

CITY OF CARLOS, MINNESOTA
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
YEAR ENDED DECEMBER 31, 2021



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INTRODUCTORY SECTION

**CITY OF CARLOS, MINNESOTA
 SCHEDULE OF ELECTED AND APPOINTED OFFICIALS
 DECEMBER 31, 2021**

Office	Official	Term Expires
ELECTED		
Mayor	Todd Burgess	December 31, 2022
Council Member	Teresa Zweg	December 31, 2022
Council Member	Ronna Berghoff	December 31, 2022
Council Member	Donna Eveslage	December 31, 2024
Council Member	Vacant	
APPOINTED		
Clerk-Treasurer	Lori Johnson	Indefinite

FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

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

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the balances arising from cash transactions of each governmental fund and the financial position of each proprietary fund of the City of Carlos (the City), Minnesota as of December 31, 2021, and the related statements of cash receipts, disbursements, and changes in cash fund balances of each governmental fund, and the changes in net position of each proprietary fund, and where applicable, the cash flows thereof for the year then ended, and the related notes to the financial statements.

Unmodified Opinion on Regulatory Basis of Accounting

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the balances arising from cash transactions of each governmental fund and the financial position of each proprietary fund of the City as of December 31, 2021 and the respective cash receipts, disbursements, and changes in cash fund balances of each governmental fund and the revenues, expenses, and the changes in net position of each proprietary fund and where applicable, cash flows thereof for the year then ended in accordance with the financial reporting provisions of the Minnesota Office of the State Auditor described in Note 1.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U. S. Generally Accepted Accounting Principles section of our report, the accompanying 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 each fund of the City as of December 31, 2021, or changes in fund balance/net position and cash flows thereof for the year then ended.

Basis for Opinions

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 Auditors' 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.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statements, the financial statements are prepared by the City on the basis of the financial reporting provisions of 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, to meet the requirements of the Minnesota Office of the State Auditor. 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 and pervasive.

Responsibilities of Management 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, 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 the financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' 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 auditors' 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.

Supplementary 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 and statement of receipts, disbursements, and changes in cash fund balances – governmental funds are presented for purposes of additional analysis and are not a required part of the regulatory basis 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 regulatory basis financial statements. The information has been subjected to the auditing procedures applied in the audit of the regulatory basis financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the regulatory basis financial statements or to the regulatory basis financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the budgetary comparison schedule and the statement of receipts, disbursements, and changes in cash fund balances – governmental funds are fairly stated in all material respects, in relation to the regulatory basis financial statements as a whole, on the basis of accounting described in Note 1.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the schedule of elected and appointed officials, schedule of accounts receivable and schedule of accounts payable but does not include the basic financial statements and our auditors' 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.

Honorable Mayor and Members of the City Council
City of Carlos

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2022, 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.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Alexandria, Minnesota
March 22, 2022

**CITY OF CARLOS, MINNESOTA
STATEMENT OF BALANCES ARISING FROM CASH TRANSACTIONS
GOVERNMENTAL FUNDS
DECEMBER 31, 2021**

	<u>General Fund</u>	<u>Fire Operating Fund</u>	<u>Fire Capital Fund</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash	\$ 519,530	\$ 91,682	\$ 67,094	\$ 678,306
CASH FUND BALANCES				
Restricted:				
Park	\$ 1,150	\$ -	\$ -	\$ 1,150
ARPA	26,829	-	-	26,829
Fire Operating	-	91,682	-	91,682
Fire Capital	-	-	67,094	67,094
Committed:				
First Responders	7,610	-	-	7,610
Unassigned	483,941	-	-	483,941
Total Cash Fund Balances	<u>\$ 519,530</u>	<u>\$ 91,682</u>	<u>\$ 67,094</u>	<u>\$ 678,306</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, 2021**

	General Fund	Fire Operating Fund	Fire Capital Fund	Total Governmental Funds
CASH RECEIPTS				
Property Taxes	\$ 183,068	\$ -	\$ -	\$ 183,068
Special Assessments	5,908	-	-	5,908
Licenses and Permits	5,364	-	-	5,364
Intergovernmental	142,289	27,113	-	169,402
Charges for Services	7,258	65,515	-	72,773
Fines and Forfeits	623	-	-	623
Donations	35,000	-	-	35,000
Investment Earnings	1,208	-	551	1,759
Other	989	15,235	-	16,224
Total Receipts	<u>381,707</u>	<u>107,863</u>	<u>551</u>	<u>490,121</u>
CASH DISBURSEMENTS				
General Government	86,167	-	-	86,167
Public Safety	26,538	69,718	-	96,256
Public Works	62,289	-	-	62,289
Culture and Recreation	40,996	-	-	40,996
Debt Service	91,258	13,898	-	105,156
Capital Outlay	11,247	2,496	-	13,743
Total Disbursements	<u>318,495</u>	<u>86,112</u>	<u>-</u>	<u>404,607</u>
Total Cash Receipts Over (Under) Cash Disbursements	63,212	21,751	551	85,514
OTHER FINANCING SOURCES (USES)				
Transfers from Other Funds	-	19,500	-	19,500
Transfers to Other Funds	(19,500)	-	-	(19,500)
Total Other Financing Sources (Uses)	<u>(19,500)</u>	<u>19,500</u>	<u>-</u>	<u>-</u>
NET CHANGE IN CASH FUND BALANCES	43,712	41,251	551	85,514
Cash Fund Balances - Beginning of Year	<u>475,818</u>	<u>50,431</u>	<u>66,543</u>	<u>592,792</u>
CASH FUND BALANCES - END OF YEAR	<u>\$ 519,530</u>	<u>\$ 91,682</u>	<u>\$ 67,094</u>	<u>\$ 678,306</u>

See accompanying Notes to Financial Statements.

**CITY OF CARLOS, MINNESOTA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2021**

	Water Fund (Accrual Basis)	Sewer Fund (Accrual Basis)	Total
ASSETS			
Current Assets			
Cash and Cash Equivalent	\$ 59,661	\$ 256,262	\$ 315,923
Accounts Receivable	25,298	9,675	34,973
Prepaid Expense	2,689	1,216	3,905
Total Current Assets	<u>87,648</u>	<u>267,153</u>	<u>354,801</u>
Noncurrent Assets			
Advance to Other Funds	-	77,000	77,000
Capital Assets			
Machinery and Equipment	95,339	10,953	106,292
Infrastructure	2,848,451	82,283	2,930,734
Less: Accumulated Depreciation	<u>(427,896)</u>	<u>(30,702)</u>	<u>(458,598)</u>
Net Capital Assets	<u>2,515,894</u>	<u>62,534</u>	<u>2,578,428</u>
Total Noncurrent Assets	<u>2,515,894</u>	<u>139,534</u>	<u>2,655,428</u>
Total Assets	2,603,542	406,687	3,010,229
DEFERRED OUTFLOWS OF RESOURCES			
Pension Related	5,100	5,100	10,200
LIABILITIES			
Current Liabilities			
Accounts Payable	1,439	1,281	2,720
Accrued Interest Payable	6,980	-	6,980
Current Portion of Long-Term Debt	70,000	-	70,000
Total Current Liabilities	<u>78,419</u>	<u>1,281</u>	<u>79,700</u>
Long-Term Liabilities			
Compensated Absences	1,587	1,587	3,174
Net Pension Liability	7,516	7,516	15,032
Long-Term Debt	1,817,000	-	1,817,000
Advance from Other Funds	77,000	-	77,000
Total Long-Term Liabilities	<u>1,903,103</u>	<u>9,103</u>	<u>1,912,206</u>
Total Liabilities	1,981,522	10,384	1,991,906
DEFERRED INFLOWS OF RESOURCES			
Pension Related	6,905	6,905	13,810
NET POSITION			
Net Investment in Capital Assets	628,894	62,534	691,428
Unrestricted	<u>(8,679)</u>	<u>331,964</u>	<u>323,285</u>
Total Net Position	<u>\$ 620,215</u>	<u>\$ 394,498</u>	<u>\$ 1,014,713</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, 2021

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
OPERATING REVENUES			
Charges for Services	\$ 191,749	\$ 72,850	\$ 264,599
Miscellaneous Income	-	3,361	3,361
Total Operating Revenues	<u>191,749</u>	<u>76,211</u>	<u>267,960</u>
OPERATING EXPENSES			
Personal Services	15,415	15,542	30,957
Office Expense	394	1,048	1,442
Utilities	4,481	1,242	5,723
Professional Services	824	-	824
Supplies	5,177	3,106	8,283
Fees and Permits	-	907	907
Repairs and Maintenance	1,992	8,110	10,102
Depreciation	61,556	2,741	64,297
Miscellaneous	6,896	829	7,725
Total Operating Expenses	<u>96,735</u>	<u>33,525</u>	<u>130,260</u>
OPERATING INCOME	95,014	42,686	137,700
NONOPERATING REVENUES (EXPENSES)			
Debt Interest Payments	(19,419)	-	(19,419)
Interest Income	51	-	51
Total Nonoperating Revenues (Expenses)	<u>(19,368)</u>	<u>-</u>	<u>(19,368)</u>
CHANGE IN NET POSITION	75,646	42,686	118,332
Net Position - Beginning of Year	<u>544,569</u>	<u>351,812</u>	<u>896,381</u>
NET POSITION - END OF YEAR	<u>\$ 620,215</u>	<u>\$ 394,498</u>	<u>\$ 1,014,713</u>

See accompanying Notes to Financial Statements.

**CITY OF CARLOS, MINNESOTA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2021**

	Water Fund	Sewer Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Received from Customers	\$ 195,449	\$ 77,711	\$ 273,160
Payments to Suppliers	(23,879)	(19,218)	(43,097)
Payment to Employees	(11,863)	(11,990)	(23,853)
Net Cash Provided by Operating Activities	<u>159,707</u>	<u>46,503</u>	<u>206,210</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Debt Principal Payments	(104,000)	-	(104,000)
Debt Interest Payments	(20,216)	-	(20,216)
Acquisition of Capital Assets	(16,478)	-	(16,478)
Net Cash Used by Capital and Related Financing Activities	<u>(140,694)</u>	<u>-</u>	<u>(140,694)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment Earnings Received	<u>51</u>	<u>-</u>	<u>51</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	19,064	46,503	65,567
Cash and Cash Equivalents - Beginning of Year	<u>40,597</u>	<u>209,759</u>	<u>250,356</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 59,661</u></u>	<u><u>\$ 256,262</u></u>	<u><u>\$ 315,923</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating Income	\$ 95,014	\$ 42,686	\$ 137,700
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities			
Depreciation	61,556	2,741	64,297
Decrease (Increase) in Assets:			
Accounts Receivable	3,700	1,500	5,200
Prepaid Expense	410	(194)	216
Deferred Outflows of Resources - Pension	(4,332)	(4,332)	(8,664)
Increase (Decrease) in Liabilities:			
Accounts Payable	(193)	550	357
Compensated Absences Payable	359	359	718
Net Pension Liability	(3,036)	(3,036)	(6,072)
Deferred Inflows of Resources - Pension	6,229	6,229	12,458
Net Cash Provided by Operating Activities	<u><u>\$ 159,707</u></u>	<u><u>\$ 46,503</u></u>	<u><u>\$ 206,210</u></u>

See accompanying Notes to Financial Statements.

**CITY OF CARLOS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

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, 2021**

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.

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, 2021**

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, 2021, the City did not have any of these investments.

**CITY OF CARLOS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

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:

Assets	Years
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, 2021**

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, 2021**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Equity (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, deferred inflows of resources, and the reported revenues and expenses. 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 Fund. 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, 2021**

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, 2021, 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	\$	515,353
Cash in Certificates of Deposit and Savings		478,876
Total		994,229
Carrying Amount of:		
Deposit Accounts - Governmental Funds	\$	678,306
Deposit Accounts - Proprietary Funds		315,923
Total		994,229

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, 2021. There is currently no short term re-payment plan for this advance.

Transfers to Other Funds

The following interfund transfers occurred in 2021:

Transfer From	Transfer To	Amount	Purpose
General	Fire Operating	\$ 19,500	To cover fire operating costs

CITY OF CARLOS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE 5 CAPITAL ASSETS

Capital asset activity for the Water and Sewer Funds for the year ended December 31, 2021, is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
PROPRIETARY FUNDS				
Capital Assets, Being Depreciated				
Machinery and Equipment	\$ 89,814	\$ 16,478	\$ -	\$ 106,292
Infrastructure	2,930,734	-	-	2,930,734
Total Capital Assets, Being Depreciated	3,020,548	16,478	-	3,037,026
Less: Accumulated Depreciation				
Machinery and Equipment	55,880	5,683	-	61,563
Infrastructure	338,421	58,614	-	397,035
Total Accumulated Depreciation	394,301	64,297	-	458,598
Total Capital Assets Being Depreciated, Net	2,626,247	(47,819)	-	2,578,428
Total Capital Assets, Net	<u>\$ 2,626,247</u>	<u>\$ (47,819)</u>	<u>\$ -</u>	<u>\$ 2,578,428</u>

Depreciation is as follows:

Proprietary Funds:	
Water	\$ 61,556
Sewer	2,741
Total Depreciation - Enterprise Funds	<u>\$ 64,297</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
SCB Public Finance Lease						
Purchase Agreement	04/02/19	3.57%	4/2/2023	64,864	\$ 26,377	\$ 12,957
G.O. Utility Revenue Note of 2015	10/28/15	1.00%	8/1/2045	2,303,586	1,887,000	70,000
Total Long Term Debt					<u>\$ 1,913,377</u>	<u>\$ 82,957</u>

**CITY OF CARLOS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 6 LONG-TERM DEBT (CONTINUED)

Changes in long-term obligations for the year ended December 31, 2021 are as follows:

	Balance December 31, 2020	Additions	Retirements	Balance December 31, 2021	Due Within One Year
Governmental Fund Debt					
G.O. Refunding Bonds of 2011	\$ 90,000	\$ -	\$ 90,000	\$ -	\$ -
SCB Public Finance Lease Purchase Agreement	38,887	-	12,510	26,377	12,957
Total Governmental Fund Debt	<u>\$ 128,887</u>	<u>\$ -</u>	<u>\$ 102,510</u>	<u>\$ 26,377</u>	<u>\$ 12,957</u>
Proprietary Fund Debt					
G.O. Utility Revenue Bonds of 2010A	\$ 35,000	\$ -	\$ 35,000	\$ -	\$ -
G.O. Utility Revenue Note of 2015 - Direct Borrowing	1,956,000	-	69,000	1,887,000	70,000
Proprietary Bonds Outstanding	1,991,000	-	104,000	1,887,000	70,000
Compensated Absences	2,456	3,521	2,803	3,174	-
Total Proprietary Fund Debt	<u>\$ 1,993,456</u>	<u>\$ 3,521</u>	<u>\$ 106,803</u>	<u>\$ 1,890,174</u>	<u>\$ 70,000</u>

Maturities and interest payments for the capital lease of the governmental funds are as follows:

Year Ending December 31,	Governmental Activities		
	Capital Lease		
	Principal	Interest	Total
2022	\$ 12,957	\$ 941	\$ 13,898
2023	13,420	479	13,899
Total	<u>\$ 26,377</u>	<u>\$ 1,420</u>	<u>\$ 27,797</u>

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

Year Ending December 31,	Business-Type Activities		
	Notes from Direct Borrowings		
	Principal	Interest	Total
2022	\$ 70,000	\$ 18,870	\$ 88,870
2023	71,000	18,170	89,170
2024	71,000	17,460	88,460
2025	72,000	16,750	88,750
2026	73,000	16,030	89,030
2027-2031	376,000	69,060	445,060
2032-2036	395,000	49,900	444,900
2037-2041	414,000	29,750	443,750
2042-2045	345,000	8,660	353,660
Total	<u>\$ 1,887,000</u>	<u>\$ 244,650</u>	<u>\$ 2,131,650</u>

**CITY OF CARLOS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 6 LONG-TERM DEBT (CONTINUED)

The City's outstanding notes from direct borrowings related to proprietary fund debt of \$1,887,000 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, 2021**

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% for each of the first 10 years of service and 1.7% for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7% 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. The postretirement increase is equal to 50% of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1% and a maximum of 1.5%. 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 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 2021 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, 2021, were \$5,918. 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, 2021**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

Pension Costs

At December 31, 2021, the City reported a liability of \$46,975 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 \$1,392.

The net pension liability was measured as of June 30, 2021, 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, 2020 through June 30, 2021, relative to the total employer contributions received from all of PERA's participating employers. The City's proportionate share was 0.0011% at the end of the measurement period and 0.0011% for the beginning of the period.

City's Proportionate Share of the Net Pension Liability	\$	46,975
State of Minnesota's Proportionate Share of the Net Pension Liability Associated with the City		1,392
Total		\$ 48,367

For the year ended December 31, 2021, the City recognized pension revenue of \$424 for its proportionate share of the General Employees Plan's pension expense in the proprietary funds. In addition, the City recognized an additional \$176 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, 2021, 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	\$ 289	\$ 1,438
Changes of Assumptions	28,682	1,039
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	40,682
Changes in Proportion	-	-
City Contributions Subsequent to the Measurement Date	2,905	-
Total	\$ 31,876	\$ 43,159

**CITY OF CARLOS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

Pension Costs (Continued)

The \$2,905 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, 2022. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending December, 31</u>	<u>Pension Expense</u>
2022	\$ (2,021)
2023	(705)
2024	(366)
2025	(11,096)

Total pension revenue for all plans recognized by the City for the year ended December 31, 2021 was \$724.

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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	33.5 %	5.10 %
International Stocks	16.5	5.30
Bonds (Fixed Income)	25.0	0.75
Alternative Assets (Private Markets)	25.0	5.90
Totals	100.0 %	

Actuarial Assumptions

The total pension liability in the June 30, 2021, actuarial valuation was determined using an individual entry-age normal actuarial cost method. The long-term rate of return on pension plan investments used in the determination of the total liability is 6.50%. This assumption is based on a review of inflation and investments return assumptions from a number of national investment consulting firms. The review provided a range of return investment return rates deemed to be reasonable by the actuary. An investment return of 6.50% was deemed to be within that range of reasonableness for financial reporting purposes.

**CITY OF CARLOS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

Actuarial Assumptions (Continued)

Inflation is assumed to be 2.25% for the General Employees Plan. Benefit increases after retirement are assumed to be 1.25% for the General Employees Plan.

Salary growth assumptions in the General Employees Plan range in annual increments from 10.25% after one year of service to 3.0% after 29 years of service and 6.0% per year thereafter.

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 most recent four-year experience study for the General Employees Plan was completed in 2019. The assumption changes were adopted by the Board and became effective with the July 1, 2020 actuarial valuation.

The following changes in actuarial assumptions and plan provisions occurred in 2021:

Changes in Actuarial Assumptions

- The investment return and single discount rates were changed from 7.50% to 6.50%, for financial reporting purposes.
- The mortality improvement scale was changed from Scale MP-2019 to Scale MP-2020.

Changes in Plan Provisions

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

Discount Rate

The discount rate used to measure the total pension liability in 2021 was 6.50%. 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 positions 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.

**CITY OF CARLOS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

Pension Liability Sensitivity

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

	1% Decrease (5.5%)	Current Discount Rate (6.5%)	1% Increase (7.5%)
City Proportionate Share of the General Employees Net Pension Liability	\$ 95,805	\$ 46,975	\$ 6,907

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	Deferred Inflows of Resources	Net Pension Liability
Governmental Funds (Cash Basis)	\$ 21,676	\$ 29,349	\$ 31,943
Water Fund (Full Accrual)	5,100	6,905	7,516
Sewer Fund (Full Accrual)	5,100	6,905	7,516
Total	\$ 31,876	\$ 43,159	\$ 46,975

**CITY OF CARLOS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

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 23 active members, 2 inactive members, and 3 deferred members who are covered by the Plan as of December 31, 2021 (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 \$22,113 in fire state aid paid by the City to the Relief Association for the year ended December 31, 2021. 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, 2021.

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

	2021	2020	2019
State of Minnesota Fire Aid	\$ 22,113	\$ 17,161	\$ 16,350
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.

**CITY OF CARLOS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

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, 2021, the balance outstanding on the Senior Housing Revenue Refunding Note is \$8,239,464.

SUPPLEMENTARY INFORMATION

**CITY OF CARLOS, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED DECEMBER 31, 2021**

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Budget Over (Under)</u>
RECEIPTS			
Property Taxes	\$ 179,618	\$ 183,068	\$ 3,450
Special Assessments	16,925	5,908	(11,017)
Licenses and Permits	1,525	5,364	3,839
Intergovernmental	99,172	142,289	43,117
Charges for Services	11,075	7,258	(3,817)
Fines and Forfeits	-	623	623
Donations	-	35,000	35,000
Investment Earnings	3,000	1,208	(1,792)
Other	1,000	989	(11)
Total Receipts	<u>312,315</u>	<u>381,707</u>	<u>69,392</u>
DISBURSEMENTS			
General Government	94,909	86,167	(8,742)
Public Safety	17,000	26,538	9,538
Public Works	78,867	73,536	(5,331)
Culture and Recreation	29,712	40,996	11,284
Debt Service	91,538	91,258	(280)
Total Disbursements	<u>312,026</u>	<u>318,495</u>	<u>6,469</u>
Total Cash Receipts Over (Under) Cash Disbursements	289	63,212	62,923
OTHER FINANCING SOURCES/(USES)			
Transfers to Other Funds	<u>(16,000)</u>	<u>(19,500)</u>	<u>(3,500)</u>
NET CHANGE IN CASH FUND BALANCE	(15,711)	43,712	59,423
Cash Balance - Beginning of Year	<u>475,818</u>	<u>475,818</u>	<u>-</u>
CASH BALANCE - END OF YEAR	<u>\$ 460,107</u>	<u>\$ 519,530</u>	<u>\$ 59,423</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, 2021**

	<u>General Fund</u>	<u>Fire Operating Fund</u>	<u>Fire Capital Fund</u>	<u>Total Governmental Funds</u>
CASH RECEIPTS				
Taxes:				
General Property Taxes	\$ 183,068	\$ -	\$ -	\$ 183,068
Special Assessments	5,908	-	-	5,908
Total Taxes	<u>188,976</u>	<u>-</u>	<u>-</u>	<u>188,976</u>
Licenses and Permits	5,364	-	-	5,364
Intergovernmental:				
Local Government Aid	107,312	-	-	107,312
Market Value Credits Agricultural	7	-	-	7
State Fire Aid	-	22,113	-	22,113
Small City Assistance	8,141	-	-	8,141
Other State Aids	-	5,000	-	5,000
Federal Grants - ARPA	26,829	-	-	26,829
Total Intergovernmental	<u>142,289</u>	<u>27,113</u>	<u>-</u>	<u>169,402</u>
Charges for Services:				
Township Fire Contracts	-	60,250	-	60,250
Other Charges for Services	7,258	5,265	-	12,523
Total Charges for Services	<u>7,258</u>	<u>65,515</u>	<u>-</u>	<u>72,773</u>
Fines and Forfeits	623	-	-	623
Miscellaneous:				
Investment Earnings	1,208	-	551	1,759
Donations	35,000	10,000	-	45,000
Other	989	5,235	-	6,224
Total Miscellaneous	<u>37,197</u>	<u>15,235</u>	<u>551</u>	<u>52,983</u>
Total Cash Receipts	381,707	107,863	551	490,121

CITY OF CARLOS, MINNESOTA
COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH FUND BALANCES (CONTINUED)
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2021

	<u>General Fund</u>	<u>Fire Operating Fund</u>	<u>Fire Capital Fund</u>	<u>Total Governmental Funds</u>
CASH DISBURSEMENTS				
General Government:				
Mayor and Council	\$ 14,553	\$ -	\$ -	\$ 14,553
Clerk	45,503	-	-	45,503
Elections	68	-	-	68
Other General Government	26,043	-	-	26,043
Total General Government	<u>86,167</u>	<u>-</u>	<u>-</u>	<u>86,167</u>
Public Safety:				
Police Protection - Current	9,387	-	-	9,387
Fire Protection - Current	17,151	69,718	-	86,869
Fire Protection - Capital Outlay	-	2,496	-	2,496
Total Public Safety	<u>26,538</u>	<u>72,214</u>	<u>-</u>	<u>98,752</u>
Public Works:				
Street Maintenance	52,525	-	-	52,525
Ice and Snow Removal	1,138	-	-	1,138
Street Lighting	8,626	-	-	8,626
Street - Capital Outlay	11,247	-	-	11,247
Total Public Works	<u>73,536</u>	<u>-</u>	<u>-</u>	<u>73,536</u>
Culture and Recreation:				
Culture and Recreation	40,996	-	-	40,996
Debt Service:				
Principal	90,000	12,510	-	102,510
Interest	1,258	1,388	-	2,646
Total Debt Service	<u>91,258</u>	<u>13,898</u>	<u>-</u>	<u>105,156</u>
Total Disbursements	318,495	86,112	-	404,607
Total Cash Receipts Over (Under) Cash Disbursements	63,212	21,751	551	85,514
OTHER FINANCING SOURCES (USES)				
Transfers from Other Funds	-	19,500	-	19,500
Transfers to Other Funds	(19,500)	-	-	(19,500)
Total Other Financing Sources (Uses)	<u>(19,500)</u>	<u>19,500</u>	<u>-</u>	<u>-</u>
NET CHANGE IN CASH FUND BALANCES	43,712	41,251	551	85,514
Cash Fund Balances - Beginning of Year	475,818	50,431	66,543	592,792
CASH FUND BALANCES - END OF YEAR	<u>\$ 519,530</u>	<u>\$ 91,682</u>	<u>\$ 67,094</u>	<u>\$ 678,306</u>

**OTHER INFORMATION
(UNAUDITED)**

CITY OF CARLOS, MINNESOTA
SCHEDULE OF ACCOUNTS RECEIVABLE
DECEMBER 31, 2021
(UNAUDITED)

Fund	Source	Purpose	Amount
General Fund	Douglas County	Property Tax	\$ 1,397
General Fund	Douglas County	Snow Plowing	4,750
General Fund	Herby's	Liquor License	680
Total			<u>\$ 6,827</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, 2021
(UNAUDITED)

Fund	Vendor	Purpose	Amount
General Fund	Brother's Market	Fuel	\$ 618
General Fund	CenturyLink	Phone	94
General Fund	Bargen Inc	Repairs and Maintenance	57,015
General Fund	Douglas County Sheriff's Office	Patrol service	789
General Fund	Douglas County Auditor/Treasurer	TNT notices	48
General Fund	Douglas County Public Works	Salt-Sand Mixture	204
General Fund	Alex Rubbish	Garbage	108
General Fund	Lakes Area Excavating	Snow Removal	950
General Fund	CliftonLarsonAllen	Audit Fee	630
General Fund	Cardmember Service	GCTEL	7
General Fund	Cardmember Service	Supplies	99
General Fund	Thornton, Dolan, Bowen, and Klecker LLP	Attorney Fees	926
General Fund	IUOE 2020 National Training	Union Dues	38
General Fund	Bolton & Menk	Engineering Fees	658
General Fund	Core & Main	Radio Adaptors	7,431
General Fund	Ottertail Power Company	Utilities	1,005
Fire Operating Fund	Cardmember Service	Fire Certification Dues	125
Fire Operating Fund	Anthony Carlson	Reimbursement for Parts	56
Fire Operating Fund	Andy's Auto Repair	Repair of Vehicle	895
Fire Operating Fund	Jim & Judy's 1 Stop	Fuel	192
Fire Operating Fund	Ottertail Power Company	Electricity	78
			<u>78</u>
Total			<u>\$ 71,966</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 statement of balances arising from cash transactions of each governmental fund and the financial position of each proprietary fund of the City of Carlos (the City), Minnesota, as of and for the year ended December 31, 2021, 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, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 22, 2022. 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.

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 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 2021-001 through 2021-003 that we consider to be material weaknesses.

Report on 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

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 and recommendations. 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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Alexandria, Minnesota
March 22, 2022



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, 2021 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 22, 2022. 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, we noted that the City of Carlos failed to comply with the provisions of the claims and disbursements section 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, as described in the schedule of findings and recommendations as item 2021-004. Also 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, 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. 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 finding identified in our audit is described in the schedule of findings and recommendations as item 2021-004. 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.

Honorable Mayor and Members of the City Council
City of Carlos

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 report is not suitable for any other purpose.

A handwritten signature in black ink that reads "CliftonLarsonAllen LLP". The signature is written in a cursive, flowing style.

CliftonLarsonAllen LLP

Alexandria, Minnesota
March 22, 2022

**CITY OF CARLOS, MINNESOTA
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
YEAR ENDED DECEMBER 31, 2021**

FINANCIAL STATEMENT FINDINGS

Finding 2021-001 – Financial Statement Preparation

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

Condition: The City council and management share the ultimate responsibility for the City's internal control system. While it is acceptable to outsource various accounting functions the responsibility for internal control cannot be outsourced. The City engages CLA to assist in preparing its financial statements and accompanying disclosures. However, as independent auditors, CLA cannot be considered part of the Company's internal control system. As part of its internal control over the preparation of its financial statements, including disclosures, the City has implemented a comprehensive review procedure to ensure that the financial statements, including disclosures, are complete and accurate. City personnel have not monitored recent accounting developments to the extent necessary to enable them to prepare the financial statements and related disclosures, to provide a high level of assurance that potential omissions or other errors that are material would be identified and corrected on a timely basis.

Criteria: As part of its internal control over year-end reporting, a comprehensive review procedure to ensure that the financial statements, including disclosures, are complete and accurate should be in place. Such review procedures should be performed by an individual possessing a thorough understanding 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. and knowledge of the City's activities and operations.

Cause: The City has a limited number of staff in the business office and time is spent processing daily transactions.

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 situation to determine if a more comprehensive internal control procedure over the annual financial reporting is beneficial.

Management's Response: The City will continue to outsource preparation of the financial statements. 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, 2021**

FINANCIAL STATEMENT FINDINGS (CONTINUED)

Finding 2021-002 – 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, 2021**

FINANCIAL STATEMENT FINDINGS (CONTINUED)

Finding 2021-003 – 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.

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, 2021**

MINNESOTA LEGAL COMPLIANCE

Finding 2021-004 – 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: To assist in documenting compliance with Minnesota Statute §471.425 subd 2, we recommend invoices be date stamped when received. Due care should be exercised to pay invoices as within 35 days of receipt of the invoice.

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

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