

Date: October 6, 2026

To: Common Council

From: Rachelle Blitch, Director of Financial and Administrative Services

Re: 2025 Financial Statements and Audit Presentation

At the July 28th Finance Committee meeting, Johnson & Block presented the 2025 Annual Financial Statements and audit. This presentation had traditionally been given to the Common Council in years past, but it was later recommended that it be shared with the Finance Committee instead. A summary of the presentation is provided below, and all audit materials and financial statements are included.

The first section of the report is the Independent Auditor's Report, which contains an **unmodified opinion**. This is the highest level of assurance the auditors can provide and indicates that the financial statements are presented fairly and in accordance with GAAP.

The next section is the **Management's Discussion and Analysis (MD&A)**. This narrative is prepared by management and offers context for the financial statements, helping readers understand what occurred during the year, why it happened, and its implications moving forward.

The financial statements include both **Government-wide** and **Fund** financial statements. Government-wide statements use the full accrual basis of accounting, whereas fund statements use the modified accrual basis. The primary difference between the two is how they report capital assets and debt.

Footnote disclosures outline significant accounting policies and provide details on material financial statement line items. Additional supplementary schedules include combining statements and budget-to-actual reports.

This year, the City also underwent a **Single Audit**, which is required when federal expenditures exceed \$1 million. A Single Audit focuses on compliance with federal requirements for major programs. In 2025, the City expended approximately \$1.6 million in federal funds related to the lead service line replacement project. The audit provides an opinion on compliance and identifies internal control deficiencies. The auditors noted one recurring deficiency involving material audit adjustments, which is common among municipalities.

Two communication letters with recommendations were also included. One comment relates to the Aquatic Center, noting that an additional General Fund transfer was required at year-end and recommending continued monitoring of the fund's long-term stability. The second comment addresses journal entry oversight, recommending that the reviewer of journal entries not be the same individual who records them. This control has already been implemented.

Key financial highlights include a **\$79,000 decrease in the General Fund (Fund 100) balance**. Despite this decrease, the unassigned fund balance remains just under 35%, reflecting a strong reserve position. The reduction is primarily due to the additional transfer made to support the Aquatic Center.

The **combined General Fund**, which includes set-aside funds such as Fire/EMS equipment, Police Vehicle Revolving Fund, elections, and insurance reserves, experienced a **\$906,000 decrease** in overall fund balance. The capital project fund also seen a decrease of \$4.9M ending with a \$715,000 deficit. This resulted from spending down 2024 debt proceeds and cash on capital projects and equipment that were intended to be funded through debt. The reimbursement resolution passed by the City allowed these expenditures to be reimbursed through borrowing in 2026.

Finally, both the **Water and Sewer Utilities** reported operating income in 2025. Sewer utility cash increased by approximately \$36,000. Water utility cash decreased by about \$859,000 due to upfront spending for the lead service line replacement project, which was intended to be funded through debt. This was corrected with the July 2026 borrowing.

The link to watch the full presentation is [here](#).