

CITY OF CARLOS, MINNESOTA
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
YEAR ENDED DECEMBER 31, 2020

**CITY OF CARLOS, MINNESOTA
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INTRODUCTORY SECTION

**CITY OF CARLOS, MINNESOTA
ELECTED AND APPOINTED OFFICIALS
DECEMBER 31, 2020**

Office	Official	Term Expires
ELECTED		
Mayor	Michael Bous	December 31, 2022
Council Member	Teresa Zwiag	December 31, 2022
Council Member	Ronna Berghoff	December 31, 2022
Council Member	Todd Burgess	December 31, 2020
Council Member	Maria Doucette	December 31, 2020
APPOINTED		
Clerk-Treasurer	Lori Johnson	Indefinite

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FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the statement of balances arising from cash transactions of each governmental fund and the statement of net position of each proprietary fund of the City of Carlos (the City), Minnesota as of December 31, 2020, and the related statement of cash receipts, disbursements, and changes in cash fund balances of each governmental fund, the statement of revenues, expenses, and changes in net position of each proprietary fund, and the statement of cash flows of the proprietary funds for the year then ended, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of the accounting practices prescribed or permitted by the Minnesota Office of the State Auditor, which practices differ from accounting principles generally accepted in the United States of America, as described in Note 1, to meet the requirements of the Minnesota Office of the State Auditor. Management is also responsible 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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements 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, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Honorable Mayor and Members of the City Council
City of Carlos

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinion on Accounting Principles Generally Accepted in the United States of America

As described in Note 1 to the financial statements, to meet the financial reporting requirements of the Minnesota Office of the State Auditor, the financial statements are prepared by the City in accordance with the financial reporting provisions of the accounting practices prescribed or permitted by the Minnesota Office of the State Auditor, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on Accounting Principles Generally Accepted in the United States of America

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on Accounting Principles Generally Accepted in the United States of America* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the City as of December 31, 2020, or changes in financial position, or where applicable, cash flows thereof for the year then ended.

Unmodified Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash balances and cash fund balances of each governmental fund and the financial position of each proprietary fund of the City as of December 31, 2020, and the respective cash receipts and disbursements of each governmental fund, and the respective changes in financial position and cash flows of each proprietary fund for the year then ended, in accordance with the financial reporting provisions of the Minnesota Office of the State Auditor described in Note 1.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's regulatory basis financial statements. The budgetary comparison schedule – general fund, combining statement of receipts, disbursements and changes in cash fund balances of each governmental fund, schedule of accounts receivable and schedule of accounts payable are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The budgetary comparison schedule – general fund and the combining statement of receipts, disbursements, and changes in cash fund balances of each governmental fund are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Honorable Mayor and Members of the City Council
City of Carlos

The schedule of accounts receivable and schedule of accounts payable have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 2, 2021, 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 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.



CliftonLarsonAllen LLP

Alexandria, Minnesota
March 2, 2021

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**CITY OF CARLOS, MINNESOTA
STATEMENT OF BALANCES ARISING FROM CASH TRANSACTIONS
GOVERNMENTAL FUNDS
DECEMBER 31, 2020**

	<u>General Fund</u>	<u>Fire Operating Fund</u>	<u>Fire Capital Fund</u>	<u>Other Federal Programs</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash	<u>\$ 475,818</u>	<u>\$ 50,431</u>	<u>\$ 66,543</u>	<u>\$ -</u>	<u>\$ 592,792</u>
CASH FUND BALANCES					
Restricted:					
Park	\$ 1,150	\$ -	\$ -	\$ -	\$ 1,150
State Fire Aid	17,161	-	-	-	17,161
Fire Operating	-	50,431	-	-	50,431
Fire Capital	-	-	66,543	-	66,543
Committed:					
First Responders	7,610	-	-	-	7,610
Unassigned	449,897	-	-	-	449,897
Total Cash Fund Balances	<u>\$ 475,818</u>	<u>\$ 50,431</u>	<u>\$ 66,543</u>	<u>\$ -</u>	<u>\$ 592,792</u>

See accompanying Notes to Financial Statements.

**CITY OF CARLOS, MINNESOTA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2020**

	<u>General Fund</u>	<u>Fire Operating Fund</u>	<u>Fire Capital Fund</u>	<u>Other Federal Programs</u>	<u>Total Governmental Funds</u>
CASH RECEIPTS					
Property Taxes	\$ 181,833	\$ -	\$ -	\$ -	\$ 181,833
Special Assessments	19,203	-	-	-	19,203
Licenses and Permits	3,139	-	-	-	3,139
Intergovernmental	111,281	-	-	38,109	149,390
Charges for Services	16,678	53,403	-	-	70,081
Fines and Forfeits	772	-	-	-	772
Donations	1,967	-	-	-	1,967
Investment Earnings	4,400	490	992	-	5,882
Other	10,296	12,433	-	-	22,729
Total Receipts	<u>349,569</u>	<u>66,326</u>	<u>992</u>	<u>38,109</u>	<u>454,996</u>
CASH DISBURSEMENTS					
General Government	85,672	-	-	38,109	123,781
Public Safety	11,689	35,644	-	-	47,333
Public Works	50,082	-	-	-	50,082
Culture and Recreation	20,418	-	-	-	20,418
Debt Service	89,169	13,898	-	-	103,067
Capital Outlay	11,841	14,208	-	-	26,049
Total Disbursements	<u>268,871</u>	<u>63,750</u>	<u>-</u>	<u>38,109</u>	<u>370,730</u>
Total Cash Receipts Over (Under) Cash Disbursements	80,698	2,576	992	-	84,266
OTHER FINANCING SOURCES (USES)					
Transfers from Other Funds	-	13,000	-	-	13,000
Transfers to Other Funds	(13,000)	-	-	-	(13,000)
Total Other Financing Sources (Uses)	<u>(13,000)</u>	<u>13,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN CASH FUND BALANCES	67,698	15,576	992	-	84,266
Cash Fund Balances - Beginning of Year	<u>408,120</u>	<u>34,855</u>	<u>65,551</u>	<u>-</u>	<u>508,526</u>
CASH FUND BALANCES - END OF YEAR	<u>\$ 475,818</u>	<u>\$ 50,431</u>	<u>\$ 66,543</u>	<u>\$ -</u>	<u>\$ 592,792</u>

See accompanying Notes to Financial Statements.

**CITY OF CARLOS, MINNESOTA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2020**

	Water Fund (Accrual Basis)	Sewer Fund (Accrual Basis)	Total
ASSETS			
Current Assets			
Cash and Cash Equivalent	\$ 40,597	\$ 209,759	\$ 250,356
Accounts Receivable	28,998	11,175	40,173
Prepaid Expense	3,099	1,022	4,121
Total Current Assets	<u>72,694</u>	<u>221,956</u>	<u>294,650</u>
Noncurrent Assets			
Advance to Other Funds	-	77,000	77,000
Capital Assets			
Machinery and Equipment	78,861	10,953	89,814
Infrastructure	2,848,451	82,283	2,930,734
Less: Accumulated Depreciation	(366,340)	(27,961)	(394,301)
Net Capital Assets	<u>2,560,972</u>	<u>65,275</u>	<u>2,626,247</u>
Total Noncurrent Assets	<u>2,560,972</u>	<u>142,275</u>	<u>2,703,247</u>
Total Assets	2,633,666	364,231	2,997,897
DEFERRED OUTFLOWS OF RESOURCES			
Pension Related	768	768	1,536
LIABILITIES			
Current Liabilities			
Accounts Payable	1,632	731	2,363
Accrued Interest Payable	7,777	-	7,777
Current Portion of Long-Term Debt	104,000	-	104,000
Total Current Liabilities	<u>113,409</u>	<u>731</u>	<u>114,140</u>
Long-Term Liabilities			
Compensated Absences	1,228	1,228	2,456
Net Pension Liability	10,552	10,552	21,104
Long-Term Debt	1,887,000	-	1,887,000
Advance from Other Funds	77,000	-	77,000
Total Long-Term Liabilities	<u>1,975,780</u>	<u>11,780</u>	<u>1,987,560</u>
Total Liabilities	2,089,189	12,511	2,101,700
DEFERRED INFLOWS OF RESOURCES			
Pension Related	676	676	1,352
NET POSITION			
Net Investment in Capital Assets	569,972	65,275	635,247
Unrestricted	(25,403)	286,537	261,134
Total Net Position	<u>\$ 544,569</u>	<u>\$ 351,812</u>	<u>\$ 896,381</u>

See accompanying Notes to Financial Statements.

CITY OF CARLOS, MINNESOTA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2020

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
OPERATING REVENUES			
Charges for Services	\$ 187,230	\$ 69,357	\$ 256,587
Miscellaneous Income	150	4,126	4,276
Total Operating Revenues	<u>187,380</u>	<u>73,483</u>	<u>260,863</u>
OPERATING EXPENSES			
Personal Services	16,911	16,926	33,837
Office Expense	545	1,357	1,902
Utilities	5,903	1,841	7,744
Professional Services	687	-	687
Supplies	5,164	1,776	6,940
Fees & Permits	-	505	505
Repairs and Maintenance	308	1,294	1,602
Depreciation	61,075	2,741	63,816
Miscellaneous	4,620	591	5,211
Total Operating Expenses	<u>95,213</u>	<u>27,031</u>	<u>122,244</u>
OPERATING INCOME	92,167	46,452	138,619
NONOPERATING REVENUES (EXPENSES)			
Debt Interest Payments	(21,605)	-	(21,605)
Interest Income	81	-	81
Total Nonoperating Revenues (Expenses)	<u>(21,524)</u>	<u>-</u>	<u>(21,524)</u>
CHANGE IN NET POSITION	70,643	46,452	117,095
Net Position - Beginning of Year	<u>473,926</u>	<u>305,360</u>	<u>779,286</u>
NET POSITION - END OF YEAR	<u>\$ 544,569</u>	<u>\$ 351,812</u>	<u>\$ 896,381</u>

See accompanying Notes to Financial Statements.

**CITY OF CARLOS, MINNESOTA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2020**

	Water Fund	Sewer Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Received from Customers	\$ 189,125	\$ 74,592	\$ 263,717
Payments to Suppliers	(17,135)	(14,061)	(31,196)
Payment to Employees	(16,244)	(16,259)	(32,503)
Net Cash Provided by Operating Activities	<u>155,746</u>	<u>44,272</u>	<u>200,018</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Advance from Other Funds	25,000	-	25,000
Advance to Other Funds	-	(25,000)	(25,000)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>25,000</u>	<u>(25,000)</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Debt Principal Payments	(144,000)	-	(144,000)
Debt Interest Payments	(23,273)	-	(23,273)
Net Cash Used by Capital and Related Financing Activities	<u>(167,273)</u>	<u>-</u>	<u>(167,273)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment Earnings Received	<u>81</u>	<u>-</u>	<u>81</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	13,554	19,272	32,826
Cash and Cash Equivalents - Beginning of Year	<u>27,043</u>	<u>190,487</u>	<u>217,530</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 40,597</u>	<u>\$ 209,759</u>	<u>\$ 250,356</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating Income	\$ 92,167	\$ 46,452	\$ 138,619
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities			
Depreciation	61,075	2,741	63,816
Decrease (Increase) in Assets:			
Accounts Receivable	1,745	1,109	2,854
Prepaid Expense	(1,054)	(264)	(1,318)
Deferred Outflows of Resources - Pension	154	154	308
Increase (Decrease) in Liabilities:			
Accounts Payable	992	(6,587)	(5,595)
Compensated Absences Payable	662	662	1,324
Net Pension Liability	1,430	1,430	2,860
Deferred Inflows of Resources - Pension	(1,425)	(1,425)	(2,850)
Net Cash Provided by Operating Activities	<u>\$ 155,746</u>	<u>\$ 44,272</u>	<u>\$ 200,018</u>

See accompanying Notes to Financial Statements.

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**CITY OF CARLOS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Carlos (the City) was formed in 1903 and operates pursuant to applicable Minnesota laws. The governing body consists of a four-member council and a mayor elected by voters of the City. Council members serve four-year terms and the mayor serves a two-year term.

Reporting Entity

Accounting principles generally accepted in the United States of America define the reporting entity as the City and its component units. Component units are legally separate organizations for which the primary government is considered to be financially accountable or for which the exclusion of the component unit would render the financial statements of the Primary Government misleading. The criteria used to determine if the Primary Government is financially accountable for a component unit include whether or not the Primary Government appoints a voting majority or the potential component unit's governing body, is able to impose its will on the potential component unit, is in a relationship of financial benefit or burden with the potential component unit, or is fiscally depended upon by the potential component unit.

Based on these criteria, there are no organizations considered to be component units of the City.

Other Organizations

The Carlos Fire Department Relief Association (the Association) is organized as a nonprofit organization, legally separate from the City, by its members to provide pension and other benefits in accordance with Minnesota Statutes. The membership appoints the board of this Association, and separate financial statements are issued for this Association. All funding is conducted in accordance with Minnesota Statutes. The Association does not have any significant operational or financial relationship with the City.

Fund Accounting

Governmental Funds

The accounting system of the City is organized on a fund basis, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts. Government resources are allocated to and accounted for in individual funds based upon the purposes for which such resources are to be spent; and the means by which spending activities are controlled. The City reports the following major Governmental Funds:

General Fund

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

**CITY OF CARLOS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Accounting (Continued)

Governmental Funds (Continued)

Fire Operating Fund

The Fire Operating Fund, a special revenue fund, accounts for charges for services that are committed for the operations and maintenance of the fire department.

Fire Capital Fund

The Fire Capital Fund, a capital project fund, accounts for capital transactions of the fire department.

Other Federal Programs Fund

The Other Federal Programs Fund, a special revenue fund, accounts for CARES Act revenues that are committed for the expenses related to the COVID-19 pandemic.

Proprietary Funds

Enterprise Funds are used to account for operations (1) that are financed and operated in a manner similar to private business enterprises, in which the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (2) when the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The City reports the following major Proprietary Funds:

Water Fund

The Water Fund is used to account for the production and distribution of water to City residents.

Sewer Fund

The Sewer Fund is used to account for the sewer collection of the City.

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 proprietary funds are charges for utility services. Operating expenses for the proprietary funds include the cost of sale and services and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**CITY OF CARLOS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Regulatory Basis of Accounting

Governmental Funds

The City follows the cash basis accounting for all governmental funds. The cash basis of accounting recognizes receipts and disbursements only as cash is received or paid out. Therefore, the governmental fund statements do not give effect to receivables, payables, accrued expenses, and inventories and accordingly, are not presented in accordance with accounting principles generally accepted in the United States of America. These procedures are in accordance with the Reporting Requirements as prescribed by the Minnesota Office of the State Auditor for Cities Under 2,500 in Population Reporting on the Regulatory Basis of Accounting.

Proprietary Funds

As allowed by the regulatory basis of accounting, the City's proprietary funds use the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred. The City includes in its accounts receivable unbilled service receivables at year-end.

Cash and Cash Equivalents

Cash and cash equivalents represent cash, money market accounts, and certificates of deposit with a short-term maturity.

Investments

State statutes authorize investments which are direct obligations or obligations guaranteed by the United States or its agencies; shares of investment companies registered under the Federal Investment Company Act of 1940 and receives the highest credit rating, is rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of thirteen months or less; general obligations rated "A" or better; revenue obligations rated "AA" or better, general obligations of the Minnesota Housing Finance Agency rated "A" or better; bankers' acceptances of United States' banks eligible for purchase of by the Federal Reserve System; commercial paper issued by United States corporations or their Canadian subsidiaries, of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less; Guaranteed Investment Contracts guaranteed by a United States commercial bank, domestic branch of a foreign bank, or a United States insurance company, and with a credit quality in one of the top two highest categories, repurchase or reverse purchase agreements and securities lending agreements with financial institutions qualifies as a "depository" by the City entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.

At December 31, 2020, the City did not have any of these investments.

**CITY OF CARLOS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable – Water and Sewer Funds

No substantial losses are anticipated from present receivable balances. Therefore, no allowance for uncollectible accounts is reflected in the financial statements.

Capital Assets – Water and Sewer Funds

Capital assets are recorded for the Water and Sewer Funds, in accordance with accounting principles generally accepted in the United States of America and as required by loan covenants. The City does not elect to record infrastructure assets acquired before December 31, 2004. Capital assets are defined by the government as assets with an initial, individual cost of more than \$2,500 for the Water and Sewer funds.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of the capital asset is included as part of the capitalized value of the assets constructed.

Capital assets of the Water Fund and Sewer Fund are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Machinery and Equipment	10-20
Infrastructure	25-50

Deferred Outflows of Resources – Water and Sewer Funds

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period. The City will not recognize the related outflow until a future event occurs.

Pensions – Water and Sewer Funds

For purposes of measuring the net pension liability for proprietary funds, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the PERA and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refund are recognized when due and payable in accordance with the benefit terms.

Deferred Inflows of Resources – Water and Sewer Funds

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow or resources (revenue) until that time.

**CITY OF CARLOS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Long-Term Obligations – Water and Sewer Funds

In the Water and Sewer Funds, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts are amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

Property Taxes

The City levies its property taxes for the subsequent year during the month of December. In Minnesota, the lien date and assessment date are January 2. The property tax is recorded as revenue when it is received. Douglas County is the collecting agency for the levy which then remits the collections to the City.

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

The County Auditor provides a list of taxes and special assessments to be collected on each parcel of property to the County Treasurer in January of each year. Property owners are required to pay one-half of their real estate taxes by May 15 and the balances by October 15.

Within 30 days after the May settlement, the County Treasurer is required to pay 70% of the estimated collections of taxes and special assessments to the City Treasurer. The County Treasurer must pay the balance to the City Treasurer within 60 days after the settlement, provided that after 45 days interest begins to accrue.

Equity

Governmental Fund Financial Statements

In the fund financial statements, governmental funds report components of fund balance to provide information about fund balance availability for appropriation. Restricted fund balance represents amounts available for appropriation but intended for a specific use and is legally restricted by outside parties. Committed fund balance represents constraints on spending that the government imposes upon itself by high-level formal action prior to the close of the fiscal period. Assigned fund balance represents resources intended for spending for a purpose set by the government body itself or by some person or body delegated to exercise such authority in accordance with policy established by the board. Unassigned fund balance is the residual classification for the City's general fund and includes all spendable amounts not contained in the other classifications.

Committed fund balance is required to be established, modified, or rescinded by resolution of the City Council prior to year-end. When restricted and unrestricted fund balance is available for an expenditure, it is the City's policy to first use restricted fund balance. When committed, assigned, and unassigned fund balance is available for expenditure, it is the City's policy to use committed, assigned, and finally unassigned fund balance.

**CITY OF CARLOS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Proprietary Fund Statements

Net position is reported in one of three categories; net investment in capital assets, restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments; the remaining balance is considered to be unrestricted.

Use of Estimates – Water and Sewer Funds

The preparation of the financial statements requires management to make certain estimates and assumptions that effect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources. Actual results could differ from those estimates.

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

Budgets are prepared on the same basis of accounting as the financial statements. Each fall, the City Council adopts an annual budget for the following year for the General Fund. Comparisons of budgeted receipts and disbursements to actual for the General Fund are presented as supplementary information. The City has not adopted a budget for the Fire Operating or the Other Federal Programs special revenue funds. Thus, there is no budgetary comparison schedule included.

NOTE 3 DEPOSITS AND INVESTMENTS

The City uses two financial institutions, only one of which exposes them to custodial credit risk and concentration of credit risk. These risks are managed through the use of pledged collateral. It is the policy of the City to maintain collateral of at least 110% of the depository balance that is in excess of FDIC insurance.

In accordance with Minnesota Statutes, the City maintains deposits at those institutions authorized by the Council. All such depositories are members of the Federal Reserve System.

Minnesota Statutes require that all City deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance on bonds.

**CITY OF CARLOS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

Authorized collateral includes: (a) United States government treasury bills, treasury notes, treasury bonds; (b) issues of United States government agencies and instrumentalities as quoted by a recognized industry quotation service available to the government entity; (c) general obligation securities of any state or local government with taxing powers which is rated "A" or better by a national bond rating service, or revenue obligation securities of any state or local government with taxing powers with is rated "AA" or better by a national bond rating service; (d) unrated general obligation securities of a local government with taxing power pledged as collateral against funds deposited by that same local government entity's; (e) irrevocable standby letters of credit issued by Federal Home Loan Banks to a municipality accompanied by written evidence that the bank's public debt is rated "AA" or better by Moody's Investors Service, Inc. or Standard & Poor's Corporation; and (f) time deposits that are fully insured by the Federal Deposit Insurance Corporation.

Minnesota Statutes require that collateral be placed in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the depository.

As of December 31, 2020, City deposits were covered by insurance or collateral.

A reconciliation of cash and certificates of deposit as shown in these financial statements for the City follows:

Cash in Checking	\$	353,824
Cash in Certificates of Deposit and Savings		489,324
Total	\$	843,148
Carrying Amount of:		
Deposit Accounts - Governmental Funds	\$	592,792
Deposit Accounts - Proprietary Funds		250,356
Total	\$	843,148

NOTE 4 INTERFUND ACTIVITY

Interfund Advances

During 2017 and 2018, the Sewer Fund advanced the Water Fund \$34,000 and \$18,000, respectively. During 2020 the Sewer Fund advanced the Water Fund an additional \$25,000, for a total of \$77,000 advance at December 31, 2020. There is currently no short term re-payment plan for this advance.

Transfers to Other Funds

The following interfund transfers occurred in 2020:

Transfer From	Transfer To	Amount	Purpose
General	Fire Operating	\$ 13,000	To cover fire operating costs

**CITY OF CARLOS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 5 CAPITAL ASSETS

Capital asset activity for the Water and Sewer Funds for the year ended December 31, 2020, is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
PROPRIETARY FUNDS				
Capital Assets, Being Depreciated				
Machinery and Equipment	\$ 89,814	\$ -	\$ -	\$ 89,814
Infrastructure	2,930,734	-	-	2,930,734
Total Capital Assets, Being Depreciated	<u>3,020,548</u>	<u>-</u>	<u>-</u>	<u>3,020,548</u>
Less: Accumulated Depreciation				
Machinery and Equipment	50,679	5,201	-	55,880
Infrastructure	279,806	58,615	-	338,421
Total Accumulated Depreciation	<u>330,485</u>	<u>63,816</u>	<u>-</u>	<u>394,301</u>
Total Capital Assets Being Depreciated, Net	<u>2,690,063</u>	<u>(63,816)</u>	<u>-</u>	<u>2,626,247</u>
Total Capital Assets, Net	<u>\$ 2,690,063</u>	<u>\$ (63,816)</u>	<u>\$ -</u>	<u>\$ 2,626,247</u>

Depreciation is as follows:

Proprietary Funds:	
Water	\$ 61,075
Sewer	2,741
Total Depreciation - Enterprise Funds	<u>\$ 63,816</u>

NOTE 6 LONG-TERM DEBT

Long-term debt consists of the following:

Purpose	Issue Date	Interest Rates	Maturity Dates	Original Issue	Amount Outstanding	Due Within One year
G.O. Refunding Bonds of 2011	11/30/11	1.40-2.75%	2/1/2021	\$ 725,000	\$ 90,000	\$ 90,000
SCB Public Finance Lease Purchase Agreement	04/02/19	3.57%	4/2/2023	64,864	38,887	12,510
G.O. Utility Revenue Bonds of 2010A	09/15/10	3.75%	2/1/2021	270,000	35,000	35,000
G.O. Utility Revenue Note of 2015	10/28/15	1.00%	8/1/2045	2,303,586	1,956,000	69,000
Total Long Term Debt					<u>\$ 2,119,887</u>	<u>\$ 206,510</u>

**CITY OF CARLOS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 6 LONG-TERM DEBT (CONTINUED)

Changes in long-term obligations for the year ended December 31, 2020 are as follows:

	Balance December 31, 2019	Additions	Retirements	Balance December 31, 2020	Due Within One Year
Governmental Fund Debt					
G.O. Refunding Bonds of 2011	\$ 175,000	\$ -	\$ 85,000	\$ 90,000	\$ 90,000
SCB Public Finance Lease Purchase Agreement	50,966	-	12,079	38,887	12,510
Total Governmental Fund Debt	<u>\$ 225,966</u>	<u>\$ -</u>	<u>\$ 97,079</u>	<u>\$ 128,887</u>	<u>\$ 102,510</u>
Proprietary Fund Debt					
G.O. Utility Revenue Bonds of 2009A	\$ 45,000	\$ -	\$ 45,000	\$ -	\$ -
G.O. Utility Revenue Bonds of 2010A	65,000	-	30,000	35,000	35,000
G.O. Utility Revenue Note of 2015 - Direct Borrowing	2,025,000	-	69,000	1,956,000	69,000
Proprietary Bonds Outstanding	2,135,000	-	144,000	1,991,000	104,000
Compensated Absences	1,132	3,192	1,868	2,456	-
Total Proprietary Fund Debt	<u>\$ 2,136,132</u>	<u>\$ 3,192</u>	<u>\$ 145,868</u>	<u>\$ 1,993,456</u>	<u>\$ 104,000</u>

Maturities and interest payments for the general obligation refunding bonds and the capital lease of the governmental funds are as follows:

	Governmental Activities						Totals
	Bonds			Capital Lease			
	Principal	Interest	Total	Principal	Interest	Total	
2021	\$ 90,000	\$ 1,328	\$ 91,328	\$ 12,510	\$ 1,388	\$ 13,898	\$ 105,226
2022	-	-	-	12,957	942	13,899	13,899
2023	-	-	-	13,420	479	13,899	13,899
Total	<u>\$ 90,000</u>	<u>\$ 1,328</u>	<u>\$ 91,328</u>	<u>\$ 38,887</u>	<u>\$ 2,809</u>	<u>\$ 41,696</u>	<u>\$ 133,024</u>

Maturities and interest payments for the general obligation revenue notes, and general obligation utility revenue bonds for the proprietary funds are as follows:

	Business-Type Activities						Totals
	Bonds			Notes from Direct Borrowings			
	Principal	Interest	Total	Principal	Interest	Total	
2021	\$ 35,000	\$ 656	\$ 35,656	\$ 69,000	\$ 19,560	\$ 88,560	\$ 124,216
2022	-	-	-	70,000	18,870	88,870	88,870
2023	-	-	-	71,000	18,170	89,170	89,170
2024	-	-	-	71,000	17,460	88,460	88,460
2025	-	-	-	72,000	16,750	88,750	88,750
2026-2030	-	-	-	372,000	72,780	444,780	444,780
2031-2035	-	-	-	391,000	53,810	444,810	444,810
2036-2040	-	-	-	411,000	33,860	444,860	444,860
2041-2045	-	-	-	429,000	12,950	441,950	441,950
Total	<u>\$ 35,000</u>	<u>\$ 656</u>	<u>\$ 35,656</u>	<u>\$ 1,956,000</u>	<u>\$ 264,210</u>	<u>\$ 2,220,210</u>	<u>\$ 2,255,866</u>

**CITY OF CARLOS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 6 LONG-TERM DEBT (CONTINUED)

The City's outstanding notes from direct borrowings related to proprietary fund debt of \$1,956,000 contain (1) a provision that if the City is unable to make a payment when due, an interest penalty may be imposed and one or more of the following remedies may be exercised: (a) withhold approval of any disbursement request, (b) reject any pending application by the City for financial assistance, (c) to the extent permitted by law, demand immediate payment of the note in full and upon such demand, the outstanding principal amount of the note will be immediately due and payable with interest accrued thereon to the date of payment, (d) exercise any other remedy availability under law, and (2) a provision that if the City fails to comply with any other provision within the note agreement an immediate increase in the interest rate on the loan by eliminating all interest rate discounts that were originally applied, in addition, the default remedies for failure to make a payment as listed above may be exercised.

NOTE 7 DEFINED BENEFIT PENSION PLANS

Plan Description

The City participates in the following cost-sharing, multiemployer, defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes Chapters 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

General Employees Retirement Plan

All full-time and certain part-time employees of the City are covered by the General Employees Plan. General Employees Plan members belong to the Coordinated Plan. Coordinated Plan members are covered by Social Security.

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.

**CITY OF CARLOS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

Benefits Provided (Continued)

General Employees Plan Benefits

General Employees Plan 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 PERA's Coordinated Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated members is 1.2 percent of average salary for each of the first 10 years of service and 1.7 percent of average salary for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7 percent of average salary for all years of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

Benefit increases are provided to benefit recipients each January. Beginning in 2019, the postretirement increase is equal to 50 percent of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1 percent and a maximum of 1.5 percent. 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. For 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 reduced prorated increase. For members retiring on January 1, 2024, or later, the increase will be delayed until normal retirement age (age 65 if hired prior to July 1, 1989, or age 66 for individuals hired on or after July 1, 1989). Members retiring under Rule of 90 are exempt from the delay to normal retirement.

Contributions

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature.

General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2020 and the City was required to contribute 7.50 percent for Coordinated Plan members. The City's contributions to the General Employees Fund for the year ended December 31, 2020, were \$5,931. The City's contributions were equal to the required contributions as set by state statute.

**CITY OF CARLOS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

Pension Costs

At December 31, 2020, the City reported a liability of \$65,950 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 \$1,973. The net pension liability was measured as of June 30, 2020, 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, 2019 through June 30, 2020, relative to the total employer contributions received from all of PERA's participating employers. The City's proportionate share was .0011 percent at the end of the measurement period and .0011 percent for the beginning of the period.

City's proportionate share of the net pension liability	\$	65,950
State of Minnesota's proportionate share of the net pension liability associated with the City.		1,973
		\$ 67,923

For the year ended December 31, 2020 the City recognized pension expense of \$798 for its proportionate share of the General Employees Plan's pension expense in the proprietary funds. In addition, the City recognized an additional \$172 as pension expense (and grant revenue) for its proportionate share of the state of Minnesota's contribution of \$16 million to the General Employees Fund.

At December 31, 2020, the City reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ 601	\$ 250
Changes of Assumptions	-	2,445
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	1,140	-
Changes in Proportion	-	1,531
City Contributions Subsequent to the Measurement Date	3,065	-
Total	\$ 4,806	\$ 4,226

**CITY OF CARLOS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

Pension Costs (Continued)

The \$3,065 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, 2021. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending December, 31	Pension Expense
2021	\$ (5,270)
2022	(62)
2023	1,254
2024	1,593

Actuarial Assumptions

The total pension liability in the June 30, 2020, actuarial valuation was determined using an individual entry-age normal actuarial cost method and the following actuarial assumptions:

Inflation	2.25% per Year
Active Member Payroll Growth	3.00% per Year
Investment Rate of Return	7.50%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants for all plans were based on RP 2014 tables for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases after retirement for retirees are assumed to be 1.25 percent per year for the General Employees Plan.

Actuarial assumptions used in the June 30, 2020 valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2019. The assumption changes were adopted by the Board and become effective with the July 1, 2020 actuarial valuation.

**CITY OF CARLOS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

Actuarial Assumptions (Continued)

The following changes in actuarial assumptions and plan provisions occurred in 2020:

Changes in Actuarial Assumptions:

- The price inflation assumption was decreased from 2.50% to 2.25%.
- The payroll growth assumption was decreased from 3.25% to 3.00%.
- Assumed salary increase rates were changed as recommended in the June 30, 2019 experience study. The net effect is assumed rates that average 0.25% less than previous rates.
- Assumed rates of retirement were changed as recommended in the June 30, 2019 experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements.
- Assumed rates of termination were changed as recommended in the June 30, 2019 experience study. The new rates are based on service and are generally lower than the previous rates for years 2-5 and slightly higher thereafter.
- Assumed rates of disability were changed as recommended in the June 30, 2019 experience study. The change results in fewer predicted disability retirements for males and females.
- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 General Mortality table, with adjustments. The base mortality table for disabled annuitants was changed from the RP-2014 disabled annuitant mortality table to the PUB-2010 General/Teacher disabled annuitant mortality table, with adjustments.
- The mortality improvement scale was changed from Scale MP-2018 to Scale MP-2019.
- The assumed spouse age difference was changed from two years older for females to one year older.
- The assumed number of married male new retirees electing the 100% Joint & Survivor option changed from 35% to 45%. The assumed number of married female new retirees electing the 100% Joint & Survivor option changed from 15% to 30%. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.

Changes in Plan Provisions:

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

**CITY OF CARLOS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

Actuarial Assumptions (Continued)

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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	35.5 %	5.10 %
International Stocks	17.5	5.30
Bonds (Fixed Income)	20.0	0.75
Alternative Assets (Private Markets)	25.0	5.90
Cash	2.0	-
Totals	<u>100.0 %</u>	

Discount Rate

The discount rate used to measure the total pension liability in 2020 was 7.50 percent. 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 Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Pension Liability Sensitivity

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

	<u>1% Decrease (6.5%)</u>	<u>Current Discount Rate (7.5%)</u>	<u>1% Increase (8.5%)</u>
City Proportionate Share of the General Employees Net Pension Liability:	\$ 105,695	\$ 65,950	\$ 33,164

**CITY OF CARLOS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

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.

Pension Allocation

The City presents its governmental funds on cash basis. The proprietary funds are reported using the accrual basis. Therefore, the deferred outflows of resources, the net pension liability, and the deferred inflows of resources are not applicable for the governmental funds of the City and only recorded in the financial statements for the Water and Sewer Funds. Below is the allocation of the related deferred inflows and outflows of resources and the net pension liability:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Pension Liability
Governmental Funds (Cash Basis)	\$ 3,270	\$ 2,874	\$ 44,846
Water Fund (Full Accrual)	768	676	10,552
Sewer Fund (Full Accrual)	768	676	10,552
Total	<u>\$ 4,806</u>	<u>\$ 4,226</u>	<u>\$ 65,950</u>

Carlos Fire Department Relief Association

Plan Description

This Carlos Fire Relief Retirement Plan (the Plan) is a single-employer defined benefit pension plan administered by the Carlos Fire Department Relief Association. The Plan provides retirement, disability, and death benefits to Plan members and beneficiaries. The Carlos Fire Department has 24 active members and 5 deferred members who are covered by the Plan as of December 31, 2020 (most recent information available). The Plan pays \$3,300 a year for each year of service provided by each firefighter. Members are eligible for a lump-sum retirement benefit at 50 years of age. Plan provisions include a pro-rated vesting schedule. The Carlos Fire Department issues separately audited financial statements.

Funding Policy

The Plan is funded in part by fire state aid and, if necessary, employer contributions as specified in Minnesota Statutes, and voluntary City contributions. The state of Minnesota distributed to the City \$17,161 in fire state aid paid by the City to the Relief Association for the year ended December 31, 2020. Required employer contributions are calculated annually based on statutory provisions. The City had no statutorily-required contribution to the Plan for the year ended December 31, 2020.

**CITY OF CARLOS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

Carlos Fire Relief Association (Continued)

Below is the schedule of distributions for the current year and two preceding years:

	2020	2019	2018
State of Minnesota Fire Aid	\$ 17,161	\$ 16,350	\$ 16,315
Voluntary City Contributions	-	2,000	-
Statutorily-Required City Contributions	-	-	-

The annual required contribution for the current year was determined by forms provided and required by the Minnesota Office of the State Auditor. The actuarial assumptions included a 5% investment rate of return.

NOTE 8 RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft or destruction of assets; errors or omissions; injuries to employees; or natural disasters. The City has entered into a joint powers agreement with the League of Minnesota Cities Insurance Trust (LMCIT). The LMCIT is a public entity risk pool currently operating as a common risk management and insurance program for Minnesota Cities. The City also carries commercial insurance for certain other risks of loss, including employee health insurance.

The agreement for formation of the LMCIT provides that the pool will be self-sustaining through member assessments and will reinsure through commercial companies for claims in excess of reserved amounts for each insured event. The pool can make additional assessments to make the pool self-sustaining. The City has determined that it is not possible to estimate the amount of such additional assessments; however, they are not expected to be material to the financial statements.

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

NOTE 9 CONDUIT DEBT OBLIGATIONS

During 2017, the City issued a revenue refunding note to refinance bonds that were issued to provide financial assistance to a private-sector entity for the acquisition and construction of commercial facilities deemed to be in public interest. The refunding notes are secured by the underlying property enhanced and are payable solely from payments received from the benefited entity. Neither the City, the state of Minnesota, nor any political subdivision, thereof, is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the City's basic financial statements. As of December 31, 2020, the balance outstanding on the Senior Housing Revenue Refunding Note is \$8,511,910.

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SUPPLEMENTARY INFORMATION

**CITY OF CARLOS, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED DECEMBER 31, 2020**

	Original and Final Budget	Actual Amounts	Variance with Budget Over (Under)
RECEIPTS			
Property Taxes	\$ 179,618	\$ 181,833	\$ 2,215
Special Assessments	16,925	19,203	2,278
Licenses and Permits	1,525	3,139	1,614
Intergovernmental	110,817	111,281	464
Charges for Services	11,075	16,678	5,603
Fines and Forfeits	-	772	772
Donations	-	1,967	1,967
Investment Earnings	3,000	4,400	1,400
Other	4,500	10,296	5,796
Total Receipts	<u>327,460</u>	<u>349,569</u>	<u>22,109</u>
DISBURSEMENTS			
General Government	90,066	85,672	(4,394)
Public Safety	26,600	11,689	(14,911)
Public Works	68,756	61,923	(6,833)
Culture and Recreation	31,801	20,418	(11,383)
Debt Service	89,194	89,169	(25)
Total Disbursements	<u>306,417</u>	<u>268,871</u>	<u>(37,546)</u>
Total Cash Receipts Over (Under) Cash Disbursements	21,043	80,698	59,655
OTHER FINANCING SOURCES/(USES)			
Transfers to Other Funds	<u>(16,000)</u>	<u>(13,000)</u>	<u>3,000</u>
NET CHANGE IN CASH FUND BALANCE	5,043	67,698	62,655
Cash Balance - Beginning of Year	<u>408,120</u>	<u>408,120</u>	<u>-</u>
CASH BALANCE - END OF YEAR	<u>\$ 413,163</u>	<u>\$ 475,818</u>	<u>\$ 62,655</u>

NOTE TO STATEMENT

The budget and actual are both prepared on the cash basis of accounting as prescribed by the Minnesota Office of the State Auditor.

**CITY OF CARLOS, MINNESOTA
 COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS,
 AND CHANGES IN CASH FUND BALANCES
 GOVERNMENTAL FUNDS
 YEAR ENDED DECEMBER 31, 2020**

	<u>General Fund</u>	<u>Fire Operating Fund</u>	<u>Fire Capital Fund</u>	<u>Other Federal Programs</u>	<u>Total Governmental Funds</u>
CASH RECEIPTS					
Taxes:					
General Property Taxes	\$ 181,833	\$ -	\$ -	\$ -	\$ 181,833
Special Assessments	19,203	-	-	-	19,203
Total Taxes	<u>201,036</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>201,036</u>
Licenses and Permits	3,139	-	-	-	3,139
Intergovernmental:					
Local Government Aid	94,120	-	-	-	94,120
State Fire Aid	17,161	-	-	-	17,161
Federal Grants - CARES	-	-	-	38,109	38,109
Total Intergovernmental	<u>111,281</u>	<u>-</u>	<u>-</u>	<u>38,109</u>	<u>149,390</u>
Charges for Services:					
Township Fire Contracts	-	53,403	-	-	53,403
Other Charges for Services	16,678	-	-	-	16,678
Total Charges for Services	<u>16,678</u>	<u>53,403</u>	<u>-</u>	<u>-</u>	<u>70,081</u>
Fines and Forfeits	772	-	-	-	772
Miscellaneous:					
Investment Earnings	4,400	490	992	-	5,882
Donations	1,967	6,733	-	-	8,700
Other	10,296	5,700	-	-	15,996
Total Miscellaneous	<u>16,663</u>	<u>12,923</u>	<u>992</u>	<u>-</u>	<u>30,578</u>
Total Cash Receipts	349,569	66,326	992	38,109	454,996

**CITY OF CARLOS, MINNESOTA
COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH FUND BALANCES (CONTINUED)
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2020**

	<u>General Fund</u>	<u>Fire Operating Fund</u>	<u>Fire Capital Fund</u>	<u>Other Federal Programs</u>	<u>Total Governmental Funds</u>
CASH DISBURSEMENTS					
General Government:					
Mayor and Council	\$ 12,085	\$ -	\$ -	\$ 340	\$ 12,425
Clerk	50,888	-	-	-	50,888
Elections	5,315	-	-	-	5,315
Other General Government	17,384	-	-	37,769	55,153
Total General Government	<u>85,672</u>	<u>-</u>	<u>-</u>	<u>38,109</u>	<u>123,781</u>
Public Safety:					
First Responders - Current	2,303	-	-	-	2,303
Police Protection - Current	9,386	-	-	-	9,386
Fire Protection - Current	-	35,644	-	-	35,644
Fire Protection - Capital Outlay	-	14,208	-	-	14,208
Total Public Safety	<u>11,689</u>	<u>49,852</u>	<u>-</u>	<u>-</u>	<u>61,541</u>
Public Works:					
Street Maintenance	40,639	-	-	-	40,639
Ice and Snow Removal	1,870	-	-	-	1,870
Street Lighting	7,573	-	-	-	7,573
Street - Capital Outlay	11,841	-	-	-	11,841
Total Public Works	<u>61,923</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>61,923</u>
Culture and Recreation:					
Culture and Recreation	20,418	-	-	-	20,418
Debt Service:					
Principal	85,000	12,079	-	-	97,079
Interest	4,169	1,819	-	-	5,988
Total Debt Service	<u>89,169</u>	<u>13,898</u>	<u>-</u>	<u>-</u>	<u>103,067</u>
Total Disbursements	268,871	63,750	-	38,109	370,730
Total Cash Receipts Over (Under) Cash Disbursements	80,698	2,576	992	-	84,266
OTHER FINANCING SOURCES (USES)					
Transfers from Other Funds	-	13,000	-	-	13,000
Transfers to Other Funds	(13,000)	-	-	-	(13,000)
Total Other Financing Sources (Uses)	<u>(13,000)</u>	<u>13,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN CASH FUND BALANCES	67,698	15,576	992	-	84,266
Cash Fund Balances - Beginning of Year	<u>408,120</u>	<u>34,855</u>	<u>65,551</u>	<u>-</u>	<u>508,526</u>
CASH FUND BALANCES - END OF YEAR	<u>\$ 475,818</u>	<u>\$ 50,431</u>	<u>\$ 66,543</u>	<u>\$ -</u>	<u>\$ 592,792</u>

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**OTHER INFORMATION
(UNAUDITED)**

**CITY OF CARLOS, MINNESOTA
SCHEDULE OF ACCOUNTS RECEIVABLE
DECEMBER 31, 2020
(UNAUDITED)**

Fund	Source	Purpose	Amount
General Fund	Douglas County	Property tax	\$ <u>4,306</u>

Note: This schedule excludes the Water and Sewer Funds since accounts receivable for these funds are presented on the accrual basis of accounting in the accompanying financial statements.

CITY OF CARLOS, MINNESOTA
SCHEDULE OF ACCOUNTS PAYABLE
DECEMBER 31, 2020
(UNAUDITED)

Fund	Vendor	Purpose	Amount
General Fund	Brother's Market	Fuel	\$ 242
General Fund	CenturyLink	Phone	39
General Fund	Lakes Area Excavation	Sidewalks and crosswalks	322
General Fund	Douglas County Sheriff's Office	Patrol service	789
General Fund	Douglas County Auditor/Treasurer	TNT notices	43
General Fund	Alex Rubbish	Garbage	99
General Fund	Beheng Implement Inc	Supplies	5
General Fund	Community Education	Participant recreation	748
General Fund	Cardmember Service	GCTEL	7
General Fund	Cardmember Service	Supplies	16
General Fund	Cardmember Service	New council training	175
General Fund	IUOE, Local #70	Union dues	221
General Fund	IUOE 2020 National Training	Union dues	35
General Fund	Lori Johnson	Reimbursement for supplies	7
General Fund	CenterPoint Energy	Gas heat	654
General Fund	Ottertail Power Company	Utilities	769
General Fund	Carlos Firefighters Relief Ass.	Transfer aid from MMB	17,161
Fire Operating Fund	Alex Tech & Comm College	Training	1,370
Fire Operating Fund	Brandon Communications	Supplies	171
Fire Operating Fund	Great Plains Fire	Supplies	86
Fire Operating Fund	Jim & Judy's 1 Stop	Fuel	101
Fire Operating Fund	Douglas County Chiefs Association	Dues 2020	80
Fire Operating Fund	CenterPoint Energy	Gas heat	255
Fire Operating Fund	Ottertail Power Company	Electricity	59
			<u>\$ 23,454</u>

Note: This schedule excludes the Water and Sewer Funds since accounts payable for these funds are presented on the accrual basis of accounting in the accompanying financial statements.

**REPORTS RELATED TO
*GOVERNMENT AUDITING STANDARDS***



**INDEPENDENT AUDITORS' 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 Carlos
Carlos, 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 accompanying statement of balances arising from cash transactions of each governmental fund and the statement of net position of each proprietary fund of the City of Carlos (the City), Minnesota, as of and for the year ended December 31, 2020, and the related statement of cash receipts, disbursements and changes in cash fund balances of each governmental fund and the statement of revenues, expenses, and changes in net position and the statement of cash flows of each proprietary fund and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 2, 2021. We expressed an adverse opinion on accounting principles generally accepted in the United States of America because the financial statements are prepared on a basis of accounting that demonstrates compliance with the regulatory basis of accounting prescribed or permitted by the Minnesota Office of the State Auditor, which practices differ from accounting principles generally accepted in the United States of America. However, our opinion was unmodified on the financial statements presented under this regulatory basis.

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 City'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.

Honorable Mayor and Members of the City Council
City of Carlos

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 did identify certain deficiencies in internal control described in the accompanying schedule of findings and recommendations as items 2020-001 through 2020-003 that we consider to be material weaknesses.

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 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*.

The City’s Response to Findings

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

Purpose of this Report

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



CliftonLarsonAllen LLP

Alexandria, Minnesota
March 2, 2021

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INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE

Honorable Mayor and Members of the City Council
City of Carlos
Carlos, 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 *Governmental Auditing Standards* issued by the Comptroller General of the United States, the accompanying statement of balances arising from cash transactions of each governmental fund and the statement of net position of each proprietary fund of the City of Carlos (the City), Minnesota, as of December 31, 2020 and the related statement of cash receipts, disbursements, and changes in cash fund balances of each governmental fund and the statement of revenues, expenses, and changes in net position of each proprietary fund and the statement of cash flows of each proprietary fund for the year then ended and the related notes to the financial statements and have issued our report thereon dated March 2, 2021. We expressed an adverse opinion on accounting principles generally accepted in the United States of America because the financial statements are prepared on a basis of accounting that demonstrates compliance with the regulatory basis of accounting prescribed or permitted by the Minnesota Office of the State Auditor, which practices differ from accounting principles generally accepted in the United States of America. However, our opinion was unmodified on the financial statements presented under this regulatory basis.

In connection with our audit, nothing came to our attention that caused us to believe that the City failed to comply with the provisions of the contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions 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, except as described in the schedule of findings and recommendations as items 2020-004 and 2020-005. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance, insofar as they related to accounting matters. 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 City's response to the legal compliance findings identified in our audit is described in the schedule of findings and recommendations. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

The purpose of this report is solely to describe the scope of our testing of compliance relating to the provisions of the *Minnesota Legal Compliance Audit Guide for Cities* and the results of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Alexandria, Minnesota
March 2, 2021

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**CITY OF CARLOS, MINNESOTA
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
YEAR ENDED DECEMBER 31, 2020**

FINANCIAL STATEMENT FINDINGS

Finding 2020-001 – Financial Statement Preparation

Type of Finding: Material Weakness in Internal Control over Financial Reporting

Condition: The City does not have an internal control policy in place over annual financial reporting that would enable management to prepare its annual financial statements and related footnote disclosures that are completed and presented in accordance with the *Minimum Reporting Requirements for Cities under 2,500 in Population* as required by the Minnesota Office of the State Auditor.

Criteria: City management is responsible for establishing and maintaining internal controls, including monitoring, and for the fair presentation in the financial statements in accordance with the *Minimum Reporting Requirements for Cities under 2,500 in Population* as required by the Minnesota Office of the State Auditor, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Cause: The City relies on the audit firm to prepare the financial statements as a clerical function. However, management has reviewed and approved the annual financial statements and related footnote disclosures.

Effect: The design of the controls over the financial reporting process could affect the ability of the City to report its financial data consistently with the assertions of management in the financial statements.

Recommendation: Management should continue to evaluate their internal staff capacity to determine if an internal control policy over the annual financial reporting is beneficial.

Management's Response: The City will continue to utilize the expertise of the audit firm to prepare the financial statements and notes. Management will continue to review and approve the financial statements and notes before they are released.

**CITY OF CARLOS, MINNESOTA
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)
YEAR ENDED DECEMBER 31, 2020**

FINANCIAL STATEMENT FINDINGS (CONTINUED)

Finding 2020-002 – Segregation of Duties

Type of Finding: Material Weakness in Internal Control over Financial Reporting

Condition: Due to the limited size of the City’s business office, the City has limited segregation of duties in several areas.

In addition, the Clerk has the ability to make manual adjustments to UBMax, the City’s utility billing software. There is no oversight to what is deposited in the bank account and to what is recorded in the City’s general ledger system.

Criteria: Generally, a system of internal control contemplates separation of duties such that no one individual should have responsibility to execute a transaction, have physical access to the related assets, and have responsibility or authority to record the transaction.

Cause: The City has a limited number of staff in the business office.

Effect: Because of the lack of segregation of duties, an individual regularly handles transactions from inception to completion. There is a possibility that errors or fraud can occur and not be prevented or detected and corrected on a timely basis.

Recommendation: While we recognize the City’s office staff may not be large enough to permit an adequate segregation of duties in all respects for an effective internal control structure, it is important that the City be aware of this condition.

Management’s Response: The City will continue to explore further segregation of duties within the City office until it becomes cost prohibitive.

**CITY OF CARLOS, MINNESOTA
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)
YEAR ENDED DECEMBER 31, 2020**

FINANCIAL STATEMENT FINDINGS (CONTINUED)

Finding 2020-003 – Audit Adjustments

Type of Finding: Material Weakness in Internal Control over Financial Reporting

Condition: As part of the audit, we proposed adjusting entries to properly state the sale of investments, fund balance transfers, and fire state aid. These entries indicate a lack of controls over the year-end financial reporting process. The absence of this control procedure is considered a material weakness because the potential exists for a material misstatement of the financial statements to occur and not be prevented or detected by the City's internal control structure. As part of our audit, we noted the City does not have records on file tracking the interfund loans recognized in the proprietary financial statements.

Criteria: City management is responsible for establishing and maintaining internal controls for the proper recording of the City's financial transactions

Cause: The City has a limited number of staff in the business office.

Effect: The design of internal controls over recording receipts and disbursements including reclassifications, could affect the City's ability to detect or prevent a misappropriation of assets or fraudulent activity.

Recommendation: We recommend City management be consistently aware of all procedures and processes involved in recording receipts, disbursements, and reclassifications, and develop internal control policies to ensure proper recording of these items. We also recommend the City retain support and track the interfund loan activity.

Management's Response: The City will continue to work at eliminating the need for audit adjustments through continued commitment to ongoing learning and review of work performed.

**CITY OF CARLOS, MINNESOTA
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)
YEAR ENDED DECEMBER 31, 2020**

MINNESOTA LEGAL COMPLIANCE

Finding 2020-004 – Prompt Payment of Claims

Condition: 1 of 22 disbursements tested did not conform to the 35-day payment deadline.

Criteria: Minnesota Statute §471.425 subd 2 requires payment of claims within 35 days from receipt of invoice.

Cause: With monthly meetings, there are limited check runs each year, and sometimes invoices are not received timely from vendors.

Effect: The City is out of compliance with Minnesota Statute §471.425 subd 2.

Recommendation: We recommend City management stamp invoices with the date they are received from vendors.

Management's Response: The City will start to mark the date of receipt on invoices received late from vendors.

Finding 2020-005 – Transmitting State Aid to the Fire Relief Association Treasurer

Condition: The City did not transmit state aid to the fire relief association within 30 days of receipt.

Criteria: Minnesota Statutes §69.031 requires cities to transmit the fire state aid to the fire relief association within 30 days after receipt or after the relief association has filed the financial reports.

Cause: The City Clerk/Treasurer is new to her position and was not aware of the requirement.

Effect: The City is not in compliance with Minnesota Statutes.

Recommendation: We recommend the City establish internal controls to ensure compliance with Minnesota Statutes regarding the transmission of the fire state aid. The state aid should be remitted within 30 days after receipt or after the fire relief association has filed the financial report with the City.

Management's Response: Management agrees and will monitor the fire relief association financial reporting more closely and will transmit the payment within 30 days of receipt.