

CITY OF CARLOS
Carlos, Minnesota

COMMUNICATIONS LETTER

Year Ended December 31, 2025



Lakes Area CPAs, LTD

CLASEN AND SCHIESSL

Accountants & Advisors

CITY OF CARLOS

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**EXECUTIVE AUDIT SUMMARY (EAS)
FOR
CITY OF CARLOS
YEAR ENDED DECEMBER 31, 2025**

AUDIT FINDINGS AND RESULTS

Audit process – We found the City’s records to be in good order (organized, available, complete, etc.). We appreciate the time that staff took to work with us to complete the engagement.

Audit Opinion – The financial statements are fairly stated. We issued an adverse opinion on US Generally Accepted Accounting Principles and an unmodified (clean) opinion on the Regulatory Basis of Accounting.

Compliance – No compliance issues were noted in our review of laws, regulations, contracts, grant agreements or other matters that could have significant financial implications to the City.

Internal Controls – As listed in the audit report, segregation of duties was noted as a material weakness and preparation of financial statements was noted as a significant deficiency.

Fund Balance – For 2025 the fund balance in the General Fund increased by \$84,321 ending at \$860,960 as of December 31, 2025. The ending fund balance at December 31, 2025, for the City represents 255.0% of general fund disbursements incurred for the year and is an important aspect in the City’s financial well-being since a healthy fund balance represents a cushion against unanticipated disbursements, funding deficiencies, aid proration at the state level and similar problems.

Budget and Actual – Total General Fund receipts on a net basis were \$81,382 (or 23.9%) higher than the budgeted amount while total disbursements and other financing uses were \$47,708 (or 12.4%) lower than the budgeted amount in large part due to current street maintenance disbursements being below budget. As part of any budget update initiated for 2026, the Council will want to take these variances into consideration in order to limit budget differences to every extent possible.

**CITY OF CARLOS
FINANCIAL SUMMARY
YEAR ENDED DECEMBER 31, 2025**

GOVERNMENTAL FUNDS:

Statement of Balances Arising From Cash Transactions - Regulatory Basis

Cash and Cash Equivalents	\$ 1,120,164
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Statement of Cash Receipts, Disbursements, and Changes in Cash Fund Balances
- Regulatory Basis

Receipts	\$ 562,920
Disbursements	(447,793)
Net Change in Cash Fund Balances	\$ 115,127

PROPRIETARY FUNDS:

Statement of Balances Arising From Cash Transactions - Regulatory Basis

Cash and Cash Equivalents	\$ 588,917
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Statement of Receipts, Disbursements, and Changes in Net Cash Position
- Regulatory Basis

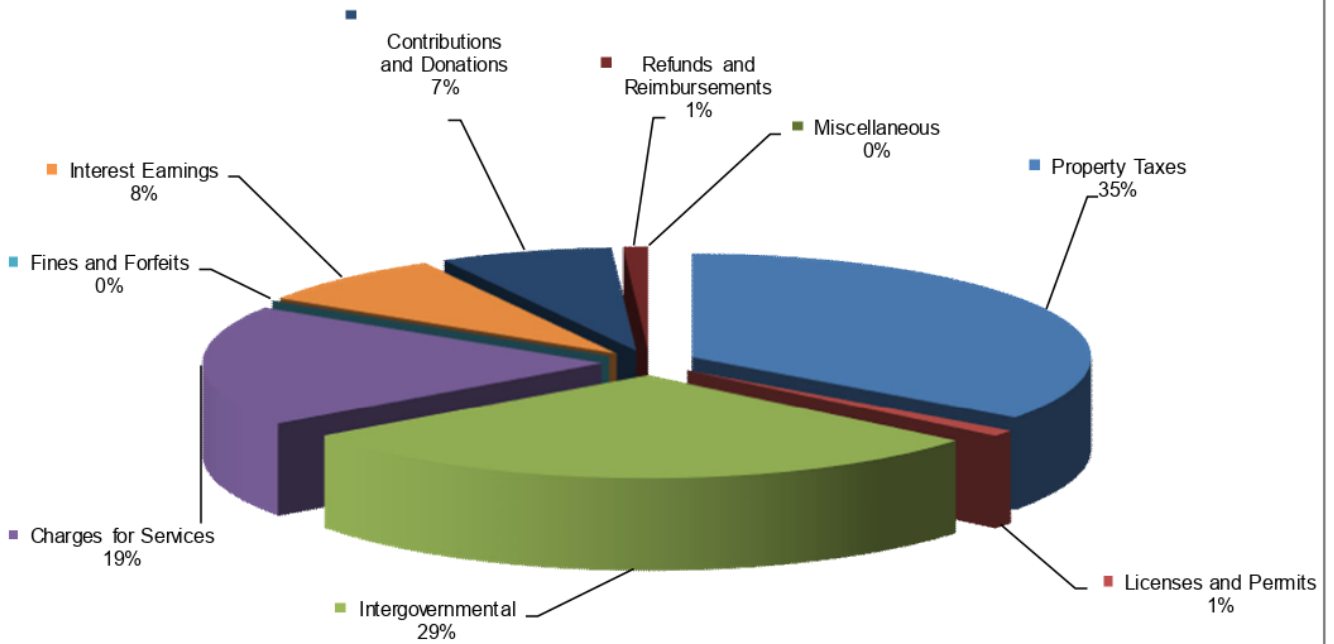
Operating Receipts	\$ 260,498
Operating Disbursements	(136,692)
Operating Cash Income	123,806
Nonoperating Receipts	635
Nonoperating Disbursements	(16,750)
Debt Principal Paid	(72,000)
Change in Net Cash Position	\$ 35,691

SUPPLEMENTARY INFORMATION SECTION:

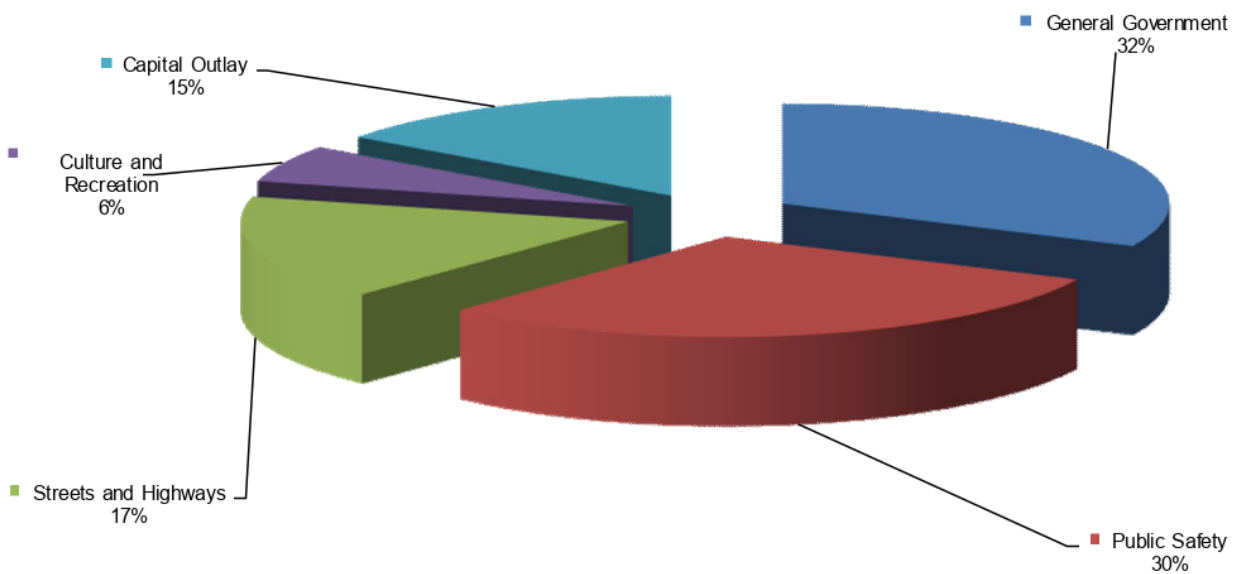
	Variance
Budgetary Comparison Schedule - Regulatory Basis - General Fund	
Total Receipts - Positive Variance	\$ 81,382
Total Disbursements and Other Financing Uses - Positive Variance	47,708
Budgetary Fund Balance with a Positive Variance	\$ 129,090

Budgetary Comparison Schedule - Regulatory Basis - Fire Operating Fund	
Total Receipts and Other Financing Sources - Positive Variance	\$ 15,109
Total Disbursements and Other Financing Uses - Positive Variance	259,300
Budgetary Fund Balance with a Positive Variance	\$ 274,409

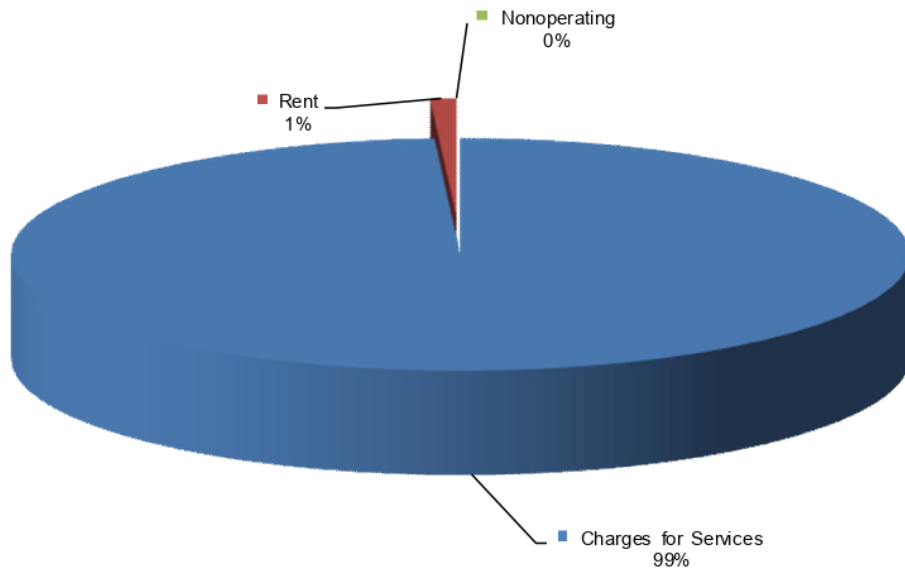
**City of Carlos, Minnesota
Governmental Funds
Receipts
Year Ended December 31, 2025**



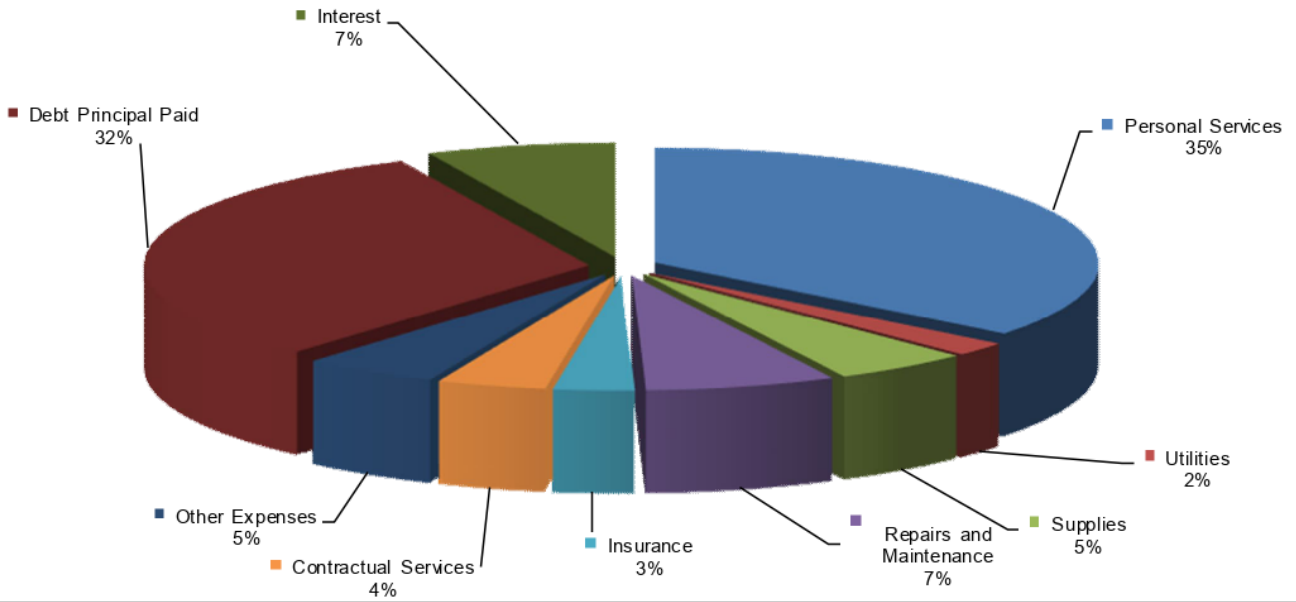
**City of Carlos, Minnesota
Governmental Funds
Disbursements
Year Ended December 31, 2025**



**City of Carlos, Minnesota
Proprietary Funds
Receipts
Year Ended December 31, 2025**



**City of Carlos, Minnesota
Proprietary Funds
Disbursements
Year Ended December 31, 2025**





Lakes Area CPAs, LTD

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REQUIRED COMMUNICATION

XXXX

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

We have audited the financial statements of each major fund of the City of Carlos, Minnesota (the City), for the year ended December 31, 2025. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated January 19, 2026. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2025. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period, in accordance with the regulatory basis of accounting.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the City's financial statements was:

Management's estimate of the allocation of multiple expenditures, based on an estimated percentage, across governmental and proprietary funds. We evaluated the key factors and assumptions used to develop the allocation in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

The disclosure of the financial statements being prepared by the City using the Regulatory Basis of Accounting prescribed 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, as described in Note 1 to the financial statements.



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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.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. We identified two uncorrected misstatements, overstatement of Charges for Services of \$835 and \$420 in the Water and Sewer funds, respectively. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. The uncorrected misstatements or the matters underlying them could potentially cause future period financial statements to be materially misstated, even though, in our judgment, such uncorrected misstatements are immaterial to the financial statements under the audit. In addition, the following material misstatements detected as a result of audit procedures were corrected by management:

- Transfers
- Reclassing capital outlay disbursements

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated xxxx.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.



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Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

- Funds designated for the Fire Capital Fund should have their own fund in CTAS.

Other Matters

We were engaged to report on the budgetary comparison schedule – regulatory basis (general fund), budgetary comparison schedule – regulatory basis (fire operating fund), schedule of indebtedness, schedule of accounts receivable, and schedule of accounts payable which accompany the financial statements but are not Required Supplementary Information (RSI). With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with the prescribed method of accounting, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on the introductory section, which accompanies the financial statements but is not RSI. Such information has 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.

Restriction on Use

This information is intended solely for the information and use of the City Council and management of the City of Carlos and is not intended to be, and should not be, used by anyone other than these specified parties.

Lakes Area CPAs, Ltd. – Clasen & Schiessl

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Pequot Lakes, Minnesota