 3,217,168	$ 1,305,900	$ 1,788,358	$ 6,311,426

See Accompanying Notes to the Financial Statements

CITY OF CLARA CITY, MINNESOTA

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

		2025
Total Fund Balances - Governmental Funds	$	5,124,188
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Certain assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds.		
Net Pension Asset		354,699
Capital Assets		14,468,985
Less: Accumulated Depreciation		(6,500,866)
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		
Delinquent Property Taxes		21,720
Special Assessments		330,004
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.		
Deferred Outflows of Resources Related to Pensions		52,853
Deferred Inflows of Resources Related to Pensions		(269,276)
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.		
Bonds and Notes Payable		(5,960,428)
Financed Purchase		(81,068)
Compensated Absences		(7,443)
Bond Premium		(86,012)
Interest Payable		(73,422)
Net Pension Liability		(94,061)
Total Net Position - Governmental Activities	$	7,279,873

See Accompanying Notes to the Financial Statements

CITY OF CLARA CITY, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2025

	General	Economic Development Authority	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Taxes	$ 750,077	$ 14,521	$ 859,713	$ 1,624,311
Special Assessments	43,468		78,832	122,300
Licenses and Permits	2,662			2,662
Intergovernmental	566,677			566,677
Charges for Services	165,481	1,560		167,041
Fines and Forfeits	2,232			2,232
Contributions	6,088		10,000	16,088
Interest Income	37,268	12,257	1,990	51,515
Miscellaneous	103,873	2,946		106,819
Total Revenues	1,677,826	31,284	950,535	2,659,645
EXPENDITURES				
Current				
General Government	401,492			401,492
Public Safety	465,678			465,678
Public Works	363,779			363,779
Recreation and Parks	344,262			344,262
Economic Development		9,487	98,687	108,174
Other	3,141			3,141
Debt Service				
Principal	34,722		765,000	799,722
Interest and Other Charges	5,834		199,406	205,240
Capital Outlay				
Public Safety	36,055			36,055
Recreation and Parks	38,170			38,170
Total Expenditures	1,693,133	9,487	1,063,093	2,765,713
Excess (Deficiency) of Revenues Over (Under) Expenditures	(15,307)	21,797	(112,558)	(106,068)
OTHER FINANCING SOURCES (USES)				
Transfers In	195,540		529,587	725,127
Transfers Out		(3,000)	(362,499)	(365,499)
Total Other Financing Sources (Uses)	195,540	(3,000)	167,088	359,628
Net Change in Fund Balances	180,233	18,797	54,530	253,560
FUND BALANCE, BEGINNING OF YEAR	2,642,426	1,079,228	1,148,974	4,870,628
FUND BALANCE, END OF YEAR	$ 2,822,659	$ 1,098,025	$ 1,203,504	$ 5,124,188

See Accompanying Notes to the Financial Statements

CITY OF CLARA CITY, MINNESOTA

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2025

	2025
Total Net Change in Fund Balances - Governmental Funds	$ 253,560
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense.	
Capital Outlay	330,171
Depreciation Expense	(554,034)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	
Unavailable Revenues, December 31, 2025	351,724
Unavailable Revenues, December 31, 2024	(409,145)
Some expenses reported in the Statement of Activities do not require the use of current resources and, therefore, are not reported as expenditures in governmental funds.	
Compensated Absences	5,990
Pension Expense	52,822
Bonds issued provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.	
Principal Retirement of Long-Term Debt	799,722
Amortization of Bond Premiums	16,630
Change in Accrued Interest Payable	9,316
Change in Net Position - Governmental Activities	$ 856,756

See Accompanying Notes to the Financial Statements

CITY OF CLARA CITY, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED DECEMBER 31, 2025

	Budgeted Amounts			Over (Under) Final
	Original	Final	Actual	Budget
REVENUES				
Taxes	$ 748,050	$ 748,050	$ 750,077	$ 2,027
Special Assessments			43,468	43,468
Licenses and Permits	3,750	3,750	2,662	(1,088)
Intergovernmental	509,029	509,029	566,677	57,648
Charges for Services	102,100	102,100	165,481	63,381
Fines and Forfeits	5,000	5,000	2,232	(2,768)
Contributions			6,088	6,088
Interest Income	5,000	5,000	37,268	32,268
Miscellaneous			103,873	103,873
Total Revenues	1,372,929	1,372,929	1,677,826	304,897
EXPENDITURES				
Current				
General Government	362,350	362,350	401,492	39,142
Public Safety	352,653	352,653	465,678	113,025
Public Works	348,250	348,250	363,779	15,529
Recreation and Parks	208,676	208,676	344,262	135,586
Other	86,000	86,000	3,141	(82,859)
Debt Service				
Principal	41,600	41,600	34,722	(6,878)
Interest			5,834	5,834
Capital Outlay				
Public Safety			36,055	36,055
Recreation and Parks			38,170	38,170
Total Expenditures	1,399,529	1,399,529	1,693,133	293,604
Excess (Deficiency) of Revenues Over (Under) Expenditures	(26,600)	(26,600)	(15,307)	11,293
OTHER FINANCING SOURCES (USES)				
Transfers In	190,000	190,000	195,540	5,540
Transfers Out	(8,775)	(8,775)		8,775
Total Other Financing Sources (Uses)	181,225	181,225	195,540	14,315
Net Change in Fund Balance	$ 154,625	$ 154,625	180,233	$ 25,608
FUND BALANCE, BEGINNING OF YEAR			2,642,426	
FUND BALANCE, END OF YEAR			$ 2,822,659	

See Accompanying Notes to the Financial Statements

CITY OF CLARA CITY, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
ECONOMIC DEVELOPMENT AUTHORITY SPECIAL REVENUE FUND
YEAR ENDED DECEMBER 31, 2025

	Budgeted Amounts			Over (Under) Final
	Original	Final	Actual	Budget
REVENUES				
Taxes	$ 15,000	$ 15,000	$ 14,521	$ (479)
Charges for Services			1,560	
Interest Income			12,257	12,257
Miscellaneous			2,946	2,946
Total Revenues	15,000	15,000	31,284	14,724
EXPENDITURES				
Current				
Economic Development				
Loan Interest Repayment			1,485	1,485
Other Services	4,500	4,500	6,755	2,255
Insurance	1,200	1,200	125	(1,075)
Other	1,400	1,400	1,122	(278)
Total Expenditures	7,100	7,100	9,487	2,387
Excess (Deficiency) of Revenues Over (Under) Expenditures	7,900	7,900	21,797	12,337
OTHER FINANCING SOURCES (USES)				
Transfers Out	(3,000)	(3,000)	(3,000)	
Net Change in Fund Balance	$ 4,900	$ 4,900	18,797	$ 12,337
FUND BALANCE, BEGINNING OF YEAR			1,079,228	
FUND BALANCE, END OF YEAR			$ 1,098,025	

See Accompanying Notes to the Financial Statements

CITY OF CLARA CITY, MINNESOTA

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2025

	Business-Type Activities - Enterprise Funds						
	Water	Sewer	Ambulance Service	Congregate Housing	Assisted Living	September 30, 2025 Care Center	Total
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES							
Assets							
Current Assets							
Cash	$ 990,066	$ 669,986	$ 434,281	$ 85,630	$	$ 7,597	$ 2,187,560
Restricted Cash						177,034	177,034
Receivables							
Accounts, Net of Allowance for Uncollectible	55,758	55,036	148,566		86,409	505,724	851,493
Taxes	222	76					298
Other						432	432
Due from Other Funds				31,230	397,100	165,252	593,582
Total Current Assets	1,046,046	725,098	582,847	116,860	483,509	856,039	3,810,399
Noncurrent Assets							
Cash						32,203	32,203
Capital and Right to Use Assets							
Assets Not Being Depreciated	2,700	7,205				68,431	78,336
Other Capital and Right-to-Use Assets, Net of Depreciation and Amortization	2,672,264	2,079,788	142,498	644,495	2,665,826	2,996,146	11,201,017
Total Noncurrent Assets	2,674,964	2,086,993	142,498	644,495	2,665,826	3,096,780	11,311,556
Total Assets	3,721,010	2,812,091	725,345	761,355	3,149,335	3,952,819	15,121,955
Deferred Outflows of Resources							
Related to Pensions	2,277	2,277				266,686	271,240
Total Assets and Deferred Outflows of Resources	$ 3,723,287	$ 2,814,368	$ 725,345	$ 761,355	$ 3,149,335	$ 4,219,505	$ 15,393,195

See Accompanying Notes to the Financial Statements

CITY OF CLARA CITY, MINNESOTA

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2025

	Business-Type Activities - Enterprise Funds						
	Water	Sewer	Ambulance Service	Congregate Housing	Assisted Living	September 30, 2025 Care Center	Total
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION							
Liabilities							
Current Liabilities							
Due to Other Funds	$	$	$	$	$ 1,170,397	$ 697,200	$ 1,867,597
Advance from Other Funds					23,227		23,227
Accounts Payable	17,112	16,410	9,859	27,978	115,227	637,194	823,780
Accrued Interest Payable		3,037			2,736	7,935	13,708
Accrued Salaries	411	3,932				169,317	173,660
Accrued Expenses - Other						988	988
Customer Deposits				23,328	50,022		73,350
Unearned Revenue	2,048	2,020			4,037		8,105
Current Portion of Long-Term Liabilities		59,000			165,000	303,508	527,508
Total Current Liabilities	19,571	84,399	9,859	51,306	1,530,646	1,816,142	3,511,923
Long-Term Liabilities							
Resident Trust Funds						2,885	2,885
Compensated Absences	671	671					1,342
General Obligation Revenue Bonds, Net of Current Portion		317,000			1,800,000	1,565,000	3,682,000
Long-Term Leases						16,902	16,902
Unamortized Bond Premium					55,155	22,245	77,400
Net Pension Liability	11,291	11,291				1,127,103	1,149,685
Total Long-Term Liabilities	11,962	328,962	0	0	1,855,155	2,734,135	4,930,214
Total Liabilities	31,533	413,361	9,859	51,306	3,385,801	4,550,277	8,442,137
Deferred Inflows of Resources							
Related to Pensions	11,996	11,996				746,411	770,403
Net Position							
Net Investment in Capital Assets	2,674,964	1,710,993	142,498	644,495	645,671	1,272,754	7,091,375
Restricted for Donor Restrictions						19,246	19,246
Restricted for Debt Service						177,034	177,034
Unrestricted	1,004,794	678,018	572,988	65,554	(882,137)	(2,546,217)	(1,107,000)
Total Net Position	3,679,758	2,389,011	715,486	710,049	(236,466)	(1,077,183)	6,180,655
Total Liabilities, Deferred Inflows of Resources and Net Position	$ 3,723,287	$ 2,814,368	$ 725,345	$ 761,355	$ 3,149,335	$ 4,219,505	$ 15,393,195

See Accompanying Notes to the Financial Statements

CITY OF CLARA CITY, MINNESOTA

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2025

	Business-Type Activities - Enterprise Funds						
	Water	Sewer	Ambulance Service	Congregate Housing	Assisted Living	September 30, 2025 Care Center	Total
OPERATING REVENUES							
Charges for Services	$ 564,191	$ 542,069	$ 127,282	$	$ 811,579	$	$ 2,045,121
Net Resident Revenue						5,144,432	5,144,432
Rents				366,625	621,750		988,375
Other	990		339	8,969	9,350	148,848	168,496
Total Operating Revenues	565,181	542,069	127,621	375,594	1,442,679	5,293,280	8,346,424
OPERATING EXPENSES							
Salaries and Benefits	27,406	30,927	43,427	137,468	1,038,582	3,776,311	5,054,121
Purchased Services	53,687	82,952	15,517	62,564	191,475	466,063	872,258
Supplies	60,974	42,597	16,595	11,494	16,207	508,014	655,881
Depreciation and Amortization	135,519	158,166	26,919	43,311	72,109	168,420	604,444
Insurance	9,005	12,667	4,751	11,351	13,956	48,828	100,558
Utilities	38,387	75,916		57,147	64,825	159,343	395,618
Surcharge						135,120	135,120
Software Maintenance and Support					9,992	7,060	17,052
Bad Debts (Recoveries)						68,263	68,263
Miscellaneous	5,624	3,968	25,135	883	18,883	84,956	139,449
Total Operating Expenses	330,602	407,193	132,344	324,218	1,426,029	5,422,378	8,042,764
Operating Income (Loss)	234,579	134,876	(4,723)	51,376	16,650	(129,098)	303,660
NONOPERATING REVENUES (EXPENSES)							
Interest Income	5,183	3,026	1,598	351	1,176	1,499	12,833
Contributions			18,339		8,500		26,839
Intergovernmental			71,059				71,059
Other						22,919	22,919
Amortization of Bond Premium					5,130		5,130
Interest Expense		(7,382)			(36,047)	(59,379)	(102,808)
Total Nonoperating Revenues (Expenses)	5,183	(4,356)	90,996	351	(21,241)	(34,961)	35,972
Income (Loss) Before Transfers	239,762	130,520	86,273	51,727	(4,591)	(164,059)	339,632
TRANSFERS							
Transfers Out	(186,981)	(105,147)		(10,000)	(25,000)	(30,000)	(357,128)
Change in Net Position	52,781	25,373	86,273	41,727	(29,591)	(194,059)	(17,496)
NET POSITION, BEGINNING OF YEAR	3,626,977	2,363,638	629,213	668,322	(206,875)	(883,124)	6,198,151
NET POSITION, END OF YEAR	$ 3,679,758	$ 2,389,011	$ 715,486	$ 710,049	$ (236,466)	$ (1,077,183)	$ 6,180,655

See Accompanying Notes to the Financial Statements

CITY OF CLARA CITY, MINNESOTA

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2025

	Business-Type Activities - Enterprise Funds						
	Water	Sewer	Ambulance Service	Congregate Housing	Assisted Living	September 30, 2025 Care Center	Total
CASH FLOWS FROM OPERATING ACTIVITIES							
Receipts from Customers	$ 564,938	$ 544,755	$ 115,579	$ 366,625	$ 1,417,413	$ 5,196,884	$ 8,206,194
Receipts from Other Revenues	990		18,678	8,969	17,850		46,487
Payments to Employees	(37,879)	(37,879)	(43,427)	(137,468)	(1,038,582)	(4,047,154)	(5,342,389)
Payments to Suppliers and Contractors						(1,554,116)	(1,554,116)
Payments to Other Sources	(169,713)	(239,315)	(54,420)	(134,773)	(288,420)	(68,263)	(954,904)
Other Receipts and Payments, Net						148,848	148,848
Net Cash Provided (Used) by Operating Activities	358,336	267,561	36,410	103,353	108,261	(323,801)	550,120
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES							
Intergovernmental			1,430				1,430
Transfers	(186,981)	(105,147)		(10,000)	(25,000)	(30,000)	(357,128)
Interfund Loans				(8,074)	111,877	58,786	162,589
Net Proceeds (Payments) for Line of Credit						553,382	553,382
Other						22,919	22,919
Net Cash Provided (Used) by Non-Capital Financing Activities	(186,981)	(105,147)	1,430	(18,074)	86,877	605,087	383,192
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES							
Principal Paid on Long-Term Debt		(58,000)			(160,000)	(170,000)	(388,000)
Interest Paid on Long-Term Debt		(7,850)			(36,314)	(59,379)	(103,543)
Principal Paid on Lease Liabilities						(16,717)	(16,717)
Interest Paid on Lease Liabilities						(2,382)	(2,382)
Acquisition of Capital Assets			(49,495)			(62,159)	(111,654)
Net Cash Provided (Used) by Capital and Related Financing Activities	0	(65,850)	(49,495)	0	(196,314)	(310,637)	(622,296)
CASH FLOWS FROM INVESTING ACTIVITIES							
Interest Received	5,183	3,026	1,598	351	1,176	1,499	12,833
Net Increase (Decrease) in Cash	176,538	99,590	(10,057)	85,630	0	(27,852)	323,849

See Accompanying Notes to the Financial Statements

CITY OF CLARA CITY, MINNESOTA

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2025

	Business-Type Activities - Enterprise Funds						
	Water	Sewer	Ambulance Service	Congregate Housing	Assisted Living	September 30, 2025 Care Center	Total
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	$ 813,528	$ 570,396	$ 444,338	$	$	$ 244,686	$ 2,072,948
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 990,066	$ 669,986	$ 434,281	$ 85,630	$ 0	$ 216,834	$ 2,396,797
RECONCILIATION OF CASH							
Cash - Current	$ 990,066	$ 669,986	$ 434,281	$ 85,630	$	$ 7,597	$ 2,187,560
Restricted Cash						177,034	177,034
Cash - Noncurrent						32,203	32,203
Total Cash and Cash Equivalents	$ 990,066	$ 669,986	$ 434,281	$ 85,630	$ 0	$ 216,834	$ 2,396,797
RECONCILIATION OF OPERATING INCOME (LOSS) TO CASH FLOWS FROM OPERATING ACTIVITIES							
Operating Income (Loss)	$ 234,579	$ 134,876	$ (4,723)	$ 51,376	$ 16,650	$ (129,098)	$ 303,660
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities							
Contributions			18,339		8,500		26,839
Depreciation and Amortization	135,519	158,166	26,919	43,311	72,109	168,420	604,444
Pension Related Adjustments	(7,900)	(7,900)				(284,792)	(300,592)
(Increase) Decrease in							
Accounts Receivable	(4,557)	666	(11,703)		(19,953)	52,452	16,905
Prepaid Items						3,480	3,480
Increase (Decrease) in							
Accounts Payable, Accrued Expenses and Customer Deposits, Refundable Advance and Resident Trust Funds	(2,036)	(21,215)	7,578	8,666	26,918	(148,212)	(128,301)
Accrued Salaries and Compensated Absences	(2,573)	948				13,949	12,324
Unearned Revenue	5,304	2,020			4,037		11,361
Total Adjustments	123,757	132,685	41,133	51,977	91,611	(194,703)	246,460
Net Cash Provided (Used) by Operating Activities	$ 358,336	$ 267,561	$ 36,410	$ 103,353	$ 108,261	$ (323,801)	$ 550,120
NONCASH FINANCING ACTIVITIES							
Amortization of Premium on Bonds Payable	$ 0	$ 0	$ 0	$ 0	$ 5,130	$ 0	$ 5,130

See Accompanying Notes to the Financial Statements

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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

The City of Clara City, Minnesota is a statutory city governed by an elected mayor and four council members. The accompanying financial statements present the government entities for which the government is considered to be financially accountable.

The financial statements present the City and its component units. The City includes all funds, account groups, organizations, institutions, agencies, departments and offices that are not legally separate from such. Component units are legally separate organizations for which the elected officials of the City are financially accountable, or for which the exclusion of the component unit would render the financial statements of the City to be misleading.

The criteria used to determine if the City is financially accountable for a component unit includes whether or not 1) the City appoints the voting majority of the potential component unit's governing body and is able to impose its will on the potential component unit or is in a relationship of financial benefit or burden with the potential component unit, or 2) the potential component unit is fiscally dependent on and there is a potential for the potential component unit to provide specific financial benefits to, or impose specific financial burdens on, the City.

As a result of applying the component unit definition criteria above, certain organizations have been defined and are presented in this report as follows:

Blended Component Unit - Reported as if they were part of the City.

For each of the categories above, the specific entities are identified as follows.

Blended Component Unit

The City of Clara City has coordinated economic development efforts with the Clara City Economic Development Authority (CCEDA), a separate legal entity organized to promote and fund economic development loans in Clara City, including the appointment of a minority of the CCEDA's board members, and the approval of certain transactions. Separate financial statements of the CCEDA are not prepared.

The City of Clara City owns the Clara City Care Center, a 60-bed licensed long-term health care facility, and is presented as an enterprise fund of the City of Clara City, Minnesota. The separate financial statements of the Care Center may be obtained at City Hall.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the City. Governmental activities, which 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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Cont'd)

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

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

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. 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 after the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, special assessments, intergovernmental revenue, charges for services, 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. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

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

The Economic Development Authority Special Revenue Fund is used to account for economic development activities within the City; financing is provided by program, contribution and interest income revenues.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION (Cont'd)

The City reports the following major enterprise funds:

The Water Fund accounts for the operations of the City's water utility.

The Sewer Fund accounts for the operations of the City's sewer utility.

The Ambulance Service Fund accounts for the operations of the City owned ambulance service.

The Congregate Housing Fund accounts for the operations of the City owned senior congregate housing facility.

The Assisted Living Fund accounts for the operations of the City owned assisted living facility.

The Care Center Fund accounts for the operations of the City owned care center.

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. 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.

It is generally the City's policy to use restricted resources first, then unrestricted resources as they are needed when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

D. DEPOSITS AND INVESTMENTS

The City's cash and cash equivalents are considered to be cash on hand, deposits and highly liquid debt instruments purchased with original maturities of three months or less from the date of acquisition.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

D. DEPOSITS AND INVESTMENTS (Cont'd)

The City may invest in the following types of investments as authorized by Minn. Stat. §§118A.04 and 118A.05:

(1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as "high risk" by Minn. Stat. §118A.04, subd. 6;

(2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;

(3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;

(4) time deposits that are fully insured by the Federal Deposit Insurance Corporation or bankers acceptances of United States bank;

(5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by at least two nationally recognized rating agencies and matures in 270 days or less; and

(6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

Cash and cash equivalents were comprised of deposit accounts, money market accounts, and non-negotiable certificates of deposits.

Cash balances from all funds of the City are pooled and invested, to the extent available, in allowable cash management accounts and time deposits. Earnings from such accounts are allocated to the respective funds on the basis of applicable cash balance participation by each fund.

The City does not have an investment policy in place that addresses interest rate risk, credit risk, concentration of credit risk or custodial credit risk.

Custodial Credit Risk - Deposits: For deposits, this is the risk that in the event of bank failure, the City's deposits may not be returned to it. Minnesota Statutes require all City deposits be protected by federal deposit insurance, corporate surety bonds, or collateral. The market value of collateral pledged must be 110 percent more than the amount on deposit plus accrued interest at the close of the financial institution's banking day, not covered by Federal Deposit Insurance Corporation (FDIC) insurance or corporate surety bonds. The City has no formal policy in place to address custodial credit risk for deposits.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

D. DEPOSITS AND INVESTMENTS (Cont'd)

Authorized collateral includes the obligations of the U.S. Treasury, agencies, and instrumentalities, shares of investment companies whose only investments are in the aforementioned securities, obligations of the State of Minnesota or its municipalities, bankers' acceptances, futures contracts, repurchase and reverse purchase agreements, and commercial paper of the highest quality with a maturity of no longer than 270 days, as well as certain first mortgage notes, and certain other state or local government obligations. Minnesota Statutes require that securities pledged as collateral be held in safekeeping by the City treasurer or in a financial institution other than furnishing the collateral.

Interest Rate Risk: This is the risk that market values of securities in a portfolio would decrease due to changes in market interest rates. The City minimizes its exposure to interest rate risk by investing in short-term and long-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. However, the City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation to the holder of the investment. Minnesota Statutes §118A.04 and §118A.05 limits investments that are in the top two ratings issued by nationally recognized statistical rating organizations. The City does not have an investment policy that further limits credit risk.

Custodial Credit Risk: For investments, this is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does not have a formal policy to address custodial credit risk.

Concentration of Credit Risk: This is the risk of loss attributed to the magnitude of an investment in a single issuer. Investments should be diversified to avoid incurring unreasonable risk inherent in over investing in specific instruments, individual financial institutions or maturities. The City does not have a formal policy to address concentration of credit risk.

Noncurrent cash includes assets designated by the Care Center for future capital improvements, over which the Care Center retains control and may at its discretion use for other purposes and expendable restricted assets by donors and resident trust funds. Noncurrent cash that is available for obligations classified as current liabilities are reported in current assets.

E. RECEIVABLES AND PAYABLES

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

All trade and property tax receivables are shown at a gross amount since both are assessable to the property taxes and are collectible upon the sale of property.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

E. RECEIVABLES AND PAYABLES (Cont'd)

The City levies its property tax for the subsequent year during the month of December. December 30th is the last day the City can certify a tax levy to the County Auditor for collection the following year. Such taxes become a lien on January 1 and are recorded as receivables by the City at that date. The property tax is recorded as revenue when it becomes measurable and available. Chippewa County is the collecting agency for the levy and remits the collections to the City three times a year. The tax levy notice is mailed in March with the first half payment due on May 15 and the second half payment due on October 15. Taxes not collected as of December 31 each year are shown as taxes receivable.

The County Auditor prepares the tax list for all taxable property in the City, applying the applicable tax rate to the tax capacity of individual properties, to arrive at the actual tax for each property. The County Auditor also collects all special assessments, except for certain prepayments paid directly to the City.

The County Auditor submits the list of taxes and special assessments to be collected on each parcel of property to the County Treasurer in January of each year.

Assessments are levied at various times upon City Council resolution for property owner improvements made by the City. Generally, assessment collections are deferred over periods ranging from one to fifteen years. Revenue from these assessments is recognized when assessed in the government-wide financial statements and as the annual installments become collectible in the governmental funds of the fund financial statements. Annual installments not collected as of each December 31 are classified as delinquent assessments receivable. Delinquent assessments receivable are fully offset by deferred inflows of resources in the governmental funds of the fund financial statements because they are not known to be available to finance current expenditures.

Lease receivables represent amounts receivable from individuals, firms and corporations for the right to use of City assets. No substantial losses are anticipated from the present receivables balances and therefore, no allowance for uncollectible amounts is deemed necessary.

F. RESIDENT RECEIVABLES

Resident receivables are uncollateralized resident and third-party payor obligations reported in the Care Center Fund. No interest is charged on past due accounts. Payments of resident receivables are allocated to the specific claims identified or, if unspecified, are applied to the earliest unpaid claim.

The carrying amount of resident receivables is reduced by a valuation allowance that reflects management's estimate of amounts that will not be collected from residents. Management reviews resident receivables and estimates the amounts that will not be collected from residents due to bad debts. No interest is charged on past due accounts. Management considers historical write-off and recovery information in determining the estimated bad debt provision.

G. NOTES RECEIVABLE

Notes have been issued to financially assist local businesses.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

G. NOTES RECEIVABLE (Cont'd)

Notes receivable in governmental funds are reported as an asset in the amount of loan proceeds disbursed less collections on principal. An allowance for uncollectible notes, which offsets the total gross loans receivables, is recognized in the government-wide financial statements for the amount of notes receivable for which collection is doubtful or questionable.

The allowance for uncollectible notes is based upon an analysis of credit risk and payment delinquency. The allowance for doubtful accounts was $0.

H. PREPAID ITEMS

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

I. LAND HELD FOR RESALE

The City holds various other investments, such as land held for resale. These investments are reported at fair value, using the cost approach measurement using Level 2 inputs. The current quoted price for these investments are $405,435.

J. CAPITAL ASSETS

Capital assets, both tangible and intangible, which include property, plant, equipment, and infrastructure assets (e.g., roads, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Tangible and intangible capital assets are defined by the government as assets with an initial, individual cost of more than $5,000 for the City and $1,500 for the Care Center, 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 assets are recorded as capital assets at their estimated acquisition value at the date of donation.

Based on the age of the majority of the City's infrastructure and an exception for small governments in GASB Statement No. 34, the City has determined it is not practical to capitalize infrastructure retroactively. The current value of the infrastructure includes projects completed during the year ended December 31, 1985 and prospectively from that date.

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

Tangible and intangible assets of the City are depreciated using the straight-line, full month convention method over the following estimated useful lives:

Assets	Years
Buildings	20-40
Improvements Other than Buildings	20-40
Equipment	4-20

The City does not possess any material amounts of intangible assets.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

J. CAPITAL ASSETS (Cont'd)

Right to use leased assets are recognized at the lease commencement date and represent the Care Center's right to use an underlying asset for the lease term. Right to use leased assets are measured at the initial value of the lease liability, plus any payments made to the lessor before commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease term, plus any initial direct costs necessary to place the leased asset into service. Right to use leased assets are amortized over the shorter of the lease term or useful life of the underlying asset using the straight-line method. The amortization period is five years.

K. DEFERRED OUTFLOWS OF RESOURCES

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represents a consumption of net position that applies to a future reporting period. During that future period, it will be recognized as an outflow of resources (expense/expenditure). The City has one item that qualifies for reporting in this category on the government-wide and proprietary fund Statement of Net Position which is related to pensions.

L. RESIDENT TRUST FUNDS

The Care Center acts as a custodian for the funds of the residents. Resident trust funds total $2,885 at September 30, 2025.

M. UNEARNED REVENUE

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

N. COMPENSATED ABSENCES

A liability for compensated absences should be recognized for leave that has not been used and leave that has been used but not yet paid. A liability for leave that has not been used is recognized if the leave is attributable to services already rendered, the leave accumulates and the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. The liability for compensated absences reported in the financial statements, based on the criteria above, consists of unpaid, accumulated vacation and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. The liability for compensated absences is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements. Compensated absences are accrued when incurred in the government-wide and proprietary fund financial statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

N. COMPENSATED ABSENCES (Cont'd)

Vacation pay is accrued annually based on length of service and actual hours worked. City employees can carry over a maximum of one year's accrual (which is based on length of service) plus 10 days of earned but unused vacation. Vacation is 100% payable at severance of employment. City employees can accrue a maximum of 8 hours per month each year and carry over a maximum of 480 hours of sick leave. Part-time and temporary employees who work a minimum of 80 hours each year can accrue 1 hour of earned sick and safe leave for every 30 hours worked during that year, with a maximum accrued of 48 hours a year. Part-time and temporary employees can carry over a maximum of 80 hours of earned sick and safe leave. Sick leave and earned sick and safe leave are not payable upon termination.

The Care Center's employees earn paid time-off at varying rates depending on years of services. Employees may accumulate paid time-off up to a specified maximum. Employees are paid for accumulated paid time-off upon termination.

O. OTHER POSTEMPLOYMENT BENEFITS

The City pays the monthly cost of employee's single coverage. Employees pay the premium difference if they have a family level of coverage. Since the insurance rates are not aged based, the City has an implicit rate subsidy factor in postemployment health care expenses. Additionally, Minnesota Statutes require the City to allow retired employees to stay on the health care plan with the retiree responsible to pay the entire premium for continuation coverage. City management has estimated the potential liability based on prior experience and determined the need to accrue a postemployment benefits liability is immaterial to users of the financial statements. The City's personnel policy does not provide for any contributions upon employee retirement.

P. PENSIONS

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and the City of Clara City's Fire Relief Association and additions to/deductions from PERA's and the City of Clara City's Fire Relief Association's fiduciary net position have been determined on the same basis as they are reported by PERA and the City of Clara City's Fire Relief Association. 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 City participates in various pension plans; total pension expense for the year ended December 31, 2025, was $(130,996). The components of pension expense are noted in the plan summaries.

Q. 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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Q. LONG-TERM OBLIGATIONS (Cont'd)

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. The present value of lease payments expected to be made at the inception of a lease agreement is reported as other financing sources. Subsequent lease payments are reported as capital outlay expenditures.

R. DEFERRED INFLOWS OF RESOURCES

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. Deferred inflows of resources represents an acquisition of net position that applies to a future reporting period. During that future period, it will be recognized as an inflow of resources (revenue). The City has items that qualify for reporting in this category on both the government-wide and proprietary fund Statement of Net Position and the governmental fund financial statements related to property taxes, special assessments, pensions and leases.

S. FUND BALANCE

In the governmental 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 governmental funds. These classifications are as follows:

Nonspendable - consists of amounts that cannot be spent because it is not in spendable form or are legally or contractually required to be maintained intact, such as inventories and prepaid items.

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

Committed - consists of amounts that are constrained for specific purposes that are internally imposed by formal action (resolution) of the City. Those committed amounts cannot be used for any other purpose unless the City removes or changes the specified use by taking the same type of action it employed to previously commit those amounts.

Assigned - consists of amounts intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned amounts represent intended uses established by the governing body itself or by an official to which the governing body delegates the authority.

Unassigned - is the residual classification for the General Fund and also reflects negative residual amounts in the remaining governmental funds.

The City uses 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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

T. NET POSITION

Net position represents the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources in the government-wide and proprietary fund financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term liabilities used to build or acquire the capital assets. Net position is reported as restricted in the government-wide and proprietary fund financial statements when there are limitations on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Unrestricted net position consists of all other net position that does not meet the definition of restricted or net investment in capital assets.

U. NET RESIDENT SERVICE REVENUE

Routine services rendered to nursing home residents, who are beneficiaries of the Medicaid program or who pay from private resources, are paid according to a schedule of prospectively determined daily rates determined by Minnesota's Medicaid program. A rate is assigned to each nursing home resident based on the residents' ability to perform certain activities of daily living and on certain other clinical factors. By Minnesota statute, a nursing facility may not charge private paying residents in multiple occupancy rooms a rate in excess of the Medicaid rate for similar services. The operating component of the payment rate is determined on a cost-related basis subject to certain limitation. The property component of the payment rate is increased by an annual inflationary adjustment. Additional services may be paid on a fee-for-service basis.

The nursing facility participates in the Medicare program for which payment for services is made on a prospectively determined per diem rate that varies based on a case-mix adjusted resident classification system. Medicare utilizes a patient driven payment model (PDPM) to classify residents under the prospective payment system. The differences between the changes and payments are accounted for as contractual adjustments.

Revenues from the Medicare and Medicaid programs accounted for approximately 11% and 62% of the Care Center's resident service revenue for the year ended September 30, 2025.

V. USE OF ESTIMATES

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and deferred outflows of resources and liabilities and deferred inflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. BUDGETARY INFORMATION

The City Council adopts an annual budget. The amounts shown in the financial statements as "budget" represent the original budgeted amounts and all revisions made during the year. The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to September 1, the City Clerk submits to the City Council a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.

2. Public hearings are conducted to obtain taxpayer comments.

3. The budget is legally enacted through passage of a resolution after obtaining taxpayer comments. The budget resolution adopted by the City Council sets forth the budgets at the function level for the General and Special Revenue Funds.

4. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America.

5. Expenditures may not legally exceed budgeted appropriations at the department level. No fund's budget can be increased without City Council approval. Management may amend budgets within a department level, so long as the total department budget is not changed.

6. Annual appropriated budgets are adopted during the year for the General and Special Revenue Funds. Annual appropriated budgets are not adopted for Debt Service Funds because effective budgetary control is alternatively achieved through bond indenture provisions. Budgetary control for Capital Projects Funds is accomplished through the use of project controls and formal appropriated budgets are not adopted.

7. Budgeted amounts are as originally adopted or as amended by the City Council. Individual amendments were not material in relation to the original amounts budgeted. Budgeted expenditure appropriations lapse at year-end.

8. The City Clerk is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the City Council.

Encumbrances outstanding at year-end expire and outstanding purchase orders are canceled and not reported in the financial statements.

B. DEFICIT FUND BALANCES/NET POSITION

The following funds had deficit balances:

Assisted Living	$ (236,466)
Clara City Care Center	(1,077,183)
TIF 4-1	(115,350)
TIF 4-2	(36,898)

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Cont'd)

C. EXPENDITURES EXCEEDING APPROPRIATIONS

The following funds had expenditures that exceeded appropriations:

	Expenditures	Appropriations
General Fund	$ 1,693,133	$ 1,399,529
Economic Development Authority Special Revenue Fund	9,487	7,100

NOTE 3. DEPOSITS AND INVESTMENTS

A. DEPOSITS

In accordance with applicable Minnesota Statutes, the City maintains deposits at depository banks authorized by the City Council.

Custodial Credit Risk - Deposits: The City's bank balances were not exposed to custodial credit risk because they were fully insured through the FDIC as well as collateralized with securities held by the pledging financial institution's trust department or agent and in the City's name.

Pooled Cash in Checking Account	$ 1,815,543
Petty Cash	500
Money Market Deposit Account	2,168,351
Non-Negotiable Certificates of Deposit	821,226
Care Center Cash and Cash Equivalents	216,834
Total Deposits	$ 5,022,454

Deposits are presented in the basic financial statements as follows:

Statement of Net Position	
Cash - Current and Noncurrent	$ 4,845,420
Restricted Cash	177,034
Total Cash and Cash Equivalents	$ 5,022,454

B. RESTRICTED CASH - CLARA CITY CARE CENTER

Restricted cash for the Care Center is stated at cost and is broken down as follows:

Designated for Debt Repayment	$ 177,034

NOTE 3. DEPOSITS AND INVESTMENTS (Cont'd)

C. NONCURRENT CASH - CLARA CITY CARE CENTER

Noncurrent cash for the Care Center is stated at cost and is broken down as follows:

Internally Designated for Capital Acquisitions	$ 10,072
Restricted by Donors	19,246
Resident Trust Funds	2,885
Total Noncurrent Cash - Care Center	$ 32,203

NOTE 4. RECEIVABLES

A. COMPONENTS OF RECEIVABLES

Receivables are as follows:

	Total Receivables	Amounts not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Accounts	$ 89,194	$
Accrued Interest	8,357	
Taxes	70,230	
Special Assessments	330,004	268,530
Notes	223,838	157,495
Leases	216,426	209,553
Total Governmental Activities	$ 938,049	$ 635,578
Business-Type Activities		
Accounts	$ 851,493	$
Taxes	298	
Other	432	
Total Business-Type Activities	$ 852,223	$ 0

The City recognizes receivables in its various funds based on the accounting basis required for that fund. Allowances are provided for possible uncollectible accounts. Allowances for uncollectible accounts receivable are as follows:

Ambulance Fund Allowance	$ 98,695
Care Center Enterprise Fund Allowance	50,500
Total Allowances	$ 149,195

NOTE 4. RECEIVABLES (Cont'd)

B. LEASE RECEIVABLES

The City's leases are summarized as follows:

	Lease Receivable Balance	Lease Revenue	Lease Interest Revenue
Water Tower	$ 213,946	$ 5,398	$ 3,904
Condon Farm Lease	2,480	1,096	304
Total	$ 216,426	$ 6,494	$ 4,208

Water Tower Lease - On May 1, 2003, the City entered into a five-year lease agreement with eight options to renew for an additional five years with Verizon for the lease of the City's water tower. The City expects Verizon to renew the lease agreement after each five year agreement. Based on this agreement, the City will receive annual payments through 2048.

Condon Farm Lease - On March 27, 2024, the City entered into a four-year lease agreement with Robert and Kathryn Condon for the lease of City owned land. Based on this agreement, the City will receive annual payments through 2027.

NOTE 5. CAPITAL ASSETS

Capital asset activity for the year was as follows:

Governmental Activities	Beginning Balance	Increase	Decrease	Ending Balance
Capital Assets, Not Being Depreciated				
Land	$ 147,383	$	$	$ 147,383
Construction in Progress		50,126		50,126
Total Capital Assets, Not Being Depreciated	147,383	50,126	0	197,509
Capital Assets, Being Depreciated				
Buildings	1,458,626	115,159		1,573,785
Infrastructure	11,111,657			11,111,657
Equipment	1,421,148	164,886		1,586,034
Total Capital Assets, Being Depreciated	13,991,431	280,045	0	14,271,476

NOTE 5. CAPITAL ASSETS (Cont'd)

Governmental Activities	Beginning Balance	Increase	Decrease	Ending Balance
Less Accumulated Depreciation for				
Buildings	$ 683,974	$ 49,009	$	$ 732,983
Infrastructure	4,114,774	449,315		4,564,089
Equipment	1,148,084	55,710		1,203,794
Total Accumulated Depreciation	5,946,832	554,034	0	6,500,866
Total Capital Assets, Being Depreciated, Net	8,044,599	(273,989)	0	7,770,610
Governmental Activities Net Capital Assets	$ 8,191,982	$ (223,863)	$ 0	$ 7,968,119

Business-Type Activities	Beginning Balance	Increase	Decrease	Ending Balance
Capital Assets, Not Being Depreciated				
Land	$ 78,336	$	$	$ 78,336
Capital Assets, Being Depreciated				
Buildings	13,445,472	19,659		13,465,131
Improvements Other than Buildings	6,878,479			6,878,479
Equipment	1,258,105	91,995		1,350,100
Total Capital Assets, Being Depreciated	21,582,056	111,654	0	21,693,710
Right To Use Assets, Being Amortized				
Equipment	85,076			85,076
Total Capital and Right to Use Assets, Being Depreciated and Amortized	21,667,132	111,654	0	21,778,786
Less Accumulated Depreciation for				
Buildings	6,220,501	293,546		6,514,047
Improvements Other than Buildings	2,759,141	228,532		2,987,673
Equipment	957,804	65,351		1,023,155
Total Accumulated Depreciation	9,937,446	587,429	0	10,524,875

NOTE 5. CAPITAL ASSETS (Cont'd)

Business-Type Activities	Beginning Balance	Increase	Decrease	Ending Balance
Less Accumulated Amortization for Equipment	$ 35,879	$ 17,015	$	$ 52,894
Total Accumulated Depreciation and Amortization	9,973,325	604,444	0	10,577,769
Total Capital Assets, Being Depreciated and Amortized, Net	11,693,807	(492,790)	0	11,201,017
Business-Type Activities Net Capital and Right to Use Assets and Amortization	$ 11,772,143	$ (492,790)	$ 0	$ 11,279,353

Depreciation and amortization expense was charged to functions/programs as follows:

Governmental Activities	
General Government	$ 19,242
Public Safety	18,280
Public Works	435,671
Recreation and Parks	80,746
Economic Development	95
Total Depreciation Expense - Governmental Activities	$ 554,034
Business-Type Activities	
Water	$ 135,519
Sewer	158,166
Ambulance Service	26,919
Congregate Housing	43,311
Assisted Living Facility	72,109
Care Center	168,420
Total Depreciation and Amortization Expense - Business-Type Activities	$ 604,444

NOTE 6. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

A. INTERFUND RECEIVABLES AND PAYABLES

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
General	Nonmajor Governmental	$ 38,809
General	Assisted Living	1,170,397
General	Assisted Living	23,227
General ****	Clara City Care Center	736,291
General ***	Clara City Care Center	211,984
Economic Development Authority *	General	39,488
Economic Development Authority **	Nonmajor Governmental	113,813
Congregate Housing ***	Clara City Care Center	31,230
Assisted Living ***	Clara City Care Center	397,100
Total Interfund Balances		$ 2,762,339

The purpose of the above interfund loans were to cover construction cost overruns, reimbursements by other funds to cover costs paid by the EDA, and deficit cash balances.

* - $30,713 is the amount not scheduled for collection during the subsequent year.
** - $73,365 is the amount not scheduled for collection during the subsequent year.
*** - Due to timing differences of year ends between the City and the Care Center, the Care Center owes the General Fund $211,984, Congregate Housing $31,230 and Assisted Living Fund $397,100 at December 31, 2025. The outstanding balance for the Care Center's year ending was $0 to the General Fund, $0 to Congregate Housing and $0 to Assisted Living and $165,252 owed from Assisted Living to the Care Center at September 30, 2025.
**** - The Care Center entered into a line of credit with the General Fund during 2021. During 2025 the Care Center obtained an additional $919,810 on this line of credit and paid back $643,537 to the General Fund. The agreement does not have a maturity date and borrowings under the line of credit do not bear interest. The borrowings are unsecured and the amount outstanding at December 31, 2025 was $736,291. The outstanding balance for the Care Center's year ending was $697,200 at September 30, 2025.

NOTE 6. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS (Cont'd)

B. INTERFUND TRANSFERS

The composition of interfund transfers is as follows:

	Transfer In		
	General	Nonmajor Governmental	Total
Transfer Out			
Economic Development Authority	$ 3,000	$	$ 3,000
Nonmajor Governmental		362,499	362,499
Water	62,520	124,461	186,981
Sewer	62,520	42,627	105,147
Congregate Housing	10,000		10,000
Assisted Living	25,000		25,000
Care Center *	32,500		32,500
Total	$ 195,540	$ 529,587	$ 725,127

All transfers were to assist with various financing activities in the recipient funds.

* - Due to timing differences of year ends between the City and the Care Center, the Care Center transferred $32,500 to the General Fund as of December 31, 2025. The amount transferred as of the Care Center's year ending was $30,000 as of September 30, 2025.

NOTE 7. LONG-TERM LIABILITIES

A. GENERAL OBLIGATION BONDS

The City issues General Obligation (G.O.) Bonds to provide financing for street improvements, facility construction and tax increment projects. Debt service is covered respectively by special assessments, property taxes and tax increments against benefited properties with any shortfalls being paid from general taxes.

G.O. Bonds are direct obligations and pledge the full faith and credit of the City. These G.O. Bonds generally are issued as 15-year Serial Bonds with equal debt service payments each year.

NOTE 7. LONG-TERM LIABILITIES (Cont'd)

B. COMPONENTS OF LONG-TERM LIABILITIES

	Interest Rates	Final Maturity	Principal Outstanding
Governmental Activities			
G.O. Bonds			
G.O. Improvement Bonds, Series 2014C	0.60-3.25%	02/01/2030	$ 1,470,000
G.O. Improvement Bonds, Series 2014D	1.00-3.50%	02/01/2030	265,000
G.O. Improvement Bonds, Series 2016B	1.00-2.40%	02/01/2032	520,000
G.O. Tax Abatement Bond, Series 2016C	2.10%	02/01/2032	755,000
G.O. Bonds, Series 2018A	3.00-3.35%	02/01/2034	1,205,000
G.O. Improvement Refunding Bonds, Series 2020A	2.00%	02/01/2027	300,000
G.O. Water & Sewer Revenue Bonds, Series 2022A	2.25-3.50%	02/01/2038	525,000
G.O. Bonds, Series 2023A	4.00-5.00%	02/01/2034	735,000
Note Payable	1.50%	12/31/2037	185,428
Financed Purchase	2.99%	12/01/2027	81,068
Unamortized Bond Premium			86,012
Compensated Absences			7,443
Total Governmental Activities			$ 6,134,951

	Interest Rates	Final Maturity	Principal Outstanding
Business-Type Activities			
G.O. Revenue Bonds			
G.O. Nursing Home Revenue Bonds, Series 2014E	2.00-4.00%	02/01/2035	$ 1,420,000
G.O. Nursing Home Revenue Refunding Bonds, Series 2016A	0.95-2.30%	02/01/2031	315,000
G.O. Sewer Revenue Bonds, Series 2020B	2.00%	02/01/2031	260,000
G.O. Sewer Revenue Bonds, Series 2020C	1.80%	02/01/2031	116,000
G.O. Housing Revenue Refunding Bonds, 2021A	1.15-2.00%	12/01/2036	1,965,000
Long-Term Lease	3.00%	10/01/2027	34,578
Unamortized Bond Premium			77,400
Compensated Absences			117,174
Total Business-Type Activities			$ 4,305,152

The General and Debt service funds are used to liquidate the governmental activities outstanding bonded indebtedness, notes and financed purchase. The General Fund has historically been used to liquidate the outstanding governmental activities compensated absences.

For debt issued by PFA, if an event of default occurs on any outstanding debt items including direct borrowings of the City, the City may be subject to financial consequences. The consequences could be any of the following: (1) an additional interest penalty by the Authority of the related debt, (2) withhold approval of any disbursement request, (3) reject any pending application for financial assistance, (4) demand immediate payment of the loan or bond, or (5) any other remedy available to the Authority by law.

NOTE 7. LONG-TERM LIABILITIES (Cont'd)

B. COMPONENTS OF LONG-TERM LIABILITIES (Cont'd)

In April 2020, the City issued $990,000 of General Obligation Improvement Refunding Bonds, Series 2020A. The notes were issued to refund General Obligation Improvement Bonds, Series 2011A. The total cash savings to the City of $51,934 with a net present value benefit of $50,349.

The loader is pledged as collateral for the Financed Purchase and the purchase is subject to certain payment and procedure provisions if a default occurs.

In September 2021, the City issued $2,585,000 of General Obligation Housing Revenue Refunding Bonds, Series 2021A. The notes were issued to refund General Obligation Housing Revenue Bonds, Series 2014A. The total cash savings to the City was in amount of $572,369, with a net present value benefit of $522,838.

On August 2, 2022 the City issued $580,000 G.O. Water and Sewer Revenue Bonds, Series 2022A with a 2.25 - 3.50% interest rate to fund the Water Tower and Lift Station projects.

On May 25, 2023, the City issued $795,000 of General Obligation Bonds, Series 2023A with a 4.00% - 5.00% interest rate. The notes were issued to finance the construction of various improvements in the City. The bond was issued at a premium of $69,620.

C. MINIMUM DEBT PAYMENTS

Debt service requirements are as follows:

Year Ending December 31	G.O. Bonds Principal	G.O. Bonds Interest	Note Payable Principal	Note Payable Interest
2026	$ 785,000	$ 164,914	$ 14,219	$ 2,580
2027	810,000	142,958	14,432	2,367
2028	820,000	119,510	14,648	2,151
2029	835,000	94,270	14,868	1,931
2030	855,000	67,871	15,091	1,708
2031-2035	1,535,000	119,930	78,918	5,077
2036-2038	135,000	7,088	33,252	347
	$ 5,775,000	$ 716,540	$ 185,428	$ 16,161

NOTE 7. LONG-TERM LIABILITIES (Cont'd)

C. MINIMUM DEBT PAYMENTS (Cont'd)

Year Ending December 31	Governmental Activities Financed Purchase - Loader Principal	Governmental Activities Financed Purchase - Loader Interest	Business-Type Activities G.O. Revenue Bonds Principal	Business-Type Activities G.O. Revenue Bonds Interest
2026	$ 21,333	$ 2,424	$ 394,000	$ 94,789
2027	59,735	1,786	401,000	85,675
2028			412,000	76,254
2029			429,000	66,273
2030			430,000	55,704
2031-2035			1,815,000	141,113
2036			195,000	3,413
	$ 81,068	$ 4,210	$ 4,076,000	$ 523,220

D. CHANGES IN LONG-TERM LIABILITIES

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
G.O. Bonds	$ 6,540,000	$	$ (765,000)	$ 5,775,000	$ 785,000
Note Payable	199,436		(14,008)	185,428	14,219
Financed Purchase	101,782		(20,714)	81,068	21,333
Unamortized Bond Premiums	102,642		(16,630)	86,012	
Compensated Absences *	13,433		(5,990)	7,443	
Total Governmental Activities	$ 6,957,293	$ 0	$ (822,342)	$ 6,134,951	$ 820,552

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-Type Activities					
G.O. Revenue Bonds	$ 4,464,000	$	$ (388,000)	$ 4,076,000	$ 394,000
Long-Term Lease	51,295		(16,717)	34,578	17,676
Unamortized Bond Premiums	82,530		(5,130)	77,400	
Compensated Absences *	4,864	112,310		117,174	115,832
Total Business-Type Activities	$ 4,602,689	$ 112,310	$ (409,847)	$ 4,305,152	$ 527,508

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

NOTE 8. LONG-TERM LEASE LIABILITIES

As of September 30, 2025, the value of the total lease liability was $34,578. The Care Center is required to make monthly principal and interest payments through October 2027. The lease liability was valued using a discount rate of 3% utilizing the Care Center’s incremental borrowing rate.

Remaining obligations associated with these leases are as follows:

Year Ending September 30	Principal	Interest
2026	$ 17,676	$ 1,089
2027	16,243	369
2028	659	2
	$ 34,578	$ 1,460

NOTE 9. RISK MANAGEMENT

The City purchases commercial insurance coverage through the League of Minnesota Cities Insurance Trust (LMCIT), which is a public entity risk pool currently operating as a common risk management and insurance program, with other cities in the state. The City pays an annual premium to the LMCIT for its insurance coverage. The LMCIT is self-sustaining through commercial companies for excess claims. The City is covered through the pool for any claims incurred but unreported, but retains risk for the deductible portion of its insurance policies. The amount of these deductibles is considered immaterial to the financial statements.

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

The City's workers' compensation insurance policy is retrospectively rated. With this type of policy, final premiums are determined after loss experience is known. The amount of premium adjustment for 2025 is estimated to be immaterial based on workers' compensation rates and salaries for the year.

At December 31, 2025, there are no other claims liabilities reported in the funds based on the requirements of accounting standards, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

NOTE 10. 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 in accordance with *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 (GERP; General Employees Plan; accounted for in the General Employees Fund):

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.

Public Employees Police and Fire Plan (PEPFP; Police and Fire Plan; accounted for in the Police and Fire Fund):

Membership in the Police & Fire Plan includes full-time, licensed police officers and firefighters who meet the membership criteria defined in *Minnesota Statutes* section 353.64 and who are not earning service credit in any other PERA retirement plan or a local relief association for the same service. Employers can provide Police & Fire Plan coverage for part-time positions and certain other public safety positions by submitting a resolution adopted by the entity's governing body. The resolution must state that the position meets plan requirements.

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.

NOTE 10. DEFINED BENEFIT PENSION PLANS - STATEWIDE (Cont'd)

B. BENEFITS PROVIDED (Cont'd)

GERP 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 1.20% of the highest average salary for each of the first 10 years of service and 1.70% for each additional year. Under the Level formula, General Plan members receive 1.70% 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 50.00% of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1.00% and a maximum of 1.50%. 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.

PEPFP Benefits:

Benefits for Police and Fire Plan members hired before July 1, 2010, are vested after three years of service. Members hired on or after July 1, 2010, are 50% vested after five years of service and 100.00% vested after ten years. After five years, vesting increase by 10.00% each full year of service until members are 100.00% vested after ten years. Police and Fire Plan members receive 3.00% of highest average salary for all years of service. Police and Fire Plan members receive a full retirement benefit when they are age 55 and vested, or when their age plus their years of service equals 90 or greater if they were first hired before July 1, 1989. Early retirement starts at age 50, and early retirement benefits are reduced by 0.417% each month members are younger than age 55.

Benefit increases are provided to benefit recipients each January. The postretirement increase is fixed at 1.00%. Recipients that have been receiving the annuity or benefit for at least 36 months 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 25 months but less than 36 months as of the June 30 before the effective date of the increase will receive a prorated increase.

C. CONTRIBUTIONS

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

NOTE 10. DEFINED BENEFIT PENSION PLANS - STATEWIDE (Cont'd)

C. CONTRIBUTIONS (Cont'd)

GERP Contributions:

Coordinated 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 Coordinated Plan members. The City's contributions to the General Employees Fund for the year ended December 31, 2025, were $20,177. The City's contributions were equal to the required contributions as set by state statute.

PEPFP Contributions:

Police and Fire Plan member's were required to contribute 11.80% of their annual covered salary in fiscal year 2025 and the City was required to contribute 17.70% for Police and Fire Plan members. The City's contributions to the Police and Fire Fund for the year ended December 31, 2025, were $0. The City's contributions were equal to the required contributions as set by state statute.

D. PENSION COSTS

GERP Pension Costs:

At December 31, 2025, the City reported a liability of $116,643 for its proportionate share of the General Employees Fund’s net pension liability. The City's net pension liability reflected a reduction due to the State of Minnesota’s contribution of $16 million. The State of Minnesota is considered a non-employer contributing entity and the state’s contribution meets the definition of a special funding situation. The State of Minnesota’s proportionate share of the net pension liability associated with the City totaled $2,814. 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 proportionate share 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 proportion share was 0.0035% at the end of the measurement period and 0.0045% for the beginning of the period.

City's Proportionate Share of the Net Pension Liability	$	116,643
State of Minnesota's Proportionate Share of the Net Pension Liability Associated With the City		2,814
Total	$	119,457

There were no provision changes during the measurement period.

For the year ended December 31, 2025, the City recognized pension expense of $(4,356) for its proportionate share of GERP’s pension expense. In addition, the City recognized an additional $563 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of $16 million to the General Employees Fund.

NOTE 10. DEFINED BENEFIT PENSION PLANS - STATEWIDE (Cont'd)

D. PENSION COSTS (Cont'd)

GERP Pension Costs: (Cont'd)

At December 31, 2025, the City reported its proportionate share of GERP's deferred outflows of resources and deferred inflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	$ 11,051	$
Changes in Actuarial Assumptions	2,795	26,688
Net Difference Between Projected and Actual Earnings on Pension Plan Investments		46,152
Changes in Proportion		51,082
Contributions Paid to PERA Subsequent to Measurement Date	9,684	
Totals	$ 23,530	$ 123,922

The $9,684 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 inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31,	Pension Expense Amount
2026	$ (35,080)
2027	(36,344)
2028	(30,408)
2029	(8,244)

PEPFP Pension Costs:

At December 31, 2025, the City reported a liability of $0 for its proportionate share of the Police and Fire Fund's net pension liability. 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 proportionate share 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 0.0000% at the end of the measurement period and 0.0000% for the beginning of the period.

NOTE 10. DEFINED BENEFIT PENSION PLANS - STATEWIDE (Cont'd)

D. PENSION COSTS (Cont'd)

PEPFP Pension Costs: (Cont'd)

The State of Minnesota also contributed $18 million to the Police and Fire Fund in the plan fiscal year ended June 30, 2025. The contribution consisted of $9 million in direct state aid that meets the definition of a special funding situation, and $9 million in supplemental state aid that does not meet the definition of a special funding situation. The $9 million direct state aid was paid on October 1, 2024. The direct state aid payment will increase by $17.7 million which was paid on October 1, 2025. Thereafter, by October 1 of each year, the state will pay $26.7 million to the Police and Fire Fund until the fund is 110% funded for a minimum of three consecutive years (on an actuarial value of assets basis). The $9 million in supplemental state aid will continue until the fund and the State Patrol Plan (administered by the Minnesota State Retirement System) are 100% funded for three consecutive years (on an actuarial value of assets basis). The State of Minnesota's proportionate share of the net pension liability associated with the City totaled $0

For the year ended December 31, 2025, the City recognized pension expense of $0 for its proportionate share of the Police and Fire Plan's pension expense. The City recognized $0 as grant revenue and pension expense for its proportionate share of the State of Minnesota's contribution of $9 million to the Police and Fire Fund special funding situation.

The State of Minnesota is not included as a non-employer contributing entity in the Police and Fire Pension Plan pension allocation schedules for the $9 million in supplemental state aid because this contribution was not considered to meet the definition of a special funding situation. The City recognized $0 for the year ended December 31, 2025 as revenue and an offsetting reduction of net pension liability for its proportionate share of the State of Minnesota's on-behalf contributions to the Police and Fire Fund.

There were no provision changes during the measurement period.

At December 31, 2025, the City reported its proportionate share of the Police and Fire Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in Proportion	$	$ 66,158

NOTE 10. DEFINED BENEFIT PENSION PLANS - STATEWIDE (Cont'd)

D. PENSION COSTS (Cont'd)

PEPFP Pension Costs: (Cont'd)

The amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31,	Pension Expense Amount
2026	(23,825)
2027	(22,439)
2028	(19,894)

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 Real Rate of Return
Domestic Equity	33.50%	5.10%
International Equity	16.50%	5.30%
Fixed Income	25.00%	0.75%
Private Markets	25.00%	5.90%
	100.00%	

F. ACTUARIAL METHODS AND 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 7.00%. The 7.00% 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 7.00% is within that range.

Inflation is assumed to be 2.25% for the General Employees Plan and the Police and Fire Plan. Benefit increases after retirement are assumed to be 1.50% for the General Employees Plan and 1% for the Police and Fire Plan.

Salary growth assumptions in the General Employees Plan range in annual increments from 11.50% after one year of service to 3.00% after 27 years of service. In the Police & Fire Plan, salary growth assumptions range in annual increments from 10.75% after one year of service to 3.00% after 23 years of service.

NOTE 10. DEFINED BENEFIT PENSION PLANS - STATEWIDE (Cont'd)

F. ACTUARIAL METHODS AND ASSUMPTIONS (Cont'd)

Mortality rates for the General Employees Plan are based on the Pub-2010 General Employee Mortality Table. Mortality rates for the Police & Fire Plan are based on the Pub-2010 Public Safety Employee Mortality tables. 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 Police & Fire Plan was reviewed in 2024. The assumption changes were adopted by the board and became effective with the July 1, 2025 actuarial valuation.

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

GERP

Changes in Actuarial Assumptions:

The combined service annuity loading factors increased from 15.00% to 19.00% for vested terminated members and from 3.00% to 44.00% for non-vested, terminated members.

The assumed post-retirement benefit increase changed from 1.25% to 1.50%.

Changes in Plan Provisions:

The post-retirement benefit increase formula changed to 100.00% of the Social Security annual increase, between 1.00% and 1.75% , beginning January 1, 2026. If the funded ratio (on a market value of assets basis) is less than 85.00% for the last two consecutive annual valuations or is less than 80.00% in the most recent actuarial valuation, the maximum is reduced to 1.50%. Previously, the benefit increase was 50.00% of the Social Security annual increase, between 1.00% and 1.50%.

The 1.00% additional employer contribution is eliminated when the plan reaches 98.00% funded status (on an actuarial value of assets basis); this contribution was previously scheduled to stop when the plan reached 100.00% funded status.

PEPFP

Changes in Actuarial Assumptions:

Assumed rates of salary increases were reduced slightly.

Assumed rates of retirement were adjusted, resulting in an overall increase in unreduced (full) retirements and an overall increase in reduced (early) retirements.

Assumed rates of withdrawal were modified; the new rates will increase predicted terminations, especially in the first few years of employment.

Assumed rates of disabled retirement were significantly increased, especially for ages over age 30.

NOTE 10. DEFINED BENEFIT PENSION PLANS - STATEWIDE (Cont'd)

F. ACTUARIAL METHODS AND ASSUMPTIONS (Cont'd)

PEPFP (Cont'd)

Changes in Actuarial Assumptions: (Cont'd)

Continued used of Pub-2010 Public Safety Mortality Table with rates adjusted to better fit observed experience.

Percent married assumption for female retirees lowered from 70.00% to 65.00%.

Minor changes were made to form of payment assumptions for retirees.

Minor changes were made to assumptions made with respect to missing participant data.

The combined service annuity load changed from 33.00% to 13.00% for vested, terminated members and from 2.00% to 38.00% for non-vested, terminated members.

Changes in Plan Provisions:

The period of time needed for benefit recipients to receive their first benefit increase was reduced by one year (from 36 months to 24 months for a full increase).

The January 1, 2026 benefit increase changed from 1.00% to 3.00%; subsequent January 1 increases will be 1.00%.

The threshold to end the $9 million annual state aid contribution changed from the earlier of July 1, 2048 or 90.00% funded for both PERA Police & Fire and MSRS State Patrol for three consecutive years to 100% funded for both PERA Police & Fire and MSRS State Patrol for three consecutive years (on an actuarial value of assets basis).

The threshold to end the additional $9 million annual state aid contribution changed from the earlier of July 1, 2048 or 100.00% funded for a minimum of three consecutive years to 110.00% funded for a minimum of three consecutive years (on an actuarial value of assets basis).

An additional $17.7 million in direct state aid will be paid annually each October 1 beginning October 1, 2025 through June 30, 2048.

Joint and survivor actuarial equivalent factors were updated to reflect changes in assumptions.

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 and Police and Fire were 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.

NOTE 10. DEFINED BENEFIT PENSION PLANS - STATEWIDE (Cont'd)

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:

		GERP
1.00% Lower	6.00%	$ 283,306
Current Discount Rate	7.00%	116,643
1.00% Higher	8.00%	(18,559)

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.

NOTE 11. DEFINED BENEFIT PENSION PLANS - STATEWIDE - CLARA CITY CARE CENTER

A. PLAN DESCRIPTION

The Care Center 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 in accordance with *Minnesota Statutes* , Chapters 353, 353D, 353E, 353G, and 356. Minnesota Statutes chapter 356 defines each plan’s financial reporting requirements. PERA’s defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

Membership in the General Plan includes employees of counties, cities, townships, schools in non-certified positions, and other governmental entities whose revenues are derived from taxation, fees, or assessments. Plan membership is required for any employee who is expected to earn more than $425 in a month, unless the employee meets exclusion criteria.

B. BENEFITS PROVIDED

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state Legislature. Vested, terminated employees who are entitled to benefits, but are not receiving them yet, are bound by the provisions in effect at the time they last terminated their public service. When a member is “vested,” they have earned enough service credit to receive a lifetime monthly benefit after leaving public service and reaching an eligible retirement age. Members who retire at or over their Social Security full retirement age with at least one year of service qualify for a retirement benefit.

NOTE 11. DEFINED BENEFIT PENSION PLANS - STATEWIDE - CLARA CITY CARE CENTER (Cont'd)

B. BENEFITS PROVIDED (Cont'd)

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 1.20% of the highest average salary for each of the first 10 years of service and 1.70% for each additional year. Under the Level formula, General Plan members receive 1.70% 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 50.00% of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1.00% and a maximum of 1.50%. 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

C. CONTRIBUTIONS

Minnesota Statutes, Chapters 353, 353D, 353E, 353G, and 356 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state Legislature. Coordinated Plan members were required to contribute 6.50% of their annual covered salary in fiscal year 2025, and the Care Center was required to contribute 7.50% for Coordinated Plan members. The Care Center's contributions to the General Employees Fund (GEF) for the year ended September 30, 2025, was $173,936. The Care Center's contributions were equal to the required contributions for each year as set by state statute.

D. PENSION COSTS

GERP Pension Costs:

At September 30, 2025, the Care Center reported a liability of $1,127,103 for its proportionate share of the GEF's net pension liability. The Care Center's net pension liability reflected a reduction due to the State of Minnesota's contribution of $16 million to the fund. 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 Care Center totaled $27,189 at September 30, 2025. 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 Care Center's proportionate share of the net pension liability was based on the Care Center's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2023, through June 30, 2024, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2025, the Care Center's proportionate share was 0.0340%, which was an increase of 0.0012% from its proportion measured as of June 30, 2024.

NOTE 11. DEFINED BENEFIT PENSION PLANS - STATEWIDE - CLARA CITY CARE CENTER (Cont'd)

D. PENSION COSTS (Cont'd)

GERP Pension Costs: (Cont'd)

The Care Center's Proportionate Share of the Net Pension Liability	$ 1,127,103
State of Minnesota's Proportionate Share of the Net Pension Liability Associated with the Care Center	27,189
Total	$ 1,154,292

For the year ended September 30, 2025, the Care Center recognized pension expense of $(284,792) for its proportionate share of GERP's pension expense. In addition, for the year ended September 30, 2025, the Care Center recognized an additional $5,442 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of $16 million to the GEF.

At September 30, 2025, the Care Center reported its proportionate share of GERP's deferred outflows of resources and deferred inflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	$	$ 448,485
Changes in Actuarial Assumptions	27,157	259,343
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	107,387	
Changes in Proportion	88,658	38,583
Contributions Paid to PERA Subsequent to Measurement Date	43,484	
Totals	$ 266,686	$ 746,411

The $43,484 reported as deferred outflows of resources as of September 30, 2025, related to pensions resulting from the Care Center's contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended September 30, 2026. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended September 30,	Pension Expense Amount
2026	$ (129,220)
2027	(176,300)
2028	(137,572)
2029	(80,117)

NOTE 11. DEFINED BENEFIT PENSION PLANS - STATEWIDE - CLARA CITY CARE CENTER (Cont'd)

E. LONG-TERM EXPECTED RETURN ON INVESTMENTS

The State Board of Investments, 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 Allocations	Long-Term Expected Real Rate of Return
Domestic Stocks	33.50%	5.10%
Private Markets	16.50%	5.30%
Fixed Income	25.00%	0.75%
International Equity	25.00%	5.90%
Total	100.00%	

F. ACTUARIAL METHODS AND ASSUMPTIONS

The total pension liability 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 7.00%. The 7.00% 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 7.00% is within that range.

Inflation is assumed to be 2.25%. Benefit increases after retirement are assumed to be 1.50%. Salary growth assumptions range in annual increments from 11.50% after one year of service, to 3.00% 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:

Changes in Actuarial Assumptions:

The combined service annuity loading factors increased from 15.00% to 19.00% for vested terminated members and from 3.00% to 44.00% for non-vested, terminated members.

The assumed post-retirement benefit increase changed from 1.25% to 1.50%.

NOTE 11. DEFINED BENEFIT PENSION PLANS - STATEWIDE - CLARA CITY CARE CENTER (Cont'd)

F. ACTUARIAL METHODS AND ASSUMPTIONS (Cont'd)

Changes in Plan Provisions:

The post-retirement benefit increase formula changed to 100.00% of the Social Security annual increase, between 1.00% and 1.75% , beginning January 1, 2026. If the funded ratio (on a market value of assets basis) is less than 85.00% for the last two consecutive annual valuations or is less than 80.00% in the most recent actuarial valuation, the maximum is reduced to 1.50%. Previously, the benefit increase was 50.00% of the Social Security annual increase, between 1.00% and 1.50%.

The 1.00% additional employer contribution is eliminated when the plan reaches 98.00% funded status (on an actuarial value of assets basis); this contribution was previously scheduled to stop when the plan reached 100.00% 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 was projected to be available to make all projected future benefit payments of current plan members. The long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

H. PENSION LIABILITY SENSITIVITY

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

	1.00% in Discount Rate	Current Discount Rate	1.00% in Discount Rate
GERP Discount Rate	6.00%	7.00%	8.00%
Care Center's Proportionate Share of the GERP Net Pension Liability	$ 2,737,557	$ 1,127,103	$ (179,337)

I. PENSION PLAN FIDUCIARY NET POSITION

Detailed information about the 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.

NOTE 12. CARE CENTER FISCAL YEAR-END

The Clara City Care Center is audited once annually, by its independent auditors, at September 30.

NOTE 13. CONTINGENCIES

Professional Liability Insurance

The Care Center has professional liability insurance coverage to provide protection for professional liability losses on a claims-made basis subject to a limit of $1 million per claim and an annual aggregate limit of $2 million. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, would be uninsured.

Litigation, Claims, and Disputes

The Care Center is subject to the usual contingencies in the normal course of operations relating to the performance of its tasks under its various programs. In the opinion of management, the ultimate settlement of litigations, claims, and disputes in process will not be material to the financial position of the Care Center.

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, specifically those relating to the Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Federal Government activity with respect to investigations, and allegations concerning possible violations by healthcare providers of regulations, could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenues for resident services.

NOTE 14. CLARA CITY FIREMAN'S RELIEF ASSOCIATION

A. PLAN DESCRIPTION

Firefighters of the City are members of the Association. The Association is the administrator of a single-employer defined benefit pension plan available to firefighters. The plan is administered by the Association pursuant to Minnesota Statutes Chapter 69, Chapter 424A and the Association's by-laws. As of December 31, 2025, the plan covered 23 active firefighters and 2 vested terminated fire fighters whose pension benefits are deferred.

B. BENEFITS PROVIDED

The plan provided lump-sum retirement, death, and supplemental benefits to covered firefighters with at least 12 full months of active service. Benefits are paid based on the number of years of service multiplied by a benefit level per year of service. The plan includes a $3,000 service pension benefit for each year of service. Members are eligible for an early retirement benefit at 50 years of age with 5 years of service, or a deferred retirement benefit at 50 years of age with 20 years of service. Plan provisions include a pro-rated vesting schedule that increases 4.00% for each additional year of service from 5 years at 40.00% through 20 years at 100.00%. Ancillary disability and death benefits are the service pension benefits times the vesting percentage, payable immediately.

NOTE 14. CLARA CITY FIREMAN'S RELIEF ASSOCIATION (Cont'd)

C. CONTRIBUTIONS

The plan is funded by fire state aid, investment earnings and, if necessary, employer contributions as specified in Minnesota Statutes, and voluntary City contributions. As of December 31, 2025, the State of Minnesota contributed $30,011 in fire state aid to the plan on behalf of the Fire Department. Required employer contributions are calculated annually based on statutory provisions.

D. PENSION COSTS

The City reported a net pension liability (asset) of ($354,699). The City's net pension liability (asset) was measured as of December 31, 2025, and the total pension liability used to calculate the net pension liability (asset) in accordance with GASB 68 was determined by an independent actuary applying an actuarial formula to specific census data certified by the fire department. The following table presents the changes in net pension liability during the year.

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Beginning Balance 12/31/2024	$ 670,102	$ 953,454	$ (283,352)
Changes for the Year:			
Service Cost	18,640		18,640
Interest	44,908		44,908
Gain or Loss	(12,978)		(12,978)
Changes in Assumptions	(5,345)		(5,345)
Changes in Plan	87,583		87,583
Contributions - State		30,011	(30,011)
Projected Investment Return		63,787	(63,787)
Gain or Loss		110,388	(110,388)
Benefit Payments	(46,890)	(46,890)	
Administrative Expense		(31)	31
Net Changes	85,918	157,265	(71,347)
Balance End of Year 12/31/2025	$ 756,020	$ 1,110,719	$ (354,699)

The benefit level changed from $2,650 to $3,000.

For the year ended December 31, 2025, the City recognized pension expense of $18,130.

NOTE 14. CLARA CITY FIREMAN'S RELIEF ASSOCIATION (Cont'd)

D. PENSION COSTS (Cont'd)

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	$ 184	$ 27,569
Changes in Actuarial Assumptions		9,920
Net Differences Between Projected and Actual Investment Earnings		32,006
Contributions Paid to Plan Subsequent to Measurement Date	33,693	
State Aid Received for the Plan Subsequent to Measurement Date		33,693
Totals	$ 33,877	$ 103,188

$33,693 reported as deferred outflows of resources related to pensions resulting from City contributions (both statutorily-required and voluntary, as applicable) subsequent to the measurement date will be recognized as a reduction of the net pension liability (asset) in the year ended December 31, 2026. $33,693 reported as deferred inflows of resources related to pensions resulting from State contributions subsequent to the measurement date will be recognized as an increase of the net pension liability (asset) in the year ended December 31, 2026. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31,	Pension Expense Amount
2026	$ 4,943
2027	15,707
2028	(50,287)
2029	(28,706)
2030	(4,861)
Thereafter	(6,107)

E. ACTUARIAL ASSUMPTIONS

The total pension liability was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Expected Long-Term Investment Return	7.25%
Salary Increases	2.50%
Interest on Defferred Amounts	0.00% future annual increase to eligible deferred pension amounts

The actuarial assumptions used in the January 1, 2025, valuation were based on the results of an actuarial experience study for the period January 1, 2024 to December 31, 2024.

The discount rate changed from 6.75% to 7.25%.

NOTE 14. CLARA CITY FIREMAN'S RELIEF ASSOCIATION (Cont'd)

F. DISCOUNT RATE

The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at a rate specified in statute. Based on that assumption, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

G. PENSION LIABILITY (ASSET) SENSITIVITY

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

	1% Decrease in Discount Rate (6.25%)	Discount Rate (7.25%)	1% Increase in Discount Rate (8.25%)
City's Net Pension Liability (Asset)	$ (342,549)	$ (354,699)	$ (366,315)

H. INVESTMENT POLICY:

The City's Fireman Relief Association does not have a formal investment policy.

I. ASSET ALLOCATION

The long-term expected rate of return on pension plan investments as determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	12.00%	3.30%
Fixed Income	5.00%	4.70%
Equities	83.00%	8.00%
Total	100.00%	

There were no significant changes to their plan investments during the year.

NOTE 14. CLARA CITY FIREMAN'S RELIEF ASSOCIATION (Cont'd)

J. PENSION PLAN FIDUCIARY NET POSITION:

Detailed information about the pension plan's fiduciary net position is available in a separately-issued financial report.

NOTE 15. CLAIMS AND JUDGMENTS

The City participates in a number of federal, state, and county programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to noncompliance with grant program regulations, the City may be required to reimburse the grantor government. As of December 31, 2025, significant amounts of grant expenditures have not been audited, but the City believes that disallowed expenditures discovered in subsequent audits, if any, will not have a material effect on any of the individual funds or the overall financial position of the City.

The City is not party to any legal proceedings as of year-end.

NOTE 16. DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES

The following is a summary of the major components of deferred outflows and inflows as presented in the Statement of Net Position:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Related to Pensions	$ 324,093	$ 1,039,679
Leases		216,426
Total	$ 324,093	$ 1,256,105

NOTE 17. JOINT POWERS AGREEMENT

The City and Independent School District #2180 (the District) have entered into a joint powers agreement to operate tennis facilities in the City of Clara City. All costs for operations, maintenance, repairs, utilities and insurance shall be shared equally by the City and the District.

NOTE 18. SUBSEQUENT EVENTS

Subsequent to December 31, 2025, the City of Clara City made the decision to sell the Care Center. The Care Center was listed for sale during 2026 for $5,500,000 and remained on the market as of June 9, 2026.

NOTE 19. COMMITTED FUND BALANCE

The General Fund Committed Fund Balance is broken down as follows:

Street Department	$	252,055
Fire Department		182,445
Ambulance		5,240
Police Department		161
Swimming Pool		61,149
Government Building		15,600
City Hall Equipment		6,058
City Office Administration		10,000
Bridges		31,543
Holiday Decorations		7,057
Sidewalk Repairs		42,376
Emergency Management		20,542
Park Maintenance and Equipment		14,634
Walking Path		58,137
RV - Wilms Park		3,000
Water Filters		56,150
Well Head Protection		9,000
Public Improvements		15,017
Training		25,000
Hwy 23 Study		5,000
City Roof Repairs		15,340
Charitable Gambling		7
Total	$	835,511

REQUIRED SUPPLEMENTARY INFORMATION

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CITY OF CLARA CITY, MINNESOTA

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
DECEMBER 31, 2025

Fiscal Year Ending	Employer's Proportionate Share (Percentage) of the Net Pension Liability (Asset)	Employer's Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)	State's Proportionate Share (Amount) of the Net Pension Liability Associated with the Employer (b)	Employer's Proportionate Share of the Net Pension Liability and the State's Proportionate Share of the Net Pension Liability Associated with the Employer (a+b)	Employer's Covered Payroll (c)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
Pensions							
GERP							
June 30, 2025	0.0035%	$ 116,643	$ 2,814	$ 119,457	$ 329,049	36.30%	90.78%
June 30, 2024	0.0045%	165,131	4,270	169,401	379,673	44.62%	89.08%
June 30, 2023	0.0045%	251,635	7,051	258,686	365,420	70.79%	83.10%
June 30, 2022	0.0050%	396,002	11,730	407,732	385,486	105.77%	76.67%
June 30, 2021	0.0057%	243,416	7,466	250,882	410,808	61.07%	87.00%
June 30, 2020	0.0048%	287,782	8,967	296,749	344,810	86.06%	79.06%
June 30, 2019	0.0043%	237,737	7,333	245,070	303,478	80.75%	80.23%
June 30, 2018	0.0040%	221,904	7,224	229,128	266,193	86.08%	79.53%
June 30, 2017	0.0036%	229,822	2,901	232,723	214,766	108.36%	75.90%
June 30, 2016	0.0033%	267,944	3,454	271,398	182,259	148.91%	68.91%
PEPFP							
June 30, 2025	0.0000%	$	$	$	$	0.00%	91.78%
June 30, 2024	0.0000%					0.00%	90.17%
June 30, 2023	0.0000%					0.00%	86.47%
June 30, 2022	0.0080%	348,128	15,300	363,428	133,919	271.38%	70.53%
June 30, 2021	0.0091%	70,242	3,155	73,397	111,499	65.83%	93.66%
June 30, 2020	0.0096%	126,538	2,973	129,511	108,072	119.84%	87.19%
June 30, 2019	0.0088%	93,685		93,685	93,333	100.38%	89.26%
June 30, 2018	0.0099%	105,524		105,524	104,395	101.08%	88.84%
June 30, 2017	0.0090%	121,511		121,511	110,728	109.74%	85.43%
June 30, 2016	0.0110%	441,449		441,449	123,331	357.94%	63.88%

See Accompanying Notes to the Required Supplementary Information

CITY OF CLARA CITY, MINNESOTA

SCHEDULE OF EMPLOYER CONTRIBUTIONS
DECEMBER 31, 2025

Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
Pensions					
GERP					
12/31/2025	$ 20,177	$ 20,177	$	$ 269,027	7.50%
12/31/2024	27,098	27,098		361,307	7.50%
12/31/2023	27,186	27,186		362,480	7.50%
12/31/2022	27,811	27,811		370,813	7.50%
12/31/2021	28,368	28,368		378,233	7.50%
12/31/2020	28,905	28,905		385,396	7.50%
12/31/2019	24,495	24,495		326,598	7.50%
12/31/2018	22,048	22,048		293,972	7.50%
12/31/2017	17,928	17,928		239,037	7.50%
12/31/2016	14,187	14,187		189,160	7.50%
PEPFP					
12/31/2025	$	$	$	$	0.00%
12/31/2024					0.00%
12/31/2023					0.00%
12/31/2022	7,062	7,062		39,900	17.70%
12/31/2021	20,532	20,532		116,003	17.70%
12/31/2020	19,426	19,426		109,749	17.70%
12/31/2019	15,031	15,031		88,678	16.95%
12/31/2018	17,542	17,542		108,284	16.20%
12/31/2017	16,298	16,298		100,605	16.20%
12/31/2016	17,597	17,597		108,623	16.20%

See Accompanying Notes to the Required Supplementary Information

CITY OF CLARA CITY, MINNESOTA

SCHEDULE OF CHANGES IN THE CITY'S NET PENSION LIABILITY AND RELATED RATIOS
DECEMBER 31, 2025

	Measurement Date December 31,									
	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Service Cost	$ 18,640	$ 18,185	$ 21,702	$ 13,183	$ 13,396	$ 13,069	$ 9,797	$ 9,558	$ 10,210	$ 8,122
Interest	44,908	42,677	36,313	21,674	20,601	20,870	17,143	17,180	19,201	14,010
Gain or Loss	(12,978)		(14,350)		(15,894)		827		(20,365)	
Changes in Assumptions	(5,345)		(8,271)							
Changes in Plan	87,583			200,595			69,834			68,678
Benefit Payments	(46,890)	(9,662)				(77,508)		(55,168)	(29,007)	
Net Change in Total Pension Liability	85,918	51,200	35,394	235,452	18,103	(43,569)	97,601	(28,430)	(19,961)	90,810
Total Pension Liability - Beginning of Year	670,102	618,902	583,508	348,056	329,953	373,522	275,921	304,351	324,312	233,502
Total Pension Liability - End of Year	$ 756,020	$ 670,102	$ 618,902	$ 583,508	$ 348,056	$ 329,953	$ 373,522	$ 275,921	$ 304,351	$ 324,312
Contributions - Employer	$	$	$	$	$	$	$	$ 1,920	$ 1,920	$
Contributions - State	30,011	46,704	21,344	21,412	21,026	22,287	20,482	24,100	38,087	21,707
Projected Investment Return	63,787	52,295	60,855	53,152	37,965	31,551	33,240	28,052	27,502	25,453
Gain or Loss	110,388	107,903	(329,533)	53,847	193,930	92,454	(44,025)	62,757	(9,260)	(7,667)
Benefit Payments	(46,890)	(9,662)				(77,508)		(55,168)	(29,007)	
Administrative Expense	(31)	(25)						(5)		
Net Change in Plan Fiduciary Net Position	157,265	197,215	(247,334)	128,411	252,921	68,784	9,697	61,656	29,242	39,493
Total Plan Fiduciary Net Position - Beginning of Year	953,454	756,239	1,003,573	875,162	622,241	553,457	543,760	482,104	452,862	413,369
Total Plan Fiduciary Net Position - End of Year	$ 1,110,719	$ 953,454	$ 756,239	$ 1,003,573	$ 875,162	$ 622,241	$ 553,457	$ 543,760	$ 482,104	$ 452,862
City's Net Pension Liability (Asset) - End of Year	$ (354,699)	$ (283,352)	$ (137,337)	$ (420,065)	$ (527,106)	$ (292,288)	$ (179,935)	$ (267,839)	$ (177,753)	$ (128,550)
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (Asset)	147%	142%	122%	172%	251%	189%	148%	197%	158%	140%

See Accompanying Notes to the Required Supplementary Information

CITY OF CLARA CITY, MINNESOTA
CLARA CITY CARE CENTER ENTERPRISE FUND

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
DECEMBER 31, 2025

Fiscal Year Ending	Employer's Proportionate Share (Percentage) of the Net Pension Liability (Asset)	Employer's Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)	State's Proportionate Share (Amount) of the Net Pension Liability Associated with the Employer (b)	Employer's Proportionate Share of the Net Pension Liability and the State's Proportionate Share of the Net Pension Liability Associated with the Employer (a+b)	Employer's Covered Payroll (c)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
Pensions							
GERP							
6/30/2025	0.0340%	$ 1,127,103	$ 27,189	$ 1,154,292	$ 2,285,723	50.50%	90.78%
6/30/2024	0.0328%	1,214,095	31,394	1,245,489	2,128,133	58.53%	89.08%
6/30/2023	0.0316%	1,767,037	48,754	1,815,791	1,954,013	92.93%	83.10%
6/30/2022	0.0342%	2,708,650	79,404	2,788,054	1,961,063	142.17%	76.67%
6/30/2021	0.0341%	1,456,223	44,544	1,500,767	1,978,060	75.87%	87.00%
6/30/2020	0.0321%	1,924,542	59,364	1,983,906	1,901,403	104.34%	79.06%
6/30/2019	0.0297%	1,642,046	50,998	1,693,044	1,945,435	87.03%	80.23%
6/30/2018	0.0320%	1,775,229	58,319	1,833,548	2,152,710	85.17%	79.53%
6/30/2017	0.0346%	2,208,841	27,759	2,236,600	2,227,761	100.40%	75.90%
6/30/2016	0.0358%	2,906,782	37,998	2,944,780	2,218,765	132.72%	68.91%

See Accompanying Notes to the Required Supplementary Information

CITY OF CLARA CITY, MINNESOTA
CLARA CITY CARE CENTER ENTERPRISE FUND

SCHEDULE OF EMPLOYER CONTRIBUTIONS
DECEMBER 31, 2025

Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
<u>Pensions</u>					
<u>GERP</u>					
9/30/2025	$ 173,936	$ 173,936	$	$ 2,319,147	7.50%
9/30/2024	163,909	163,909		2,185,453	7.50%
9/30/2023	146,713	146,713		1,956,173	7.50%
9/30/2022	146,065	146,065		1,947,533	7.50%
9/30/2021	150,124	150,124		2,001,653	7.50%
9/30/2020	143,046	143,046		1,907,280	7.50%
9/30/2019	141,283	141,283		1,883,773	7.50%
9/30/2018	159,781	159,781		2,130,420	7.50%
9/30/2017	164,478	164,478		2,193,049	7.50%
9/30/2016	175,133	175,133		2,335,107	7.50%

See Accompanying Notes to the Required Supplementary Information

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NOTE 1. CHANGES IN PLAN PROVISIONS

A. GENERAL EMPLOYEE RETIREMENT PLAN (GERP)

2025 Changes:

The post-retirement benefit increase formula changed to 100% of the Social Security annual increase, between 1% and 1.75%, beginning January 1, 2026. If the funded ratio (on a market value of assets basis) is less than 85% for the last two consecutive annual valuations or is less than 80% in the most recent actuarial valuation, the maximum is reduced to 1.5%. Previously, the benefit increase was 50% of the Social Security annual increase, between 1% and 1.5%.

The 1% additional employer contribution is eliminated when the plan reaches 98% funded status (on an actuarial value of assets basis); this contribution was previously scheduled to stop when the plan reached 100% funded status.

2024 Changes:

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

2023 Changes:

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 2.50% minus the actual 2024 adjustment will be payable in a lump sum for calendar year 2024, by March 31, 2024.

2022 Changes:

There have been no changes since the prior valuation.

2021 Changes:

There have been no changes since the prior valuation.

2020 Changes:

Augmentation for current privatized members was reduced to 2.00% for the period July 1, 2020, through December 31, 2023, and 0.00% after. Augmentation was eliminated for privatizations occurring after June 30, 2020.

NOTE 1. CHANGES IN PLAN PROVISIONS (Cont'd)

A. GENERAL EMPLOYEE RETIREMENT PLAN (GERP) (Cont'd)

2019 Changes:

The employer supplemental contribution was changed prospectively, decreasing from $31 million to $21 million per year. The State's special funding contribution was changed prospectively, requiring $16 million due per year through 2031.

2018 Changes:

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 4.00% to 3.00%, beginning July 1, 2018.

Deferred augmentation was changed to 0.00%, 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 1.00% per year with a provision to increase to 2.50% upon attainment of 90.00% funding ratio to 50.00% of the Social Security Cost of Living Adjustment, not less than 1.00% and not more than 1.50%, 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 Changes:

The State's contribution for the Minneapolis Employees Retirement Fund equals $16 million in 2017 and 2018, and $6 million thereafter.

The Employer Supplemental Contribution for the Minneapolis Employees Retirement Fund changed from $21 million to $31 million in calendar years 2019 to 2031. The state's contribution changed from $16 million to $6 million in calendar years 2019 to 2031.

2016 Changes:

There have been no changes since the prior valuation.

NOTE 1. CHANGES IN PLAN PROVISIONS (Cont'd)

B. PUBLIC EMPLOYEES POLICE AND FIRE PLAN (PEPFP)

2025 Changes:

The period of time needed for benefit recipients to receive their first benefit increase was reduced by one year (from 36 months to 24 months for a full increase).

The January 1, 2026 benefit increase changed from 1% to 3%; subsequent January 1 increases will be 1%.

The threshold to end the $9 million annual state aid contribution changed from the earlier of July 1, 2048 or 90% funded for both PERA Police & Fire and MSRS State Patrol for three consecutive years to 100% funded for both PERA Police & Fire and MSRS State Patrol for three consecutive years (on an actuarial value of assets basis).

The threshold to end the additional $9 million annual state aid contribution changed from the earlier of July 1, 20248 or 100% funded for a minimum of three consecutive years to 110% funded for a minimum of three consecutive years (on an actuarial value of assets basis).

An additional $17.7 million in direct state aid will be paid annually each October 1 beginning October 1, 2025 through June 30, 2048.

Joint and survivor actuarial equivalent factors were updated to reflect changes in assumptions.

2024 Changes:

The State contribution of $9 million per year will continue until the earlier of 1) both the Police & Fire Plan and the State Patrol Retirement Fund attain 90.00% funded status for three consecutive years (on an actuarial value of assets basis) or 2) July 1, 2048. The contribution was previously due to expire after attaining a 90.00% funded status for one year.

The additional $9 million contribution will continue until the Police & Fire Plan is fully funded for a minimum of three consecutive years on an actuarial value of assets basis, or July 1, 2048, whichever is earlier. This contribution was previously due to expire upon attainment of fully funded status on an actuarial value of assets basis for one year (or July 1, 2048, if earlier).

2023 Changes:

Additional one-time direct state aid contribution of $19.4 million will be contributed to the Plan on October 1, 2023.

Vesting requirement for new hires after June 30, 2014, was changed from a graded 20-year vesting schedule to a graded 10-year vesting schedule, with 50.00% vesting after five years, increasing incrementally to 100.00% after 10 years.

A one-time, non-compounding benefit increase of 3.00% will be payable in a lump sum for calendar year 2024, by March 31, 2024.

NOTE 1. CHANGES IN PLAN PROVISIONS (Cont'd)

B. PUBLIC EMPLOYEES POLICE AND FIRE PLAN (PEPFP) (Cont'd)

2023 Changes: (Cont'd)

Psychological treatment is required effective July 1, 2023, prior to approval for a duty disability benefit for a psychological condition relating to the member's occupation.

The total and permanent duty disability benefit was increased, effective July 1, 2023.

2022 Changes:

There have been no changes since the prior valuation.

2021 Changes:

There have been no changes since the prior valuation.

2020 Changes:

There have been no changes since the prior valuation.

2019 Changes:

There have been no changes since the prior valuation.

2018 Changes:

Postretirement benefit increases were changed to 1.00% for all years, with no trigger.

An end date of July 1, 2048, was added to the existing $9 million state contribution.

New annual state aid will equal $4.5 million in fiscal years 2019 and 2020, and $9 million thereafter until the plan reaches 100.00% funding, or July 1, 2048, if earlier.

Member contributions were changed from 10.80% to 11.30% of pay, effective January 1, 2019, and 11.80% of pay, effective January 1, 2020.

Employer contributions were changed from 16.20% to 16.95% of pay, effective January 1, 2019, and 17.70% of pay, effective January 1, 2020.

Interest credited on member contributions decreased from 4.00% to 3.00%, beginning July 1, 2018.

Deferred augmentation was changed to 0.00%, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.

Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

NOTE 1. CHANGES IN PLAN PROVISIONS (Cont'd)

B. PUBLIC EMPLOYEES POLICE AND FIRE PLAN (PEPFP) (Cont'd)

2017 Changes:

There have been no changes since the prior valuation.

2016 Changes:

There have been no changes since the prior valuation.

C. CITY OF CLARA CITY'S FIREMAN'S RELIEF ASSOCIATION

2025 Changes:

The benefit level changed from $2,650 to $3,000.

2024 Changes:

There have been no changes since the prior valuation.

2023 Changes:

There have been no changes since the prior valuation.

2022 Changes:

The benefit level increased from $1,650 to $2,650 was reflected in the active liability.

2021 Changes:

There have been no changes since the prior valuation.

2020 Changes:

There have been no changes since the prior valuation.

2019 Changes:

The benefit level changed from $1,300 to $1,650.

2018 Changes:

There have been no changes since the prior valuation.

2017 Changes:

There have been no changes since the prior valuation.

NOTE 1. CHANGES IN PLAN PROVISIONS (Cont'd)

C. CITY OF CLARA CITY'S FIREMAN'S RELIEF ASSOCIATION (Cont'd)

2016 Changes:

The benefit level changed from $1,000 to $1,300.

NOTE 2. CHANGES IN ACTUARIAL ASSUMPTIONS

A. GENERAL EMPLOYEE RETIREMENT PLAN (GERP)

2025 Changes:

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 Changes:

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 Changes:

The investment return assumption and single discount rate were changed from 6.50% to 7.00%.

2022 Changes:

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

2021 Changes:

The investment return and single discount rates were changed from 7.50% to 6.50%, for financial reporting purposes.

NOTE 2. CHANGES IN ACTUARIAL ASSUMPTIONS (Cont'd)

A. GENERAL EMPLOYEE RETIREMENT PLAN (GERP) (Cont'd)

2021 Changes: (Cont'd)

The mortality improvement scale was changed from Scale MP-2019 to Scale MP-2020.

2020 Changes:

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 100.00% Joint & Survivor option changed from 35.00% to 45.00%. The assumed number of married female new retirees electing the 100.00% Joint & Survivor option changed from 15.00% to 30.00%. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.

2019 Changes:

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

2018 Changes:

The mortality projection was changed from MP-2015 to MP-2017.

NOTE 2. CHANGES IN ACTUARIAL ASSUMPTIONS (Cont'd)

A. GENERAL EMPLOYEE RETIREMENT PLAN (GERP) (Cont'd)

2018 Changes: (Cont'd)

The assumed benefit increase was changed from 1.00% per year through 2044 and 2.50% per year thereafter to 1.25% per year.

2017 Changes:

The combined service annuity (CSA) loads were changed from 0.80% for active members and 60.00% for vested and non-vested deferred members. The revised CSA loads are now 0.00% for active member liability, 15.00% for vested deferred member liability and 3.00% for non-vested deferred member liability.

The assumed post-retirement benefit increase rate was changed from 1.00% per year for all years to 1.00% per year through 2044 and 2.50% per year thereafter.

2016 Changes:

The assumed post-retirement benefit increase rate was changed for 1.00% per year through 2035 and 2.50% per year thereafter to 1.00% per year for all years.

The assumed investment return was changed from 7.90% to 7.50%. The single discount rate was changed from 7.90% to 7.50%.

Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

B. PUBLIC EMPLOYEES POLICE AND FIRE PLAN (PEPFP)

2025 Changes:

Assumed rates of salary increases were reduced slightly.

Assumed rates of retirement were adjusted, resulting in an overall increase in unreduced (full) retirements and an overall increase in reduced (early) retirements.

Assumed rates of withdrawal were modified; the new rates will increase predicted terminations, especially in the first few years of employment.

Assumed rates of disabled retirement were significantly increased, especially for ages over age 30.

Continued used of Pub-2010 Public Safety Mortality Table with rates adjusted to better fit observed experience.

Percent married assumption for female retirees lowered from 70% to 65%.

Minor changes were made to form of payment assumptions for retirees.

NOTE 2. CHANGES IN ACTUARIAL ASSUMPTIONS (Cont'd)

B. PUBLIC EMPLOYEES POLICE AND FIRE PLAN (PEPFP) (Cont'd)

2025 Changes: (Cont'd)

Minor changes were made to assumptions made with respect to missing participant data.

The combined service annuity load changed from 33% to 13% for vested, terminated members and from 2% to 38% for non-vested, terminated members.

2024 Changes:

There have been no changes since the prior valuation.

2023 Changes:

The investment return assumption was changed from 6.50% to 7.00%.

The single discount rate changed from 5.40% to 7.00%.

2022 Changes:

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

The single discount rate changed from 6.50% to 5.40%.

2021 Changes:

The investment return and single discount rates were changed from 7.50% to 6.50%, for financial reporting purposes.

The inflation assumption was changed from 2.50% to 2.25%.

The payroll growth assumption was changed from 3.25% to 3.00%.

The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 Public Safety Mortality table. The mortality improvement scale was changed from MP-2019 to MP-2020.

The base mortality table for disabled annuitants was changed from the RP-2014 healthy annuitant mortality table (with future mortality improvement according to Scale MP-2019) to the Pub-2010 Public Safety disabled annuitant mortality table (with future mortality improvement according to Scale MP-2020).

Assumed rates of salary increase were modified as recommended in the July 14, 2020 experience study. The overall impact is a decrease in gross salary increase rates.

Assumed rates of retirement were changed as recommended in the July 14, 2020 experience study. The changes result in slightly more unreduced retirements and fewer assumed early retirements.

NOTE 2. CHANGES IN ACTUARIAL ASSUMPTIONS (Cont'd)

B. PUBLIC EMPLOYEES POLICE AND FIRE PLAN (PEPFP) (Cont'd)

2021 Changes: (Cont'd)

Assumed rates of withdrawal were changed from select and ultimate rates to service-based rates. The changes result in more assumed terminations.

Assumed rates of disability were increased for ages 25-44 and decreased for ages over 49. Overall, proposed rates result in more projected disabilities.

Assumed percentage married for active female members was changed from 60.00% to 70.00%. Minor changes to form of payment assumptions were applied.

2020 Changes:

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

2019 Changes:

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

2018 Changes:

The mortality projection was changed from MP-2016 to MP-2017.

2017 Changes:

Assumed salary increases were changed as recommended in the June 30, 2016 experience study. The net effect is proposed rates that average 0.34% lower than the previous rates.

Assumed rates of retirement were changed, resulting in fewer retirements.

The Combined Service Annuity (CSA) load was 30.00% for vested and non-vested deferred members. The CSA has been changed to 33.00% for vested members and 2.00% for non-vested members.

The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the mortality tables assumed for healthy retirees.

Assumed termination rates were decreased to 3.00% for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall.

Assumed percentage of married female members was decreased from 65.00% to 60.00%.

Assumed age difference was changed from separate assumptions for male members (wives assumed to be three years younger) and female members (husbands assumed to be four years older) to the assumption that males are two years older than females.

NOTE 2. CHANGES IN ACTUARIAL ASSUMPTIONS (Cont'd)

B. PUBLIC EMPLOYEES POLICE AND FIRE PLAN (PEPFP) (Cont'd)

2017 Changes: (Cont'd)

The assumed percentage of female members electing Joint and Survivor annuities was increased.

The assumed post-retirement benefit increase rate was changed from 1.00% for all years to 1.00% per year through 2064 and 2.50% thereafter.

The single discount rate was changed from 5.60% per annum to 7.50% per annum.

2016 Changes:

The assumed post-retirement benefit increase rate was changed from 1.00% per year through 2037 and 2.50% thereafter to 1.00% per year for all future years.

The assumed investment return was changed from 7.90% to 7.50%.

The single discount rate changed from 7.90% to 5.60%.

The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

C. CITY OF CLARA CITY'S FIREMAN'S RELIEF ASSOCIATION

2025 Changes:

The discount rate changed from 6.75% to 7.25%.

2024 Changes:

There have been no changes since the prior valuation.

2023 Changes:

The discount rate changed from 6.00% to 6.75%.

2022 Changes:

There have been no changes since the prior valuation.

2021 Changes:

There have been no changes since the prior valuation.

2020 Changes:

There have been no changes since the prior valuation.

NOTE 2. CHANGES IN ACTUARIAL ASSUMPTIONS (Cont'd)

C. CITY OF CLARA CITY'S FIREMAN'S RELIEF ASSOCIATION (Cont'd)

2019 Changes:

There have been no changes since the prior valuation.

2018 Changes:

There have been no changes since the prior valuation.

2017 Changes:

There have been no changes since the prior valuation.

2016 Changes:

There have been no changes since the prior valuation.

SUPPLEMENTARY INFORMATION

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CITY OF CLARA CITY, MINNESOTA

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED DECEMBER 31, 2025
WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2024

	2025			
	Final Budget	Actual	Over (Under) Final Budget	2024 Actual
REVENUES				
Taxes				
General Property Taxes	$ 685,550	$ 690,753	$ 5,203	$ 703,980
Franchise Fees	62,500	59,324	(3,176)	61,235
Total Taxes	748,050	750,077	2,027	765,215
Special Assessments		43,468	43,468	79
Licenses and Permits	3,750	2,662	(1,088)	2,692
Intergovernmental				
Local Government Aid	509,029	509,697	668	509,029
Market Value Credit		1,126	1,126	1,143
Fire State Aid		33,693	33,693	28,287
Other Government Aids		22,161	22,161	129,596
Total Intergovernmental	509,029	566,677	57,648	668,055
Charges for Services				
Swimming Pool Income	25,000	29,201	4,201	32,380
Election Filing Fees				6
Fire Contracts and Calls	26,000	85,327	59,327	102,838
Street Department and Lighting Income	37,700	36,781	(919)	37,293
City Hall Rental Income	2,000	4,870	2,870	4,170
Lease Agreement Income	8,400	9,302	902	9,930
Other Rental Income	3,000		(3,000)	
Total Charges for Services	102,100	165,481	63,381	186,617
Fines and Forfeits	5,000	2,232	(2,768)	3,044
Contributions		6,088	6,088	10,697
Interest Income	5,000	37,268	32,268	36,220
Miscellaneous				
Refunds and Reimbursements		76,350	76,350	5,936
Other		27,523	27,523	110,454
Total Miscellaneous	0	103,873	103,873	116,390
Total Revenues	1,372,929	1,677,826	304,897	1,789,009

CITY OF CLARA CITY, MINNESOTA

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED DECEMBER 31, 2025
WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2024

	2025			
	Final Budget	Actual	Over (Under) Final Budget	2024 Actual
EXPENDITURES				
Current				
General Government				
Mayor and Council				
Personal Services	$ 9,850	$ 9,446	$ (404)	$ 10,038
Other	2,850	441	(2,409)	621
Total Mayor and Council	12,700	9,887	(2,813)	10,659
Elections				
Personal Services				2,678
Other Services	250		(250)	170
Other	500		(500)	1,255
Total Elections	750	0	(750)	4,103
Administration and Finance				
Personal Services	178,700	167,483	(11,217)	240,968
Other Services	77,000	105,509	28,509	111,783
Supplies	19,750	8,531	(11,219)	22,753
Utilities	2,250	1,985	(265)	1,892
Repairs and Maintenance				97,342
Insurance	6,500	5,142	(1,358)	5,281
Other	4,750	7,878	3,128	13,091
Total Administration and Finance	288,950	296,528	7,578	493,110
Assessor	13,500	12,411	(1,089)	13,530
City Buildings				
Personal Services	6,000	3,592	(2,408)	3,678
Other Services	2,000	1,674	(326)	1,096
Supplies	2,500	1,624	(876)	2,155
Utilities	19,450	12,619	(6,831)	8,011
Repairs and Maintenance	6,500	1,587	(4,913)	19,833
Insurance	9,750	7,301	(2,449)	8,779
Other	250		(250)	45
Total City Buildings	46,450	28,397	(18,053)	43,597
Other General Government				
Other		54,269	54,269	112,370
Total General Government	362,350	401,492	39,142	677,369

CITY OF CLARA CITY, MINNESOTA

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED DECEMBER 31, 2025
WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2024

	2025			
	Final Budget	Actual	Over (Under) Final Budget	2024 Actual
EXPENDITURES (Cont'd)				
Current (Cont'd)				
Public Safety				
Police Department				
Other Services	$ 271,953	$ 210,715	$ (61,238)	$ 270,265
Supplies		59	59	217
Utilities	600	584	(16)	687
Other	500	54	(446)	150
Total Police Department	273,053	211,412	(61,641)	271,319
Fire Department				
Personal Services	31,000	35,019	4,019	29,923
Fire Relief Association		33,693	33,693	28,287
Other Services	5,700	19,160	13,460	18,681
Supplies	8,000	145,274	137,274	18,713
Utilities				34
Repairs and Maintenance	17,500	8,365	(9,135)	8,418
Insurance	7,500	6,669	(831)	7,570
Rent Expense	4,200	4,200		4,200
Other	5,700	1,886	(3,814)	11,967
Total Fire Department	79,600	254,266	174,666	127,793
Total Public Safety	352,653	465,678	113,025	399,112
Public Works				
Personal Services	185,000	132,070	(52,930)	153,610
Other Services	23,750	90,888	67,138	20,515
Supplies	26,000	18,370	(7,630)	19,373
Utilities	51,800	60,323	8,523	64,014
Repairs and Maintenance	35,000	43,417	8,417	72,235
Insurance	22,500	15,307	(7,193)	23,077
Other	4,200	3,404	(796)	2,788
Total Public Works	348,250	363,779	15,529	355,612

CITY OF CLARA CITY, MINNESOTA

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED DECEMBER 31, 2025
WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2024

	2025			
	Final Budget	Actual	Over (Under) Final Budget	2024 Actual
EXPENDITURES (Cont'd)				
Current (Cont'd)				
Recreation and Parks				
Parks				
Personal Services	$ 32,000	$ 23,231	$ (8,769)	$ 24,164
Other Services	1,500	8,804	7,304	6,848
Supplies	4,500	4,646	146	6,763
Utilities	2,500	1,575	(925)	839
Repairs and Maintenance	6,500	2,300	(4,200)	2,047
Insurance	10,000	10,491	491	9,646
Other	1,000	9,499	8,499	9,882
Total Parks	58,000	60,546	2,546	60,189
Swimming Pool				
Personal Services	39,000	55,236	16,236	57,055
Other Services	1,500	252	(1,248)	168
Supplies	17,500	13,622	(3,878)	11,636
Utilities	9,325	9,730	405	11,347
Repairs and Maintenance	6,500	52,169	45,669	204
Insurance	10,500	6,914	(3,586)	10,845
Other	4,000	2,027	(1,973)	1,671
Total Swimming Pool	88,325	139,950	51,625	92,926
Library				
Personal Services	4,500	6,490	1,990	4,265
Other Services	36,881	35,949	(932)	34,384
Supplies	200	1,732	1,532	866
Utilities	14,000	12,236	(1,764)	10,299
Repairs and Maintenance	2,000	80,151	78,151	8,169
Insurance	4,770	7,208	2,438	5,018
Total Library	62,351	143,766	81,415	63,001
Total Recreation and Parks	208,676	344,262	135,586	216,116
Economic Development				
Small Cities Grant Expenditures				87,750

CITY OF CLARA CITY, MINNESOTA

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED DECEMBER 31, 2025
WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2024

	2025			
	Final Budget	Actual	Over (Under) Final Budget	2024 Actual
EXPENDITURES (Cont'd)				
Current (Cont'd)				
Other	$ 86,000	$ 3,141	$ (82,859)	$ 13,075
Total Current Expenditures	1,357,929	1,578,352	220,423	1,749,034
Debt Service				
Principal	41,600	34,722	(6,878)	33,914
Interest		5,834	5,834	6,642
Total Debt Service	41,600	40,556	(1,044)	40,556
Capital Outlay				
Public Safety				
Fire Department		36,055	36,055	15,065
Recreation and Parks				
Parks		38,170	38,170	7,650
Library				1,196
Economic Development				14,945
Total Capital Outlay	0	74,225	74,225	38,856
Total Expenditures	1,399,529	1,693,133	293,604	1,828,446
Excess (Deficiency) of Revenues Over (Under) Expenditures	(26,600)	(15,307)	11,293	(39,437)
OTHER FINANCING SOURCES (USES)				
Transfers In	190,000	195,540	5,540	192,460
Transfers Out	(8,775)		8,775	
Total Other Financing Sources (Uses)	181,225	195,540	14,315	192,460
Net Change in Fund Balance	$ 154,625	180,233	$ 25,608	153,023
FUND BALANCE, BEGINNING OF YEAR		2,642,426		2,489,403
FUND BALANCE, END OF YEAR		$ 2,822,659		$ 2,642,426

CITY OF CLARA CITY, MINNESOTA

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2025

	Special Revenue	Debt Service	Total
ASSETS			
Current Assets			
Cash	$ 110,532	$ 1,305,529	$ 1,416,061
Receivables			
Taxes	5,418	36,875	42,293
Special Assessments		330,004	330,004
Total Assets	$ 115,950	$ 1,672,408	$ 1,788,358
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE			
Liabilities			
Accounts Payable	$ 87,159	$	$ 87,159
Due to Other Funds	152,622		152,622
Total Liabilities	239,781	0	239,781
Deferred Inflows of Resources			
Unavailable Revenues			
Property Taxes - Delinquent		15,069	15,069
Special Assessments		330,004	330,004
Total Deferred Inflows of Resources	0	345,073	345,073
Fund Balance			
Restricted			
Debt Service		1,327,335	1,327,335
Tax Increment	28,417		28,417
Unassigned	(152,248)		(152,248)
Total Fund Balance	(123,831)	1,327,335	1,203,504
Total Liabilities, Deferred Inflows of Resources and Fund Balance	$ 115,950	$ 1,672,408	$ 1,788,358

CITY OF CLARA CITY, MINNESOTA

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2025

	Special Revenue	Debt Service	Capital Project	Total
REVENUES				
Taxes	$ 165,638	$ 694,075	$	$ 859,713
Special Assessments		78,832		78,832
Contributions		10,000		10,000
Interest Income		1,797	193	1,990
Total Revenues	165,638	784,704	193	950,535
EXPENDITURES				
Current				
Economic Development				
Other Services	98,687			98,687
Debt Service				
Principal		765,000		765,000
Interest and Other Charges	6,108	193,298		199,406
Total Expenditures	104,795	958,298	0	1,063,093
Excess (Deficiency) of Revenues Over (Under) Expenditures	60,843	(173,594)	193	(112,558)
OTHER FINANCING SOURCES (USES)				
Transfers In		383,621	145,966	529,587
Transfers Out		(139,966)	(222,533)	(362,499)
Total Other Financing Sources (Uses)	0	243,655	(76,567)	167,088
Net Change in Fund Balances	60,843	70,061	(76,374)	54,530
FUND BALANCE, BEGINNING OF YEAR	(184,674)	1,257,274	76,374	1,148,974
FUND BALANCE, END OF YEAR	$ (123,831)	$ 1,327,335	$ 0	$ 1,203,504

CITY OF CLARA CITY, MINNESOTA

COMBINING BALANCE SHEET
SPECIAL REVENUE NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2025

	TIF 4-1	TIF 4-2	TIF 4-3	Total
ASSETS				
Current Assets				
Cash	$	$	$ 110,532	$ 110,532
Receivables				
Taxes	374		5,044	5,418
Total Assets	$ 374	$ 0	$ 115,576	$ 115,950
LIABILITIES AND FUND BALANCE				
Liabilities				
Accounts Payable	$	$	$ 87,159	$ 87,159
Due to Other Funds	115,724	36,898		152,622
Total Liabilities	115,724	36,898	87,159	239,781
Fund Balance				
Restricted			28,417	28,417
Unassigned	(115,350)	(36,898)		(152,248)
Total Fund Balance	(115,350)	(36,898)	28,417	(123,831)
Total Liabilities and Fund Balance	$ 374	$ 0	$ 115,576	$ 115,950

CITY OF CLARA CITY, MINNESOTA

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
SPECIAL REVENUE NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2025

	TIF 4-1	TIF 4-2	TIF 4-3	Total
REVENUES				
Taxes				
Tax Increment	$ 44,382	$	$ 121,256	$ 165,638
EXPENDITURES				
Current				
Economic Development				
Other Services		11,528	87,159	98,687
Debt Service				
Interest and Other Charges	6,108			6,108
Total Expenditures	6,108	11,528	87,159	104,795
Net Change in Fund Balances	38,274	(11,528)	34,097	60,843
FUND BALANCE, BEGINNING OF YEAR	(153,624)	(25,370)	(5,680)	(184,674)
FUND BALANCE, END OF YEAR	$ (115,350)	$ (36,898)	$ 28,417	$ (123,831)

CITY OF CLARA CITY, MINNESOTA

COMBINING BALANCE SHEET
DEBT SERVICE NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2025

	Hawk Creek Acres	2011 Utility Project	Utility Project 2014C	Utility Project 2014D	2016 Utility Project	2016 Swimming Pool	Utility Project 2018A	2018 Center Ave Road Project	2018 Tennis Court Project	2022A Utility Project	2023A Utility Project	Total
ASSETS												
Current Assets												
Cash	$ 118,453	$ 245,622	$ 154,377	$ 136,269	$ 136,029	$ 150,094	$ 163,868	$ 38,202	$ 17,230	$ 38,979	$ 106,406	$ 1,305,529
Receivables												
Taxes	352	7,757	6,821	3,530	3,106	6,645	3,994	2,223	792		1,655	36,875
Special Assessments	38,856	12,433	68,125	54,760	60,976		94,854					330,004
Total Assets	$ 157,661	$ 265,812	$ 229,323	$ 194,559	$ 200,111	$ 156,739	$ 262,716	$ 40,425	$ 18,022	$ 38,979	$ 108,061	$ 1,672,408
DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE												
Deferred Inflows of Resources												
Unavailable Revenues												
Property Taxes - Delinquent	$ 352	$ 3,313	$ 2,516	$ 1,602	$ 1,292	$ 2,846	$ 1,716	$ 1,103	$ 329	$	$	$ 15,069
Special Assessments	38,856	12,433	68,125	54,760	60,976		94,854					330,004
Total Deferred Inflows of Resources	39,208	15,746	70,641	56,362	62,268	2,846	96,570	1,103	329	0	0	345,073
Fund Balance												
Restricted	118,453	250,066	158,682	138,197	137,843	153,893	166,146	39,322	17,693	38,979	108,061	1,327,335
Total Deferred Inflows of Resources and Fund Balance	$ 157,661	$ 265,812	$ 229,323	$ 194,559	$ 200,111	$ 156,739	$ 262,716	$ 40,425	$ 18,022	$ 38,979	$ 108,061	$ 1,672,408

CITY OF CLARA CITY, MINNESOTA

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
DEBT SERVICE NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2025

	Hawk Creek Acres	2011 Utility Project	Utility Project 2014C	Utility Project 2014D	2016 Utility Project	2016 Swimming Pool	Utility Project 2018A	2018 Center Ave Road Project	2018 Tennis Court Project	2022A Utility Project	2023A Utility Project	Total
REVENUES												
Taxes												
Property Taxes	$	$ 141,308	$ 136,919	$ 61,290	$ 57,991	$ 120,827	$ 75,030	$ 34,472	$ 13,552	$	$ 52,686	$ 694,075
Special Assessments	11,088	13,204	25,152	4,465	9,630		15,131	115	47			78,832
Contributions					10,000							10,000
Interest Income	836	218	86	130	136	102	143	21	11	26	88	1,797
Total Revenues	11,924	154,730	162,157	65,885	77,757	120,929	90,304	34,608	13,610	26	52,774	784,704
EXPENDITURES												
Debt Service												
Principal		145,000	195,000	50,000	70,000	100,000	80,000	25,000	10,000	30,000	60,000	765,000
Interest and Other Charges		11,675	49,044	10,100	12,595	16,905	28,009	8,673	3,297	17,075	35,925	193,298
Total Expenditures	0	156,675	244,044	60,100	82,595	116,905	108,009	33,673	13,297	47,075	95,925	958,298
Excess (Deficiency) of Revenues Over (Under) Expenditures	11,924	(1,945)	(81,887)	5,785	(4,838)	4,024	(17,705)	935	313	(47,049)	(43,151)	(173,594)
OTHER FINANCING SOURCES (USES)												
Transfers In			65,000				12,550			48,538	257,533	383,621
Transfers Out										(1,344)	(138,622)	(139,966)
Total Other Financing Sources (Uses)	0	0	65,000	0	0	0	12,550	0	0	47,194	118,911	243,655
Net Change in Fund Balances	11,924	(1,945)	(16,887)	5,785	(4,838)	4,024	(5,155)	935	313	145	75,760	70,061
FUND BALANCE, BEGINNING OF YEAR	106,529	252,011	175,569	132,412	142,681	149,869	171,301	38,387	17,380	38,834	32,301	1,257,274
FUND BALANCE, END OF YEAR	$ 118,453	$ 250,066	$ 158,682	$ 138,197	$ 137,843	$ 153,893	$ 166,146	$ 39,322	$ 17,693	$ 38,979	$ 108,061	$ 1,327,335

CITY OF CLARA CITY, MINNESOTA

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
CAPITAL PROJECT NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2025

	2020 Utility Improvements	2022A Water Sewer Capital Project	2023 Street Utility Improvements	Total
REVENUES				
Interest Income	$	$ 193	$	$ 193
OTHER FINANCING SOURCES (USES)				
Transfers In	50,500	7,344	88,122	145,966
Transfers Out		(222,533)		(222,533)
Total Other Financing Sources (Uses)	50,500	(215,189)	88,122	(76,567)
Net Change in Fund Balances	50,500	(214,996)	88,122	(76,374)
FUND BALANCE, BEGINNING OF YEAR	(50,500)	214,996	(88,122)	76,374
FUND BALANCE, END OF YEAR	$ 0	$ 0	$ 0	$ 0

COMPLIANCE SECTION

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INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

Honorable Mayor and Members of the City Council
City of Clara City
Clara City, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the City of Clara City, Minnesota as of and for the year ended December 31, 2025, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 9, 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 - bid laws, depositories of public funds and public investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing sections of the *Minnesota Legal Compliance Audit Guide for Cities,* promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City’s noncompliance with the above referenced provisions, insofar as they relate to accounting matters.

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

Conway, Deuth & Schmiesing, PLLP

CONWAY, DEUTH & SCHMIESING, PLLP
CPAS & ADVISORS
WILLMAR, MINNESOTA

June 9, 2026

Willmar Office
331 Third St SW, Ste 2
PO Box 570
Willmar, MN 56201
(320) 235-3311
(888) 388-1040

Benson Office
1209 Pacific Ave, Ste 3
Benson, MN 56215
(320) 843-2302

Morris Office
401 Atlantic Ave
Morris, MN 56267
(320) 589-2602

Litchfield Office
820 Sibley Ave N
Litchfield, MN 55355
(320) 693-7975

Sartell Office
Ste 110
2351 Connecticut Ave
Sartell, MN 56377
(320) 252-7565
(800) 862-1337

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

Honorable Mayor and Members of the City Council
City of Clara City
Clara City, 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 Clara City, Minnesota, as of and for the year ended December 31, 2025, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 9, 2026.

Report on Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We identified certain deficiencies in internal control, described in the accompanying Schedule of Findings as items 2025-001 and 2025-002 that we consider to be material weaknesses.

Willmar Office
331 Third St SW, Ste 2
PO Box 570
Willmar, MN 56201
(320) 235-3311
(888) 388-1040

Benson Office
1209 Pacific Ave, Ste 3
Benson, MN 56215
(320) 843-2302

Morris Office
401 Atlantic Ave
Morris, MN 56267
(320) 589-2602

Litchfield Office
820 Sibley Ave N
Litchfield, MN 55355
(320) 693-7975

Sartell Office
Ste 110
2351 Connecticut Ave
Sartell, MN 56377
(320) 252-7565
(800) 862-1337

www.cdscpa.com

Compliance and Other Matters

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

City's Response to Findings

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

Purpose of this Report

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

Conway, Deuth & Schmiesing, PLLP

CONWAY, DEUTH & SCHMIESING, PLLP
CPAS & ADVISORS
WILLMAR, MINNESOTA

June 9, 2026

SCHEDULE OF FINDINGS
DECEMBER 31, 2025

I. FINDINGS RELATED TO FINANCIAL STATEMENTS AUDITED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

FINDING: 2025-001 LACK OF SEGREGATION OF DUTIES

Condition: There is an absence of appropriate segregation of duties consistent with appropriate control objectives due to a limited number of office employees.

Criteria: The basic premise is that no one person should have access to both physical assets and the related accounting records or to all phases of a transaction. The lack of such controls could result in the occurrence of a material error or fraud in relation to the financial statements not being detected by management.

Cause: The City has assigned duties to staff based on a cost-benefit relationship to the City and the practicality of the level of staffing the City maintains.

Effect: The lack of adequate segregation of duties could adversely affect the City's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements.

Recommendation: The City should continue to monitor and evaluate the job responsibilities assigned to staff to determine whether there is an unacceptable risk.

CORRECTIVE ACTION PLAN (CAP):
Explanation of Disagreement with Audit Finding:
None

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

Official Responsible for Ensuring CAP:
Julie Aalfs, City Administrator/Clerk

Planned Completion Date for CAP:
December 31, 2026

Plan to Monitor Completion of CAP:
City Council

CITY OF CLARA CITY, MINNESOTA

SCHEDULE OF FINDINGS
DECEMBER 31, 2025

I. FINDINGS RELATED TO FINANCIAL STATEMENTS AUDITED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS* (Cont'd)

FINDING: 2025-002 AUDITOR PREPARED FINANCIAL STATEMENTS

Condition: The City does not have an internal control system designed to provide for the preparation of the financial statements and the related notes being audited. However, based on the degree of complexity and level of detail needed to prepare the financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP), the City has requested the auditors to prepare them.

Criteria: The preparation of the financial statements and the related notes are the responsibility of management.

Cause: There are a limited number of office employees and resources available to allow for the adequate preparation of the financial statements and related notes by the City.

Effect: This could result in a material misstatement to the financial statements and related notes that would not be prevented or detected and corrected as a result of the City's current internal control.

Recommendation: The City should continue to request the assistance to draft the financial statements and related notes and thoroughly review these financial statements after they have been prepared so the City can take responsibility for them.

CORRECTIVE ACTION PLAN (CAP):
Explanation of Disagreement with Audit Finding:
None

Actions Planned in Response to Finding:
The City is aware of this; however, due to significant cost and a limited number of employees, it is in the City's best financial interest to contract for the preparation of the financial statements.

Official Responsible for Ensuring CAP:
Julie Aalfs, City Administrator/Clerk

Planned Completion Date for CAP:
December 31, 2026

Plan to Monitor Completion of CAP:
City Council

CITY OF CLARA CITY, MINNESOTA

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2025

Finding Reference	Finding Title	Status	Year Finding Initially Occurred	If Not Corrected, Provide Planned Corrective Action or Other Explanation
Financial Statement Findings:				
2024-001	Lack of Segregation of Duties	Not Corrected	2006	See current year finding 2025-001
2024-002	Auditor Prepared Financial Statements	Not Corrected	2006	See current year finding 2025-002
Minnesota Legal Compliance Findings:				
None				

APPENDIX B

FORM OF LEGAL OPINION

(See following pages)

PROPOSED FORM OF LEGAL OPINION

$_______________
GENERAL OBLIGATION IMPROVEMENT AND STREET
RECONSTRUCTION PLAN BONDS, SERIES 2026A
CITY OF CLARA CITY
CHIPPEWA COUNTY
MINNESOTA

We have acted as bond counsel in connection with the issuance by the City of Clara City, Chippewa County, Minnesota (the "Issuer"), of its $_______________ General Obligation Improvement and Street Reconstruction Plan Bonds, Series 2026A, bearing a date of original issue of October 15, 2026 (the "Bonds"). We have examined the law and such certified proceedings and other documents as we deem necessary to render this opinion.

We have not been engaged or undertaken to review the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Bonds, and we express no opinion relating thereto.

As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials furnished to us without undertaking to verify the same by independent investigation.

Based upon such examinations, and assuming the authenticity of all documents submitted to us as originals, the conformity to original documents of all documents submitted to us as certified or photostatic copies and the authenticity of the originals of such documents, and the accuracy of the statements of fact contained in such documents, and based upon present Minnesota and federal laws (which excludes any pending legislation which may have a retroactive effect on or before the date hereof), regulations, rulings and decisions, it is our opinion that:

(1) The proceedings show lawful authority for the issuance of the Bonds according to their terms under the Constitution and laws of the State of Minnesota now in force.

(2) The Bonds are valid and binding general obligations of the Issuer, and all of the taxable property within the Issuer's jurisdiction is subject to the levy of an ad valorem tax to pay the same without limitation as to rate or amount; provided that the enforceability (but not the validity) of the Bonds and the pledge of taxes for the payment of the principal and interest thereon is subject to the exercise of judicial discretion in accordance with general principles of equity, to the constitutional powers of the United States of America and to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted.

(3) At the time of the issuance and delivery of the Bonds to the original purchaser, the interest on the Bonds is excluded from gross income for United States income tax purposes and is excluded, to the same extent, from both gross income and taxable net income for State of Minnesota income tax purposes (other than Minnesota franchise taxes measured by income and imposed on corporations and financial institutions), and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals or the Minnesota alternative minimum tax applicable to individuals, estates or trusts; however, interest on the Bonds is taken into account in determining "annual adjusted financial statement income" for the purpose of computing the federal alternative minimum tax imposed on certain corporations. The opinions set forth in the preceding sentence are subject to the condition that the Issuer comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes and from both gross income and taxable net income for State of Minnesota income tax purposes. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income and taxable net income retroactive to the date of issuance of the Bonds.

We express no opinion regarding other state or federal tax consequences caused by the receipt or accrual of interest on the Bonds or arising with respect to ownership of the Bonds.

This opinion is given as of the date hereof, and we assume no obligation to update, revise, or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur and be retroactive.

TAFT STETTINIUS & HOLLISTER LLP

APPENDIX C

BOOK-ENTRY-ONLY SYSTEM

1. The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the securities (the "Securities"). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for [each issue of] the Securities, [each] in the aggregate principal amount of such issue, and will be deposited with DTC. [If, however, the aggregate principal amount of [any] issue exceeds $500 million, one certificate will be issued with respect to each $500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.]

2. DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

4. To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. [Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.]

6. Redemption notices shall be sent to DTC. If less than all of the Securities within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and dividend payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Agent, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

9. A Beneficial Owner shall give notice to elect to have its Securities purchased or tendered, through its Participant, to [Tender/Remarketing] Agent, and shall effect delivery of such Securities by causing the Direct Participant to transfer the Participant's interest in the Securities, on DTC's records, to [Tender/Remarketing] Agent. The requirement for physical delivery of Securities in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Securities are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Securities to [Tender/Remarketing] Agent's DTC account.

10. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to the City or Agent. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

11. The City may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.

12. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

APPENDIX D

FORM OF CONTINUING DISCLOSURE UNDERTAKING

(See following pages)

[Appendix ___ to Official Statement]

PROPOSED FORM OF CONTINUING DISCLOSURE UNDERTAKING

This Continuing Disclosure Undertaking (the "Disclosure Undertaking") is executed and delivered by the City of Clara City, Minnesota (the "Issuer"), in connection with the issuance of its $_______________ General Obligation Improvement and Street Reconstruction Plan Bonds, Series 2026A (the "Bonds"). The Bonds are being issued pursuant to a Resolution adopted on September 29, 2026 (the "Resolution"). Pursuant to the Resolution and this Disclosure Undertaking, the Issuer covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Undertaking. This Disclosure Undertaking is being executed and delivered by the Issuer for the benefit of the Owners and in order to assist the Participating Underwriters in complying with SEC Rule 15c2-12(b)(5).

SECTION 2. Definitions. In addition to the definitions set forth in the Resolution, which apply to any capitalized term used in this Disclosure Undertaking unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any annual financial information provided by the Issuer pursuant to, and as described in, Sections 3 and 4 of this Disclosure Undertaking.

"Audited Financial Statements" shall mean the financial statements of the Issuer audited annually by an independent certified public accounting firm, prepared pursuant to generally accepted accounting principles promulgated by the Financial Accounting Standards Board, modified by governmental accounting standards promulgated by the Government Accounting Standards Board.

"Dissemination Agent" shall mean such party from time to time designated in writing by the Issuer to act as information dissemination agent and which has filed with the Issuer a written acceptance of such designation.

"Financial Obligation" shall mean a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) guarantee of (i) or (ii). This term shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

"Fiscal Year" shall be the fiscal year of the Issuer.

"Governing Body" shall, with respect to the Bonds, have the meaning given that term in Minnesota Statutes, Section 475.51, Subdivision 9.

"MSRB" shall mean the Municipal Securities Rulemaking Board.

"Occurrence(s)" shall mean any of the events listed in Section 5 of this Disclosure Undertaking.

"Official Statement" shall be the Official Statement dated _______________, 2026, prepared in connection with the Bonds.

"Owners" shall mean the registered holders and, if not the same, the beneficial owners of any Bonds.

"Participating Underwriter" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"Resolution" shall mean the resolution or resolutions adopted by the Governing Body of the Issuer providing for, and authorizing the issuance of, the Bonds.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time or interpreted by the Securities and Exchange Commission.

SECTION 3. Provision of Annual Reports.

A. Beginning in connection with the Fiscal Year ending on December 31, 2026, the Issuer shall, or shall cause the Dissemination Agent to provide to the MSRB by filing at www.emma.msrb.org, together with such identifying information as prescribed by the MSRB, an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Undertaking by not later than December 31, 2027, and by December 31 of each year thereafter.

B. If the Issuer is unable to provide to the MSRB an Annual Report by the dates required in subsection A, the Issuer shall send a notice of such delay and estimated date of delivery to the MSRB.

SECTION 4. Content and Format of Annual Reports. The Issuer's Annual Report shall contain or incorporate by reference the financial information and operating data pertaining to the Issuer listed below as of the end of the preceding Fiscal Year. The Annual Report may be submitted to the MSRB as a single document or as separate documents comprising a package, and may cross-reference other information as provided in this Disclosure Undertaking.

The following financial information and operating data shall be supplied:

A. An update of the operating and financial data of the type of information contained in the Official Statement under the captions: Current Property Valuations; Direct Debt; Tax Levies and Collections; US Census Data/Population Trend; and Employment/Unemployment Data.

B. Audited Financial Statements of the Issuer. The Audited Financial Statements of the Issuer may be submitted to the MSRB separately from the balance of the Annual Report. In the event Audited Financial Statements of the Issuer are not available on or before the date for filing the Annual Report with the MSRB as set forth in Section 3.A. above, unaudited financial statements shall be provided as part of the Annual Report. The accounting principles pursuant to which the financial statements will be prepared will be pursuant to generally accepted accounting principles promulgated by the Financial Accounting Standards Board, as such principles are modified by the governmental accounting standards promulgated by the Government Accounting

Standards Board, as in effect from time to time. If Audited Financial Statements are not provided because they are not available on or before the date for filing the Annual Report, the Issuer shall promptly provide them to the MSRB when available.

SECTION 5. Reporting of Significant Events. This Section 5 shall govern the giving of notices of the occurrence of any of the following events with respect to the Bonds:

(1) Principal and interest payment delinquencies;
(2) Non-payment related defaults, if material;
(3) Unscheduled draws on debt service reserves reflecting financial difficulties;
(4) Unscheduled draws on credit enhancements reflecting financial difficulties;
(5) Substitution of credit or liquidity providers, or their failure to perform;
(6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;
(7) Modifications to rights of security holders, if material;
(8) Bond calls, if material, and tender offers;
(9) Defeasances;
(10) Release, substitution, or sale of property securing repayment of the Bonds, if material;
(11) Rating changes;
(12) Bankruptcy, insolvency, receivership or similar event of the Issuer;
(13) The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;
(14) Appointment of a successor or additional trustee or the change of name of a trustee, if material;
(15) Incurrence of a Financial Obligation of the obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the obligated person, any of which affect security holders, if material; and,
(16) Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the obligated person, any of which reflect financial difficulties.

Whenever an event listed above has occurred, the Issuer shall promptly, which may not be in excess of the ten (10) business days after the Occurrence, file a notice of such Occurrence with the MSRB, by filing at www.emma.msrb.org, together with such identifying information as prescribed by the MSRB.

The Issuer agrees to provide or cause to be provided, in a timely manner, to the MSRB notice of a failure by the Issuer to provide the Annual Reports described in Section 4.

SECTION 6. Termination of Reporting Obligation. The Issuer's obligations under this Disclosure Undertaking shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds.

SECTION 7. Dissemination Agent. The Issuer may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Undertaking, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Undertaking, the Issuer may amend this Disclosure Undertaking, and any provision of this Disclosure Undertaking may be waived, if (a) a change in law or change in the ordinary business or operation of the Issuer has occurred, (b) such amendment or waiver would not, in and of itself, cause the undertakings herein to violate the Rule if such amendment or waiver had been effective on the date hereof but taking into account any subsequent change in or official interpretation of the Rule, and (c) such amendment or waiver is supported by an opinion of counsel expert in federal securities laws to the effect that such amendment or waiver would not materially impair the interests of Owners.

SECTION 9. Additional Information. Nothing in this Disclosure Undertaking shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Disclosure Undertaking or any other means of communication, or including any other information in any Annual Report or notice of an Occurrence, in addition to that which is required by this Disclosure Undertaking. If the Issuer chooses to include any information in any Annual Report or notice of an Occurrence in addition to that which is specifically required by this Disclosure Undertaking, the Issuer shall have no obligation under this Disclosure Undertaking to update such information or include it in any future Annual Report or notice of an Occurrence.

SECTION 10. Default. In the event of a failure of the Issuer to provide information required by this Disclosure Undertaking, any Owner may take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the Issuer to comply with its obligations to provide information under this Disclosure Undertaking. A default under this Disclosure Undertaking shall not be deemed an Event of Default under the Resolution, and the sole remedy under this Disclosure Undertaking in the event of any failure of the Issuer to comply with this Disclosure Undertaking shall be an action to compel performance.

SECTION 11. Beneficiaries. This Disclosure Undertaking shall inure solely to the benefit of the Issuer, the Participating Underwriters and Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 12. Reserved Rights. The Issuer reserves the right to discontinue providing any information required under the Rule if a final determination should be made by a court of competent jurisdiction that the Rule is invalid or otherwise unlawful or, subject to the provisions of Section 8 hereof, to modify the undertaking under this Disclosure Undertaking if the Issuer determines that such modification is required by the Rule or by a court of competent jurisdiction.

Dated: October 15, 2026.

CITY OF CLARA CITY, MINNESOTA

By____________________________________
Its Mayor

By____________________________________
Its City Administrator/Clerk

APPENDIX E

TERMS OF PROPOSAL

$1,070,000* GENERAL OBLIGATION IMPROVEMENT AND STREET RECONSTRUCTION PLAN BONDS, SERIES 2026A CITY OF CLARA CITY, MINNESOTA

Proposals for the purchase of $1,070,000* General Obligation Improvement and Street Reconstruction Plan Bonds, Series 2026A (the "Bonds") of the City of Clara City, Minnesota (the "City") will be received at the offices of Ehlers and Associates, Inc. ("Ehlers"), 3001 Broadway Street, Suite 320, Minneapolis, Minnesota 55413, municipal advisors to the City, until 10:00 A.M., Central Time, and **ELECTRONIC PROPOSALS** will be received via **PARITY**, in the manner described below, until 10:00 A.M., Central Time, on September 29, 2026, at which time they will be opened, read and tabulated. The proposals will be presented to the City Council for consideration for award by resolution at a meeting to be held at 6:30 P.M., Central Time, on the same date. The proposal offering to purchase the Bonds upon the terms specified herein and most favorable to the City will be accepted unless all proposals are rejected.

AUTHORITY; PURPOSE; SECURITY

The Bonds are being issued pursuant to Minnesota Statutes, Section 475.58, subd. 3b, and Minnesota Statutes, Chapters 429 and 475, as amended, by the City, to finance with grant funds, for the reconstruction of Division Street North and 4th Avenue and the mill and overlay of various other streets as described in the City's Five-Year Street Reconstruction & Overlay Plan, dated August 25, 2026. The Bonds will be general obligations of the City for which its full faith and credit and taxing powers are pledged.

DATES AND MATURITIES

The Bonds will be dated October 15, 2026, will be issued as fully registered Bonds in the denomination of $5,000 each, or any integral multiple thereof, and will mature on February 1 as follows:

Year	Amount*	Year	Amount*	Year	Amount*
2028	$40,000	2033	$70,000	2038	$85,000
2029	55,000	2034	70,000	2039	85,000
2030	55,000	2035	70,000	2040	85,000
2031	55,000	2036	75,000	2041	90,000
2032	65,000	2037	75,000	2042	95,000

ADJUSTMENT OPTION

The City reserves the right to increase or decrease the principal amount of the Bonds on the day of sale, in increments of $5,000 each. Increases or decreases may be made in any maturity. If any principal amounts are adjusted, the purchase price proposed will be adjusted to maintain the same gross spread per $1,000.

TERM BOND OPTION

Proposals for the Bonds may contain a maturity schedule providing for any combination of serial bonds and term bonds, subject to mandatory redemption, so long as the amount of principal maturing or subject to mandatory redemption in each year conforms to the maturity schedule set forth above. All dates are inclusive.

INTEREST PAYMENT DATES AND RATES

Interest will be payable on February 1 and August 1 of each year, commencing August 1, 2027, to the registered owners of the Bonds appearing of record in the bond register as of the close of business on the 15th day (whether or not a business day) of the immediately preceding month. Interest will be computed upon the basis of a 360-day year of twelve 30-day months and will be rounded pursuant to rules of the Municipal Securities Rulemaking Board. **The rate for any maturity may not be more than 1.00% less than the rate for any preceding maturity. (For example, if a rate of 4.50% is proposed for the 2028 maturity, then the lowest rate that may be proposed for any later maturity is 3.50%.)** All Bonds of the same maturity must bear interest from date of issue until paid at a single, uniform rate. Each rate must be expressed in an integral multiple of 5/100 or 1/8 of 1%.

BOOK-ENTRY-ONLY FORMAT

Unless otherwise specified by the purchaser, the Bonds will be designated in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds, and will be responsible for maintaining a book-entry system for recording the interests of its participants and the transfers of interests between its participants. The participants will be responsible for maintaining records regarding the beneficial interests of the individual purchasers of the Bonds. So long as Cede & Co. is the registered owner of the Bonds, all payments of principal and interest will be made to the depository which, in turn, will be obligated to remit such payments to its participants for subsequent disbursement to the beneficial owners of the Bonds.

PAYING AGENT

The City has selected Bond Trust Services Corporation, Minneapolis, Minnesota ("BTSC") to act as paying agent (the "Paying Agent"). BTSC and Ehlers are affiliate companies. The City will pay the charges for Paying Agent services. The City reserves the right to remove the Paying Agent and to appoint a successor.

OPTIONAL REDEMPTION

At the option of the City, the Bonds maturing on or after February 1, 2037 shall be subject to optional redemption prior to maturity on February 1, 2036 or any date thereafter, at a price of par plus accrued interest to the date of optional redemption.

Redemption may be in whole or in part of the Bonds subject to prepayment. If redemption is in part, the selection of the amounts and maturities of the Bonds to be redeemed shall be at the discretion of the City. If only part of the Bonds having a common maturity date are called for redemption, then the City or Paying Agent, if any, will notify DTC of the particular amount of such maturity to be redeemed. DTC will determine by lot the amount of each participant's interest in such maturity to be redeemed and each participant will then select by lot the beneficial ownership interest in such maturity to be redeemed.

Notice of redemption shall be sent by mail not more than 60 days and not less than 30 days prior to the date fixed for redemption to the registered owner of each Bond to be redeemed at the address shown on the registration books.

DELIVERY

On or about October 15, 2026, the Bonds will be delivered without cost to the winning bidder at DTC. On the day of closing, the City will furnish to the winning bidder the opinion of bond counsel hereinafter described, an arbitrage certification, and certificates verifying that no litigation in any manner questioning the validity of the Bonds is then pending or, to the best knowledge of officers of the City, threatened. Payment for the Bonds must be received by the City at its designated depository on the date of closing in immediately available funds.

LEGAL OPINION

An opinion as to the validity of the Bonds and the exemption from taxation of the interest thereon will be furnished by Taft Stettinius & Hollister LLP, Minneapolis, Minnesota, Bond Counsel to the City ("Bond Counsel"), and will be available at the time of delivery of the Bonds. The legal opinion will state that the Bonds are valid and binding general obligations of the City; provided that the rights of the owners of the Bonds and the enforceability of the Bonds may be limited by bankruptcy, insolvency, reorganization, moratorium, and other similar laws affecting creditors' rights and by equitable principles (which may be applied in either a legal or equitable proceeding). See "FORM OF LEGAL OPINION" found in Appendix B.

By expressing its opinion, Bond Counsel is expressing its professional judgment and does not become an insurer or guarantor of the result indicated by that expression of professional judgment or of the transaction or the future performance of the parties to the transaction. Ownership of the Bonds may result in other state and local tax consequences to certain taxpayers. Bond Counsel expresses no opinion regarding any such collateral consequences arising with respect to the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding the applicability of any such state and local taxes.

STATEMENT REGARDING BOND COUNSEL PARTICIPATION

Bond Counsel has neither been engaged nor undertaken to prepare or independently verify the accuracy of any portion of the Official Statement, including the financial or operational information of the Issuer and risks associated with the purchase of the Bonds, except for statements under "TAX EXEMPTION" herein that summarize certain provisions of the Internal Revenue Code of 1986, as amended, the Bonds and any opinion rendered by Bond Counsel. Bond Counsel has prepared the form of legal opinion attached hereto as "APPENDIX B – FORM OF LEGAL OPINION."

SUBMISSION OF PROPOSALS

Proposals must not be for less than $1,053,950 plus accrued interest on the principal sum of $1,070,000 from date of original issue of the Bonds to date of delivery. Prior to the time established above for the opening of proposals, interested parties may submit a proposal as follows:

1) Electronically to bondsale@ehlers-inc.com; or

2) Electronically via **PARITY** in accordance with this Terms of Proposal until 10:00 A.M., Central Time, but no proposal will be received after the time for receiving proposals specified above. To the extent any instructions or directions set forth in **PARITY** conflict with this Terms of Proposal, the terms of this Terms of Proposal shall control. For further information about **PARITY**, potential bidders may contact IHS Markit (now part of S&P Global) at https://ihsmarkit.com/products/municipal-issuance.html or via telephone (844) 301-7334.

Proposals must be submitted to Ehlers via one of the methods described above and must be received prior to the time established above for the opening of proposals. Each proposal must be unconditional except as to legality. Neither the City nor Ehlers shall be responsible for any failure to receive a facsimile submission.

A good faith deposit ("Deposit") in the amount of $21,400 shall be made by the winning bidder by wire transfer of funds. Such Deposit shall be received by Ehlers no later than two hours after the proposal opening time. Wire transfer instructions will be provided to the winning bidder by Ehlers after the tabulation of proposals. The City reserves the right to award the Bonds to a winning bidder whose wire transfer is initiated but not received by such time provided that such winning bidder's federal wire reference number has been received by such time. In the event the Deposit is not received as provided above, the City may award the Bonds to the bidder submitting the next best proposal provided such bidder agrees to such award. The Deposit will be retained by the City as liquidated damages if the proposal is accepted and the Purchaser fails to comply therewith.

The City and the winning bidder who chooses to so wire the Deposit hereby agree irrevocably that Ehlers shall be the escrow holder of the Deposit wired to such account subject only to these conditions and duties: 1) All income earned thereon shall be retained by the escrow holder as payment for its expenses; 2) If the proposal is not accepted, Ehlers shall, at its expense, promptly return the Deposit amount to the winning bidder; 3) If the proposal is accepted, the Deposit shall be returned to the winning bidder at the closing; 4) Ehlers shall bear all costs of maintaining the escrow account and returning the funds to the winning bidder; 5) Ehlers shall not be an insurer of the Deposit amount and shall have no liability hereunder except if it willfully fails to perform or recklessly disregards, its duties specified herein; and 6) FDIC insurance on deposits within the escrow account shall be limited to $250,000 per bidder.

No proposal can be withdrawn after the time set for receiving proposals unless the meeting of the City scheduled for award of the Bonds is adjourned, recessed, or continued to another date without award of the Bonds having been made.

AWARD

The Bonds will be awarded to the bidder offering the lowest interest rate to be determined on a True Interest Cost (TIC) basis. The City's computation of the interest rate of each proposal, in accordance with customary practice, will be controlling. In the event of a tie, the sale of the Bonds will be awarded by lot. The City reserves the right to reject any and all proposals and to waive any informality in any proposal.

BOND INSURANCE

If the Bonds are qualified for any bond insurance policy, the purchase of such policy shall be at the sole option and expense of the winning bidder. Any cost for such insurance policy is to be paid by the winning bidder, except that, if the City requested and received a rating on the Bonds from a rating agency, the City will pay that rating fee. Any rating agency fees not requested by the City are the responsibility of the winning bidder.

Failure of the municipal bond insurer to issue the policy after the Bonds are awarded to the winning bidder shall not constitute cause for failure or refusal by the winning bidder to accept delivery of the Bonds.

CUSIP NUMBERS

The City will assume no obligation for the assignment or printing of CUSIP numbers on the Bonds or for the correctness of any numbers printed thereon, but will permit such numbers to be printed at the expense of the winning bidder, if the winning bidder waives any delay in delivery occasioned thereby.

QUALIFIED TAX-EXEMPT OBLIGATIONS

The City will designate the Bonds as "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended.

CONTINUING DISCLOSURE

In order to assist the Underwriter (Syndicate Manager) in complying with the provisions of Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934 the City will enter into an undertaking for the benefit of the holders of the Bonds. A description of the details and terms of the undertaking is set forth in Appendix D of the Preliminary Official Statement.

NEW ISSUE PRICING

The winning bidder will be required to provide, in a timely manner, certain information necessary to compute the yield on the Bonds pursuant to the provisions of the Internal Revenue Code of 1986, as amended, and to provide a certificate which will be provided by Bond Counsel upon request.

(a) The winning bidder shall assist the City in establishing the issue price of the Bonds and shall execute and deliver to the City at closing an "issue price" or similar certificate satisfactory to Bond Counsel setting forth the reasonably expected initial offering price to the public or the sales price or prices of the Bonds, together with the supporting pricing wires or equivalent communications. All actions to be taken by the City under this Terms of Proposal to establish the issue price of the Bonds may be taken on behalf of the City by the City's municipal advisor identified herein and any notice or report to be provided to the City may be provided to the City's municipal advisor.

(b) The City intends that the provisions of Treasury Regulation Section 1.148-1(f)(3)(i) (defining "competitive sale" for purposes of establishing the issue price of the Bonds) will apply to the initial sale of the Bonds (the "competitive sale requirements") because:

(1) The City shall disseminate this Terms of Proposal to potential underwriters in a manner that is reasonably designed to reach potential investors;

(2) all bidders shall have an equal opportunity to bid;

(3) the City may receive proposals from at least three underwriters of municipal bonds who have established industry reputations for underwriting new issuances of municipal bonds; and

(4) the City anticipates awarding the sale of the Bonds to the bidder who submits a firm offer to purchase the Bonds at the highest price (or lowest interest cost), as set forth in this Terms of Proposal.

Any proposal submitted pursuant to this Terms of Proposal shall be considered a firm offer for the purchase of the Bonds, as specified in this proposal.

(c) If all of the requirements of a "competitive sale" are not satisfied, the City shall advise the winning bidder of such fact prior to the time of award of the sale of the Bonds to the winning bidder. In such event, any proposal submitted will not be subject to cancellation or withdrawal and the City agrees to use the rule selected by the winning bidder on its proposal form to determine the issue price for the Bonds. On its proposal form, each bidder must select one of the following two rules for determining the issue price of the Bonds: (1) the first price at which 10% of a maturity of the Bonds (the "10% test") is sold to the public as the issue price of that maturity or (2) the initial offering price to the public as of the sale date as the issue price of each maturity of the Bonds (the "hold-the-offering-price rule").

(d) <u>If all of the requirements of a "competitive sale" are not satisfied and the winning bidder selects the hold-the-offering-price rule</u>, the winning bidder shall (i) confirm that the underwriters have offered or will offer the Bonds to the public on or before the date of award at the offering price or prices (the "initial offering price"), or at the corresponding yield or yields, set forth in the proposal submitted by the winning bidder and (ii) agree, on behalf of the underwriters participating in the purchase of the Bonds, that the underwriters will neither offer nor sell unsold Bonds of any maturity to which the hold-the-offering-price rule shall apply to any person at a price that is higher than the initial offering price to the public during the period starting on the sale date and ending on the earlier of the following:

(1) the close of the fifth (5th) business day after the sale date; or

(2) the date on which the underwriters have sold at least 10% of that maturity of the Bonds to the public at a price that is no higher than the initial offering price to the public.

The winning bidder will advise the City promptly after the close of the fifth (5th) business day after the sale whether it has sold 10% of that maturity of the Bonds to the public at a price that is no higher than the initial offering price to the public.

The City acknowledges that in making the representation set forth above, the winning bidder will rely on:

(i) the agreement of each underwriter to comply with requirements for establishing issue price of the Bonds, including, but not limited to, its agreement to comply with the hold-the-price rule, if applicable to the Bonds, as set forth in an agreement among underwriters and the related pricing wires,

(ii) in the event a selling group has been created in connection with the initial sale of the Bonds to the public, the agreement of each dealer who is a member of the selling group to comply with the requirements for establishing issue price of the Bonds, including, but not limited to, its agreement to comply with the hold-the-offering-price rule, if applicable to the Bonds, as set forth in a selling group agreement and the related pricing wires, and

(iii) in the event that an underwriter or dealer who is a member of the selling group is a party to a third-party distribution agreement that was employed in connection with the initial sale of the Bonds to the public, the agreement of each broker-dealer that is party to such agreement to comply with the requirements for establishing issue price of the Bonds, including, but not limited to, its agreement to comply with the hold-the-offering-price rule, if applicable to the Bonds, as set forth in the third-party distribution agreement and the related pricing wires. The City further acknowledges that each underwriter shall be solely liable for its failure to comply with its agreement regarding the requirements for establishing issue price rule of the Bonds, including, but not limited to, its agreement to comply with the hold-the-offering-price rule, if applicable to the Bonds, and that no underwriter shall be liable for the failure of any other underwriter, or of any dealer who is a member of a selling group, or of any broker-dealer that is a party to a third-party distribution agreement to comply with its corresponding agreement to comply with the requirements for establishing issue price of the Bonds, including, but not limited to, its agreement to comply with the hold-the-offering-price rule as applicable to the Bonds.

(e) If all of the requirements of a "competitive sale" are not satisfied and the winning bidder selects the 10% test, the winning bidder agrees to promptly report to the City, Bond Counsel and Ehlers the prices at which the Bonds have been sold to the public. That reporting obligation shall continue, whether or not the closing date has occurred, until either (i) all Bonds of that maturity have been sold or (ii) the 10% test has been satisfied as to each maturity of the Bonds, provided that, the winning bidder's reporting obligation after the Closing Date may be at reasonable periodic intervals or otherwise upon request of the City or bond counsel.

(f) By submitting a proposal, each bidder confirms that:

(i) any agreement among underwriters, any selling group agreement and each third-party distribution agreement (to which the bidder is a party) relating to the initial sale of the Bonds to the public, together with the related pricing wires, contains or will contain language obligating each underwriter, each dealer who is a member of the selling group, and each broker-dealer that is party to such third-party distribution agreement, as applicable, to:

(A) report the prices at which it sells to the public the unsold Bonds of each maturity allocated to it, whether or not the Closing Date has occurred until either all securities of that maturity allocated to it have been sold or it is notified by the winning bidder that either the 10% test has been satisfied as to the Bonds of that maturity, provided that, the reporting obligation after the Closing Date may be at reasonable periodic intervals or otherwise upon request of the City or bond counsel.

(B) comply with the hold-the-offering-price rule, if applicable, in each case if and for so long as directed by the winning bidder and as set forth in the related pricing wires, and

(ii) any agreement among underwriters or selling group agreement relating to the initial sale of the Bonds to the public, together with the related pricing wires, contains or will contain language obligating each underwriter, each dealer who is a member of the selling group and each broker dealer that is a party to a third-party distribution agreement to be employed in connection with the initial sale of the Bonds to the public to require each broker-dealer that is a party to such third-party distribution agreement to:

(A) to promptly notify the winning bidder of any sales of Bonds that, to its knowledge, are made to a purchaser who is a related party to an underwriter participating in the initial sale of the Bonds to the public (each such term being used as defined below), and

(B) to acknowledge that, unless otherwise advised by the underwriter, dealer or broker-dealer, the winning bidder shall assume that each order submitted by the underwriter, dealer or broker-dealer is a sale to the public.

(g) Sales of any Bonds to any person that is a related party to an underwriter participating in the initial sale of the Bonds to the public (each term being used as defined below) shall not constitute sales to the public for purposes of this Terms of Proposal. Further, for purposes of this Terms of Proposal:

(i) "public" means any person other than an underwriter or a related party,

(ii) "underwriter" means (A) any person that agrees pursuant to a written contract with the City (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds to the public and (B) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (A) to participate in the initial sale of the Bonds to the public (including a member of a selling group or a party to a third-party distribution agreement participating in the initial sale of the Bonds to the public),

(iii) a purchaser of any of the Bonds is a "related party" to an underwriter if the underwriter and the purchaser are subject, directly or indirectly, to (A) more than 50% common ownership of the voting power or the total value of their stock, if both entities are corporations (including direct ownership by one corporation of another), (B) more than 50% common ownership of their capital interests or profits interests, if both entities are partnerships (including direct ownership by one partnership of another), or (C) more than 50% common ownership of the value of the outstanding stock of the corporation or the capital interests or profit interests of the partnership, as applicable, if one entity is a corporation and the other entity is a partnership (including direct ownership of the applicable stock or interests by one entity of the other), and

(iv) "sale date" means the date that the Bonds are awarded by the City to the winning bidder.

PRELIMINARY OFFICIAL STATEMENT

Bidders may obtain a copy of the Preliminary Official Statement relating to the Bonds prior to the proposal opening by request from Ehlers at www.ehlers-inc.com by connecting to the Bond Sales link. The Underwriter (Syndicate Manager) will be provided with an electronic copy of the Final Official Statement within seven business days of the proposal acceptance. Up to 10 printed copies of the Final Official Statement will be provided upon request. Additional copies of the Final Official Statement will be available at a cost of $10.00 per copy.

Information for bidders and proposal forms may be obtained from Ehlers at 3001 Broadway Street, Suite 320, Minneapolis, Minnesota 55413, Telephone (651) 697-8500.

By Order of the City Council

City of Clara City, Minnesota

PROPOSAL FORM

The City Council **September 29, 2026**
City of Clara City, Minnesota (the "City")

RE: $1,070,000* General Obligation Improvement and Street Reconstruction Plan Bonds, Series 2026A (the "Bonds")
DATED: October 15, 2026

For all or none of the above Bonds, in accordance with the Terms of Proposal and terms of the Global Book-Entry System (unless otherwise specified by the Purchaser) as stated in this Official Statement, we will pay you $__________________ (not less than $1,053,950) plus accrued interest to date of delivery for fully registered Bonds bearing interest rates and maturing in the stated years as follows:

________	% due	2028	________	% due	2033	________	% due	2038
________	% due	2029	________	% due	2034	________	% due	2039
________	% due	2030	________	% due	2035	________	% due	2040
________	% due	2031	________	% due	2036	________	% due	2041
________	% due	2032	________	% due	2037	________	% due	2042

The City reserves the right to increase or decrease the principal amount of the Bonds on the day of sale, in increments of $5,000 each. Increases or decreases may be made in any maturity. If any principal amounts are adjusted, the purchase price proposed will be adjusted to maintain the same gross spread per $1,000.

The rate for any maturity may not be more than 1.00% less than the rate for any preceding maturity. (For example, if a rate of 4.50% is proposed for the 2028 maturity, then the lowest rate that may be proposed for any later maturity is 3.50%.) All Bonds of the same maturity must bear interest from date of issue until paid at a single, uniform rate. Each rate must be expressed in an integral multiple of 5/100 or 1/8 of 1%.

A good faith deposit ("Deposit") in the amount of $21,400 shall be made by the winning bidder by wire transfer of funds. Such Deposit shall be received by Ehlers no later than two hours after the proposal opening time. Wire transfer instructions will be provided to the winning bidder by Ehlers after the tabulation of proposals. The City reserves the right to award the Bonds to a winning bidder whose wire transfer is initiated but not received by such time provided that such winning bidder's federal wire reference number has been received by such time. In the event the Deposit is not received as provided above, the City may award the Bonds to the bidder submitting the next best proposal provided such bidder agrees to such award. The Deposit will be retained by the City as liquidated damages if the proposal is accepted and the Purchaser fails to comply therewith. We agree to the conditions and duties of Ehlers and Associates, Inc., as escrow holder of the Deposit, pursuant to the Terms of Proposal. This proposal is for prompt acceptance and is conditional upon delivery of said Bonds to The Depository Trust Company, New York, New York, in accordance with the Terms of Proposal. Delivery is anticipated to be on or about October 15, 2026.

This proposal is subject to the City's agreement to enter into a written undertaking to provide continuing disclosure under Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934 as described in the Preliminary Official Statement for the Bonds.

We have received and reviewed the Official Statement, and any addenda thereto, and have submitted our requests for additional information or corrections to the Final Official Statement. As Underwriter (Syndicate Manager), we agree to provide the City with the reoffering price of the Bonds within 24 hours of the proposal acceptance.

This proposal is a firm offer for the purchase of the Bonds identified in the Terms of Proposal, on the terms set forth in this proposal form and the Terms of Proposal, and is not subject to any conditions, except as permitted by the Terms of Proposal.

By submitting this proposal, we confirm that we are an underwriter and have an established industry reputation for underwriting new issuances of municipal bonds. YES: ____ NO: ____.

If the competitive sale requirements are <u>not</u> met, we elect to use either the: _____10% test, or the _____hold-the-offering-price rule to determine the issue price of the Bonds.

Account Manager: ______________________________ By: ______________________________
Account Members:

Award will be on a true interest cost basis. According to our computations (the correct computation being controlling in the award), the total dollar interest cost (including any discount or less any premium) computed from October 15, 2026 of the above proposal is $_______________and the true interest cost (TIC) is __________%.

The foregoing offer is hereby accepted by and on behalf of the City Council of the City of Clara City, Minnesota, on September 29, 2026.

By: ______________________________ By: ______________________________

Title: ______________________________ Title: ______________________________