

**CITY OF CARLOS  
FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITOR'S REPORT  
DECEMBER 31, 2024**

# CITY OF CARLOS

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## INTRODUCTORY SECTION

**CITY OF CARLOS  
PRINCIPAL CITY OFFICIALS  
DECEMBER 31, 2024**

POSITION	TERMS EXPIRE	NAME
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**ELECTED OFFICIALS**

Mayor	12/31/2024	Todd Burgess
Council Members	12/31/2024	Ronna Berghoff
	12/31/2026	Donna Eveslage
	12/31/2024	Ashley Wildman
	12/31/2026	James Young

**APPOINTED OFFICIALS**

City Clerk Treasurer	(Separated 2/7/2025)	Lori Johnson
Attorney		Thornton Law Office
Auditor		Clasen & Schiesl CPAs, Ltd.

## FINANCIAL SECTION

DRAFT



**Clasen & Schiessl CPAs, Ltd.**  
*Consultants & Accountants*

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## INDEPENDENT AUDITOR'S REPORT

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

### **Adverse and Unmodified Opinions**

We have audited the accompanying financial statements of each major fund of the City of Carlos, Minnesota, (the City) as of and for the year ended December 31, 2024, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

#### **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 and Unmodified Opinions section of our report, the financial statements referred to above do not present fairly the financial position of each major fund and the aggregate remaining fund information of the City of Carlos, Minnesota, as of December 31, 2024, or the changes in financial position or, cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

#### **Unmodified Opinion on Regulatory Basis of Accounting**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund and the aggregate remaining fund information of the City of Carlos, Minnesota, as of December 31, 2024, and the respective changes in financial position 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, as described in Note 1.

### **Basis for Adverse and Unmodified Opinions**

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City of Carlos, Minnesota, 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 adverse and unmodified audit opinions.

#### **Matter Giving Rise to the Adverse Opinion on U. S. Generally Accepted Accounting Principles**

As described in Note 1, the financial statements are prepared by the City of Carlos, Minnesota, on the basis of the financial reporting provisions of the Minnesota Office of the State Auditor, the regulatory basis of accounting, 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.

### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the financial reporting practices prescribed or permitted by the Minnesota Office of the State Auditor as described in Note 1, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards 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 generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

### **Required Supplementary Information**

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not part of the basic financial statements, is required by the *Governmental Accounting Standards Board*, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

## Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The budgetary comparison schedule – regulatory basis (general fund), the budgetary comparison schedule – regulatory basis (fire operating fund), schedule of indebtedness, 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. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information referenced above is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

## Other Information

Management is responsible for the other information included in the annual report. The other information comprises the introductory information section but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

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

## Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 1, 2025, 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 City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

## Report on Other Legal and Regulatory Requirements

In accordance with Minnesota Statutes, we have also issued our report dated May 1, 2025, on our consideration of the City's compliance with provisions of the *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. The purpose of the report is to determine if the City has complied with Minnesota laws and regulations. That report is an integral part of an audit performed in the State of Minnesota.

*Clasen & Schiessl, CPAs, Ltd.*

Clasen & Schiessl CPAs, Ltd.

Pequot Lakes, Minnesota  
May 1, 2025



**CITY OF CARLOS**  
**STATEMENT OF BALANCES ARISING FROM CASH TRANSACTIONS - REGULATORY BASIS**  
**GOVERNMENTAL FUNDS**  
**DECEMBER 31, 2024**

	GENERAL	FIRE OPERATING	FIRE CAPITAL	TOTAL GOVERNMENTAL FUNDS
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 776,639	\$ 90,424	\$ 137,974	\$ 1,005,037
Total Assets	<u>\$ 776,639</u>	<u>\$ 90,424</u>	<u>\$ 137,974</u>	<u>\$ 1,005,037</u>
<b>LIABILITIES</b>	\$ -	\$ -	\$ -	\$ -
<b>CASH FUND BALANCES</b>				
Restricted	1,150	90,424	-	91,574
Assigned	-	-	137,974	137,974
Unassigned	<u>775,489</u>	<u>-</u>	<u>-</u>	<u>775,489</u>
Total Cash Fund Balances	<u>776,639</u>	<u>90,424</u>	<u>137,974</u>	<u>1,005,037</u>
Total Liabilities and Cash Fund Balances	<u>\$ 776,639</u>	<u>\$ 90,424</u>	<u>\$ 137,974</u>	<u>\$ 1,005,037</u>

**CITY OF CARLOS**  
**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN**  
**CASH FUND BALANCES - REGULATORY BASIS**  
**GOVERNMENTAL FUNDS**  
**YEAR ENDED DECEMBER 31, 2024**

	GENERAL	FIRE OPERATING	FIRE CAPITAL	TOTAL GOVERNMENTAL FUNDS
<b>RECEIPTS</b>				
Property Taxes	\$ 194,046	\$ -	\$ -	\$ 194,046
Licenses and Permits	9,664	-	-	9,664
Intergovernmental	139,792	46,448	-	186,240
Charges for Services	3,055	114,199	-	117,254
Fines and Forfeits	270	-	-	270
Interest Earnings	45,848	-	5,640	51,488
Contributions and Donations	29,453	10,500	-	39,953
Refunds and Reimbursements	3,616	-	-	3,616
Miscellaneous	10	-	-	10
Total Receipts	<u>425,754</u>	<u>171,147</u>	<u>5,640</u>	<u>602,541</u>
<b>DISBURSEMENTS</b>				
Current				
General Government	105,567	-	-	105,567
Public Safety	28,191	121,744	-	149,935
Streets and Highways	50,685	-	-	50,685
Culture and Recreation	35,928	-	-	35,928
Capital Outlay	8,755	107,040	-	115,795
Total Disbursements	<u>229,126</u>	<u>228,784</u>	<u>-</u>	<u>457,910</u>
RECEIPTS OVER (UNDER) DISBURSEMENTS	<u>196,628</u>	<u>(57,637)</u>	<u>5,640</u>	<u>144,631</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers In	-	69,564	64,936	134,500
Transfers (Out)	(69,564)	(64,936)	-	(134,500)
Total Other Financing Sources (Uses)	<u>(69,564)</u>	<u>4,628</u>	<u>64,936</u>	<u>-</u>
NET CHANGE IN CASH FUND BALANCES	127,064	(53,009)	70,576	144,631
Cash Fund Balances - Beginning	<u>649,575</u>	<u>143,433</u>	<u>67,398</u>	<u>860,406</u>
CASH FUND BALANCES - ENDING	<u>\$ 776,639</u>	<u>\$ 90,424</u>	<u>\$ 137,974</u>	<u>\$ 1,005,037</u>

**CITY OF CARLOS**  
**STATEMENT OF BALANCES ARISING FROM CASH TRANSACTIONS -**  
**REGULATORY BASIS**  
**PROPRIETARY FUNDS**  
**DECEMBER 31, 2024**

	ENTERPRISE FUNDS		
	WATER	SEWER	TOTAL
<b>ASSETS</b>			
Current Assets			
Cash and Cash Equivalents	\$ 181,023	\$ 372,203	\$ 553,226
Total Assets	181,023	372,203	553,226
<b>LIABILITIES</b>	-	-	-
<b>NET CASH POSITION</b>			
Unrestricted	181,023	372,203	553,226
Total Net Cash Position	\$ 181,023	\$ 372,203	\$ 553,226

**CITY OF CARLOS**  
**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN**  
**NET CASH POSITION - REGULATORY BASIS**  
**PROPRIETARY FUNDS**  
**YEAR ENDED DECEMBER 31, 2024**

	ENTERPRISE FUNDS		
	WATER	SEWER	TOTAL
<b>OPERATING RECEIPTS</b>			
Charges for Services	\$ 188,674	\$ 87,229	\$ 275,903
Rent	-	2,400	2,400
Total Operating Receipts	<u>188,674</u>	<u>89,629</u>	<u>278,303</u>
<b>OPERATING DISBURSEMENTS</b>			
Personal Services	30,533	30,581	61,114
Utilities	4,593	620	5,213
Supplies	5,489	3,159	8,648
Repairs and Maintenance	1,183	20,505	21,688
Insurance	5,559	1,442	7,001
Contractual Services	6,171	3,407	9,578
Other Expenses	7,541	2,872	10,413
Total Operating Disbursements	<u>61,069</u>	<u>62,586</u>	<u>123,655</u>
OPERATING CASH INCOME	<u>127,605</u>	<u>27,043</u>	<u>154,648</u>
<b>NONOPERATING RECEIPTS (DISBURSEMENTS)</b>			
Interest Receipts	2,522	-	2,522
Interest Disbursements	(17,460)	-	(17,460)
Total Nonoperating Receipts (Disbursements)	<u>(14,938)</u>	<u>-</u>	<u>(14,938)</u>
NET CASH INCOME BEFORE OTHER DISBURSEMENTS	112,667	27,043	139,710
Debt Principal Paid	<u>(71,000)</u>	<u>-</u>	<u>(71,000)</u>
CHANGE IN NET CASH POSITION	41,667	27,043	68,710
Total Net Cash Position - Beginning	<u>139,356</u>	<u>345,160</u>	<u>484,516</u>
TOTAL NET CASH POSITION - ENDING	<u>\$ 181,023</u>	<u>\$ 372,203</u>	<u>\$ 553,226</u>

**CITY OF CARLOS**  
**STATEMENT OF CASH FLOWS - REGULATORY BASIS**  
**PROPRIETARY FUNDS**  
**YEAR ENDED DECEMBER 31, 2024**

	ENTERPRISE FUNDS		
	WATER	SEWER	TOTALS
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from Customers	\$ 188,674	\$ 89,629	\$ 278,303
Payments to Suppliers	(30,536)	(32,005)	(62,541)
Payments to Employees	(30,533)	(30,581)	(61,114)
Net Cash Provided by Operating Activities	127,605	27,043	154,648
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Principal Paid on Capital Debt	(71,000)	-	(71,000)
Interest Paid on Capital Debt	(17,460)	-	(17,460)
Net Cash (Used in) Capital and Related Financing Activities	(88,460)	-	(88,460)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest	2,522	-	2,522
Net Cash Provided by Investing Activities	2,522	-	2,522
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	41,667	27,043	68,710
Cash and Cash Equivalents - Beginning of the Year	139,356	345,160	484,516
<b>CASH AND CASH EQUIVALENTS - END OF THE YEAR</b>	<u>\$ 181,023</u>	<u>\$ 372,203</u>	<u>\$ 553,226</u>

**CITY OF CARLOS**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2024**

**NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Carlos, Minnesota, (the City) was incorporated under the laws of the State of Minnesota and operates under an elected Mayor-Council form of government. The City is governed by a mayor and four-member City Council. This form of government includes an appointed clerk/treasurer.

The significant accounting policies used by the City are discussed below:

**A. Financial Reporting Entity**

The financial statements of the reporting entity include those of the City (the primary government) and the component units for which the primary government is financially accountable. The criteria used to determine if the primary government is financially accountable for a component unit include whether or not the primary government appoints the voting majority of 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 the potential component unit is fiscally dependent upon the City.

**Blended Component Units**

Blended component units are separate legal entities that meet the component unit criteria described above and whose governing body is the same or substantially the same as the City Council or the component unit provides services entirely to the City. These component units' funds are blended into those of the City by appropriate activity type to compose the primary government presentation. Currently, the City has no blended component units.

**Discretely Presented Component Units**

Discretely presented component units are separate legal entities that meet the component unit criteria described above but do not meet the criteria for blending. Currently, the City has no discretely presented component units.

**B. Basis of Presentation - Fund Accounting**

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund balance/net position, receipts, and disbursements. Funds are organized into two major categories: governmental and proprietary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

- Total assets, liabilities, receipts or disbursements of that individual governmental or proprietary fund are at least 10 percent of the corresponding total for all funds of that category or type; and

**CITY OF CARLOS**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2024**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**B. Basis of Presentation - Fund Accounting (Continued)**

- Total assets, liabilities, receipts or disbursements of that individual governmental or proprietary fund are at least 5 percent of the corresponding total for all governmental and proprietary funds combined.

*Governmental Funds:*

**General Fund** – To account for all financial resources not accounted for and reported in another fund.

**Special Revenue Fund** - To account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are restricted, committed, or assigned to disbursements for specified purposes.

**Capital Projects Fund** - To account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds or in trust funds for individuals, private organizations, or other governments).

*Proprietary Funds:*

**Enterprise Funds – Water and Sewer** – To account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses) of providing goods or services to the general public on a continuing basis are to be financed or recovered primarily through user charges or (b) where 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.

*Major and Nonmajor Funds*

Fund	Purpose
Major:	
Governmental:	
General	As described above.
Fire Operating	See special revenue fund described above.
Fire Capital	See capital projects fund described above.
Proprietary:	
Water	Accounts for the activities of the City for water services to the public.
Sewer	Accounts for the activities of the City for sewer services to the public.

All Governmental Funds are presented as major for the convenience of the readers of the financial statements.

**CITY OF CARLOS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2024**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**C. Measurement Focus and Basis of Accounting**

The City follows the regulatory basis of accounting for all funds. The accompanying financial statements were prepared on the regulatory basis of accounting and accordingly, receipts and disbursements are recognized only as cash is received or paid out. These statements do not give effect to receivables, payables, accrued expenses, capital assets, debt, and inventory and accordingly, are not presented in accordance with U.S. generally accepted accounting principles. These procedures are in accordance with *City Audited Financial Statements for Cities under 2,500 in Population Reporting on the Regulatory Basis of Accounting* as prescribed by the Minnesota Office of the State Auditor, which is a special purpose framework other than accounting principles generally accepted in the United States of America.

**D. Assets, Liabilities, and Fund Balance/Net Position**

**1. Cash and Cash Equivalents**

The City pools cash resources of its various funds to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balance in the pooled cash account is available to meet current operating requirements.

**2. Fund Balance/Net Position**

**a. Governmental Cash Fund Balances:**

In the fund financial statements, cash fund balance is divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of resources reported in Governmental Funds.

Cash fund balances are classified as follows:

- **Nonspendable** – Amounts that cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact. There is no nonspendable cash fund balance at December 31, 2024.
- **Restricted** – Amounts that can be spent only for specific purposes because of the City Charter, the City Code, state or federal laws, or externally imposed conditions by grantors or creditors.
- **Committed** – Amounts that can be used only for specific purposes determined by a formal action by City Council ordinance or resolution. There is no committed cash fund balance at December 31, 2024.
- **Assigned** – Amounts that are constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed. In Governmental Funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the governing body itself.



**CITY OF CARLOS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2024**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**D. Assets, Liabilities, and Fund Balance/Net Position (Continued)**

**2. Fund Balance/Net Position (Continued)**

**a. Governmental Cash Fund Balances: (Continued)**

Cash fund balances are classified as follows (Continued):

- **Unassigned** – Amounts that have not been restricted, committed, or assigned to a specific purpose in the General Fund. Other funds may also report a negative unassigned fund balance if the total nonspendable, restricted, and committed fund balances exceed the total net resources of that fund.

The City has formally adopted a fund balance policy for the General Fund. The policy is to maintain a minimum unassigned fund balance of 40% of the current fiscal year's operating disbursements. The unassigned fund balance in the General Fund at December 31, 2024 is 339.0% of 2024 operating disbursements.

**b. Proprietary Fund Net Position:**

Proprietary Fund Net Position is divided into two components:

- **Restricted** – Consists of assets that are restricted by the City's creditors (for example, through debt covenants), by state enabling legislation (through restrictions on shared revenues), by grantors (both federal and state), and by other contributors.
- **Unrestricted** – All other assets are reported in this category.

**c. Use of Restricted Resources:**

When a disbursement is incurred that can be paid using either restricted or unrestricted resources, the City's policy is to first apply the disbursement toward restricted fund balance/net position and then to other, less-restricted classifications - committed and then assigned fund balances before using unassigned fund balances, in governmental funds.

**3. Capital Assets**

In the fund financial statements, capital assets used in governmental and proprietary fund operations are accounted for as capital outlay disbursements of the funds upon acquisition.

Capital assets include property, plant, and equipment.

**CITY OF CARLOS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2024**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**E. Receipts and Disbursements**

**1. Property Tax Revenue**

The City levies its property taxes for the subsequent year during the month of December. Douglas County is the collecting agency for the levy and then remits the collections to the City of Carlos. The City receives its taxes in two installments in June and November.

The property tax levy in 2024 includes certain state credits that are distributed to the City directly by the state. These credits are classified as intergovernmental revenue.

**2. Receipts and Disbursements**

Proprietary Funds distinguish operating receipts and disbursements from nonoperating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods and/or services in connection with a Proprietary Fund's principal ongoing operations. Operating disbursements for the Proprietary Fund include the cost of sales and services and administrative expense. All receipts and disbursements not meeting this definition are reported as nonoperating items which include receipts and disbursements related to capital and related financing, noncapital financing, or investing activities.

Disbursements

In the fund financial statements, disbursements are classified as follows:

Governmental Funds - By Character	Current (further classified by function) Debt Service Capital Outlay
Proprietary Funds - By Operating and Nonoperating	

**F. Budgetary Information**

Annual budgets are adopted on the regulatory basis, which is a special purpose framework other than accounting principles generally accepted in the United States of America. Budgeted amounts are as originally adopted, or as amended, by the City Council. The original and final budget for the General Fund and major Special Revenue Fund are presented in the supplementary information section. All annual appropriations lapse at year-end.

**G. Use of Estimates**

The preparation of financial statements in accordance with the regulatory basis requires management to make estimates that affect amounts reported in the financial statements during the reporting period. Actual results could differ from such estimates.

**CITY OF CARLOS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2024**

**NOTE 2      STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

At December 31, 2024, there were no compliance issues to be noted.

**NOTE 3      DETAILED NOTES – TRANSACTION CLASSES/ACCOUNTS**

**A. Deposits and Investments**

The City maintains a cash and investment pool that is available for use by all funds. Each fund's portion of this pool is displayed on the financial statements as Cash and Cash Equivalents or Investments. Interest is allocated based on management's estimate of interest earned by fund. In accordance with *Minnesota Statutes* the City maintains deposits at financial institutions which are authorized by the City Council.

**1. Deposits**

The City is authorized by Minn. Stat. §§ 118A.02 and 118A.04 to designate a depository for public funds and to invest in certificates of deposit. The City is required by Minn. Stat. § 118A.03 to protect deposits with insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount of deposit at the close of the financial institution's banking day, not covered by insurance or bonds.

**Custodial Credit Risk**

The risk that, in the event of a financial institution failure, the City's deposits may not be returned to it. The City does not have a policy for custodial credit risk. At December 31, 2024, the City's deposits were entirely covered by Federal Deposit Insurance Corporation (FDIC) insurance or collateral in accordance with Minnesota statutes.

Minnesota statutes require that securities pledged as collateral be held 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 financial institution furnishing the collateral.

Cash balances consist of the following at December 31, 2024:

Carrying Balance	Bank Balance
<u>\$1,558,263</u>	<u>\$1,661,797</u>

**CITY OF CARLOS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2024**

**NOTE 3      DETAILED NOTES – TRANSACTION CLASSES/ACCOUNTS (CONTINUED)**

A. Deposits and Investments (Continued)

**2. Investments**

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

- securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as “high risk” by Minn. Stat. § 118A.04, Subd.6;
- mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less;
- with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts; and
- time deposits that are fully insured by the Federal Deposit Insurance Corporation or bank’s acceptances of United States Banks.

Interest Rate Risk

The risk that changes in interest rates could adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City can manage its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities to meet cash requirements for ongoing operations.

Credit Risk

The risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. It is the City’s policy to invest only in securities that meet the ratings requirements set by state statute.

Custodial Credit Risk

The risk that, in the event of the failure of the counterparty to a transaction, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

Concentration of Credit Risk

The risk of loss that may be caused by the City’s investment in a single issuer. The City places no limit on the amount that it may invest in any one issuer.

The City had no investments at December 31, 2024.

**CITY OF CARLOS**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2024**

**NOTE 3      DETAILED NOTES – TRANSACTION CLASSES/ACCOUNTS (CONTINUED)**

**B. Interfund Activity**

Interfund Advances

During 2017, 2018 and 2020, the Sewer Fund advanced the Water Fund various amounts for a total of \$77,000. At December 31, 2024, the total advance from the Sewer Fund to the Water Fund remains \$77,000. The balance between these funds represents an interfund loan to the Water Fund from the Sewer fund. There is currently no short term repayment plan for this advance.

Interfund Transfers

Fund	Transfers	Fund	Transfers	Reason for Transfer
	Out		In	
General	\$ 69,564	Fire Operating	\$ 69,564	Transfer grant funds used by Fire Operating Fund
Fire Operating	64,936	Fire Capital	64,936	Transfer of funds to Fire Capital Fund

**C. Long-Term Liabilities**

Long-Term Debt

The following is a summary of changes in long-term debt for the year ended December 31, 2024:

Indebtedness	Balance at January 1, 2024	Increases	Decreases	Balance at December 31, 2024	Due Within One Year
<b>Business-Type Activities</b>					
General Obligation Bonds	\$ 1,746,000	\$ -	\$ 71,000	\$ 1,675,000	\$ 72,000

The annual debt service requirements to maturity for long-term debt as of December 31, 2024, are as follows:

Year Ending December 31,	Business-Type Activities	
	General Obligation Bonds	
	Principal	Interest
2025	\$ 72,000	\$ 16,750
2026	73,000	16,030
2027	74,000	15,300
2028	74,000	14,560
2029	75,000	13,820
2030-2034	387,000	57,680
2035-2039	407,000	37,930
2040-2044	426,000	17,210
2045	87,000	870
Total	\$ 1,675,000	\$ 190,150

**CITY OF CARLOS**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2024**

**NOTE 3      DETAILED NOTES – TRANSACTION CLASSES/ACCOUNTS (CONTINUED)**

C. Long-Term Liabilities (Continued)

Compensated Absences

The change in accrued compensated absences for the year ended December 31, 2024, was as follows:

Other Liabilities:	Beginning			Ending	Due
	Balance	Additions	Deductions	Balance	Within
					One Year
Accrued Compensated Absences	\$ 6,357	\$ 2,890	\$ 6,321	\$ 2,926	\$ 36

The liability for this amount is not recorded in the fund financial statements, as they are prepared on the regulatory basis of accounting.

The general, water, and sewer funds will be used to liquidate this liability.

D. Cash Fund Balances

At December 31, 2024, Governmental Cash Fund Balances consist of the following:

	General	Fire Operating	Fire Capital	Total Governmental Funds
Restricted For:				
Park	\$ 1,150	\$ -	\$ -	\$ 1,150
ARPA	-	-	-	-
Fire Operating	-	90,424	-	90,424
Total Restricted	1,150	90,424	-	91,574
Assigned For:				
Fire Capital	-	-	137,974	137,974
Unassigned	775,489	-	-	775,489
Total Cash Fund Balances	\$ 776,639	\$ 90,424	\$ 137,974	\$ 1,005,037

**NOTE 4      OTHER NOTES**

A. Contracts/Agreements

Douglas County Sheriff's Department

The City has a contract with the Douglas County Sheriff's Department to provide police services for the City. In 2024, the City paid the Douglas County Sheriff's Department \$10,788.

**CITY OF CARLOS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2024**

**NOTE 4     OTHER NOTES (CONTINUED)**

**B. Defined Benefit Pension Plan**

**1. Plan Description**

The City participates in the following cost-sharing multiple-employer defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). These plan provisions are established and administered according to Minnesota Statutes chapters 353, 353D, 353E, 353G, and 356. Minnesota Statutes chapter 356 defines each plan's financial reporting requirements. PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

**a. General Employee Retirement Plan (General Plan)**

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

**2. Benefits Provided**

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

**a. General Employees Plan Benefits**

General Employees Plan requires three years of service to vest. Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for General Plan members. Members hired prior to July 1, 1989, receive the higher of the Step or Level formulas. Only the Level formula is used for members hired after June 30, 1989. Under the Step formula, General Plan members receive 1.2 percent of the highest average salary for each of the first 10 years of service and 1.7 percent for each additional year. Under the Level formula, General Plan members receive 1.7 percent of highest average salary for all years of service. For members hired prior to July 1, 1989 a full retirement benefit is available when age plus years of service equal 90 and normal retirement age is 65. Members can receive a reduced requirement benefit as early as age 55 if they have three or more years of service. Early retirement benefits are reduced by .25 percent for each month under age 65. Members with 30 or more years of service can retire at any age with a reduction of .25 percent for each month the member is younger than age 52. The Level formula allows General Plan members to receive a full retirement benefit at age 65 if they were first hired before July 1, 1989 or at age 66 if they were hired on or after July 1, 1989. Early retirement begins at age 55 with an actuarial reduction applied to the benefit.

**CITY OF CARLOS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2024**

**NOTE 4     OTHER NOTES (CONTINUED)**

**B. Defined Benefit Pension Plan (Continued)**

**2. Benefits Provided (Continued)**

**a. General Employees Plan Benefits (Continued)**

Benefit increases are provided to benefit recipients each January. 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. The 2024 annual increase was 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. Recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a prorated increase.

**3. Contributions**

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

**1. General Employees Fund Contributions**

General Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2024 and the City was required to contribute 7.50 percent for General Plan members. The City's contributions to the General Employees Fund for the year ended December 31, 2024, were \$6,370. The City's contributions were equal to the required contributions as set by state statute.

**C. Defined Benefit Pension Plan – Volunteer Fire Relief Association**

Plan Description

The Carlos Fire Department Association (Association) is the administrator of a single employer public employee defined benefit retirement system (PERS) established to provide benefits for members of the Carlos Fire Department. The plan provides retirement, disability, and death benefits to plan members and beneficiaries. As of December 31, 2024, the plan covered 22 active members. The Association pays \$3,300 a year for each year of service provided by each firefighter and has a pro-rated vesting schedule. Members are eligible for a lump-sum retirement benefit at 50 years of age.

Funding Policy

The plan is funded by fire state aid, investment earnings and, if necessary, employer contributions as specified by Minnesota State Statutes, and voluntary City contributions. The state of Minnesota contributed \$25,119 in fire state aid to the plan on behalf of the Carlos Fire Department for the year ended December 31, 2024. Required employer contributions are calculated annually based on statutory provision. The City did not have any statutorily-required contributions to the plan for the year ended December 31, 2024.



**CITY OF CARLOS**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2024**

**NOTE 4     OTHER NOTES (CONTINUED)**

**D. Risk Management**

The City is exposed to various risks of loss related to torts, theft of, damage to, 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). LMCIT is a public entity risk pool currently operating as a common risk management and insurance program for Minnesota cities. The agreement for the formation of the LMCIT provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of reserved amounts for each insured event.

The pooling agreement allows for the pool to 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 taken as a whole.

**E. Conduit Debt Obligations**

The City has issued conduit debt to facilitate capital financing for private-sector entities for the acquisition and construction of industrial and commercial facilities. The properties financed are pledged as collateral, and the bonds are payable solely from payments received from the private-sector entities on underlying mortgage or promissory notes. It is important to note that while the city facilitated the issuance of this debt, it does not bear any direct responsibility for the repayment. There are no commitments beyond the collateral, the payments from the private-sector entities, and the maintenance of the tax-exempt status of the conduit debt obligation that were extended by the City for these bonds. At December 31, 2024, the bonds have an aggregate outstanding principal amount payable of \$7,371,081.

## **SUPPLEMENTARY INFORMATION SECTION**

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**CITY OF CARLOS**  
**BUDGETARY COMPARISON SCHEDULE - REGULATORY BASIS**  
**GENERAL FUND**  
**YEAR ENDED DECEMBER 31, 2024**

	BUDGETED AMOUNTS		ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL	AMOUNTS	
Beginning Cash Fund Balance - January 1	\$ 649,575	\$ 649,575	\$ 649,575	\$ -
<b>RECEIPTS</b>				
Taxes				
Property Taxes				
Current, Delinquent, Penalties, and Interest	188,600	192,372	194,046	1,674
Licenses and Permits				
Business and Non-business	12,445	12,645	9,664	(2,981)
Intergovernmental				
Federal Grants				
ARPA - COVID Funds	46,013	46,013	-	(46,013)
State Grants				
Local Government Aid	105,159	124,770	124,770	-
Agricultural Market Value Credit	-	-	8	8
Small City Assistance	21,793	21,793	12,581	(9,212)
Other	-	-	2,433	2,433
Total Intergovernmental	172,965	192,576	139,792	(52,784)
Charges for Services				
General Government	8,300	8,300	3,055	(5,245)
Fines and Forfeits				
Court Fines	500	500	270	(230)
Miscellaneous				
Interest Earnings	1,000	1,000	45,848	44,848
Contributions and Donations	-	-	29,453	29,453
Refunds and Reimbursements	-	-	3,616	3,616
Other	-	-	10	10
Total Miscellaneous	1,000	1,000	78,927	77,927
Total Receipts	383,810	407,393	425,754	18,361
Amounts Available for Appropriation	1,033,385	1,056,968	1,075,329	18,361

**CITY OF CARLOS**  
**BUDGETARY COMPARISON SCHEDULE - REGULATORY BASIS**  
**GENERAL FUND**  
**YEAR ENDED DECEMBER 31, 2024**  
**(CONTINUED)**

DISBURSEMENTS	BUDGETED AMOUNTS		ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
General Government				
Mayor and Council				
Current	18,141	18,147	20,208	(2,061)
Finance-Municipal Clerk/Treasurer				
Current	58,919	59,504	45,503	14,001
Election				
Current	-	4,075	4,039	36
Independent Accounting and Auditing				
Current	12,000	12,000	11,631	369
Legal				
Current	10,000	10,000	4,837	5,163
City Hall, General Government Buildings				
Current	48,226	57,814	19,349	38,465
Capital Outlay	3,500	3,500	-	3,500
Total General Government	150,786	165,040	105,567	59,473
Public Safety				
Police Protection				
Current	9,600	10,500	10,788	(288)
Fire Protection				
Current	-	-	13,641	(13,641)
Building Inspection				
Current	2,500	7,500	3,762	3,738
Total Public Safety	12,100	18,000	28,191	(10,191)
Streets and Highways				
Street Maintenance				
Current	75,259	69,587	42,471	27,116
Capital Outlay	-	-	4,293	(4,293)
Snow and Ice Removal				
Current	2,000	4,000	1,045	2,955
Street Lighting				
Current	9,000	9,000	7,169	1,831
Total Streets and Highways	86,259	82,587	54,978	27,609
Culture and Recreation				
Parks				
Current	2,656	2,723	2,143	580
Auditoriums				
Current	12,783	13,296	11,653	1,643
Capital Outlay	30,000	30,000	4,462	25,538
Stadiums				
Current	17,044	18,054	22,132	(4,078)
Total Culture and Recreation	62,483	64,073	40,390	23,683
Total Disbursements	311,628	329,700	229,126	100,574
OTHER FINANCING USES				
Transfers Out	16,000	16,000	69,564	(53,564)
Total Disbursements and Other Financing Uses (Charges to Appropriations)	327,628	345,700	298,690	47,010
CASH FUND BALANCE - DECEMBER 31	\$ 705,757	\$ 711,268	\$ 776,639	\$ 65,371

**CITY OF CARLOS**  
**BUDGETARY COMPARISON SCHEDULE - REGULATORY BASIS**  
**FIRE OPERATING FUND**  
**YEAR ENDED DECEMBER 31, 2024**

	BUDGETED AMOUNTS		ACTUAL	VARIANCE WITH
	ORIGINAL	FINAL	AMOUNTS	FINAL BUDGET
				POSITIVE
				(NEGATIVE)
Beginning Cash Fund Balance - January 1	\$ 143,433	\$ 143,433	\$ 143,433	\$ -
<b>RECEIPTS</b>				
Intergovernmental				
State Grants				
Fire Aid	-	-	25,119	25,119
Other	-	-	11,329	11,329
Local Grants				
Other	-	-	10,000	10,000
Total Intergovernmental	-	-	46,448	46,448
Charges for Services				
Special Fire Protection Services	86,295	96,082	93,380	(2,702)
Ambulance Revenues	-	-	15,944	15,944
Fire Calls	-	-	4,875	4,875
Total Charges for Services	86,295	96,082	114,199	18,117
Miscellaneous				
Contributions and Donations	1,000	1,000	10,500	9,500
Total Receipts	87,295	97,082	171,147	74,065
<b>OTHER FINANCING SOURCES</b>				
Transfers In	13,000	13,641	69,564	55,923
Total Receipts and Other Financing Sources	100,295	110,723	240,711	129,988
Amounts Available for Appropriation	243,728	254,156	384,144	129,988
<b>DISBURSEMENTS</b>				
Public Safety				
Ambulance Administration				
Current	250	250	-	250
Fire Administration				
Current	71,470	71,506	121,744	(50,238)
Capital Outlay	350,000	460,000	107,040	352,960
Total Public Safety	421,720	531,756	228,784	302,972
Total Disbursements	421,720	531,756	228,784	302,972
<b>OTHER FINANCING USES</b>				
Transfers Out	-	-	64,936	(64,936)
Total Disbursements and Other				
Financing Uses (Charges to				
Appropriations)	421,720	531,756	293,720	238,036
CASH FUND BALANCE - DECEMBER 31	\$ (177,992)	\$ (277,600)	\$ 90,424	\$ 368,024

**CITY OF CARLOS**  
**SCHEDULE OF INDEBTEDNESS**  
**YEAR ENDED DECEMBER 31, 2024**

INDEBTEDNESS	INTEREST RATE	ISSUE DATE	FINAL MATURITY DATE	BALANCE AT JANUARY 1, 2024	INCREASES	DECREASES	BALANCE AT DECEMBER 31, 2024
<b>Business-Type Activities</b>							
Bond Indebtedness							
G.O. Utility Revenue Bond Series 2015A	1.00%	10/28/2015	8/1/2045	\$ 1,746,000	\$ -	\$ 71,000	\$ 1,675,000
Total Indebtedness				<u>\$ 1,746,000</u>	<u>\$ -</u>	<u>\$ 71,000</u>	<u>\$ 1,675,000</u>

**CITY OF CARLOS**  
**SCHEDULE OF ACCOUNTS RECEIVABLE**  
**YEAR ENDED DECEMBER 31, 2024**

FUND	SOURCE OF REVENUE AND PURPOSE		AMOUNT
General	Douglas County	Property Tax	\$ 1,005
Sewer	Various Customers	Sewer Service	9,856
Water	Various Customers	Water Service	20,213
			<u>\$ 31,074</u>

**SCHEDULE OF ACCOUNTS PAYABLE**  
**YEAR ENDED DECEMBER 31, 2024**

FUND	VENDOR NAME	ITEM AND PURPOSE	CHECK NUMBER	AMOUNT
Fire Operating	Alexandria Technical & Community College	Training	11932	\$ 1,500
Fire Operating	Carlos Area Fire JPA	Professional Services	11939	11,384
Fire Operating	CenterPoint Energy	Gas	CPE.DEC.2024	359
Fire Operating	CenterPoint Energy	Gas	CPE.NOV.24	195
Fire Operating	Various	Firemen Payroll	Various	9,821
Fire Operating	Gold West Industrial Supply	Repairs	11931	565
Fire Operating	Ottertail Power Company	Electricity	OTP.DEC.24*	73
General	Ace Hardware	Supplies	11921	169
General	Alex Rubbish	Refuse Disposal	11917	123
General	Bolton & Menk	Professional Services	11923	227
General	Brother's Market	Maintenance Supplies	11919	270
General	CenterPoint Energy	Gas	CPE.DEC.2024	928
General	CenterPoint Energy	Gas	CPE.NOV.24	501
General	Douglas County Auditor	Notices	11927	53
General	Douglas County Sheriff's Office	Patrol Service	11916	901
General	Inspection, Inc.	Inspections	11926	375
General	Internal Revenue Service	Payroll Taxes	IRS.DEC.2024	3,221
General	Kalin Hacker	Reimbursement	11933	20
General	Lakes Area Excavating	Snow Removal	11924	585
General	LMCIT	Insurance	11929	732
General	Menard's	Supplies	11920	80
General	Minnesota Department of Revenue	State Withholding Tax	MN.WH.TX.12	270
General	Minnesota Department of Revenue	State Withholding Tax	MN.WH.TX.11	74
General	Ottertail Power Company	Electricity	OTP.DEC.24*	773
General	Precision IT Solution, LLC	IT Services	11934	4,636
General	Precision IT Solution, LLC	IT Services	11935	1,422
Sewer	AW Research Laboratories, Inc.	Testing	11922	347
Sewer	D&D Distributing and Mfg., Inc.	Supplies	11918	240
Sewer	Internal Revenue Service	Payroll Taxes	IRS.DEC.2024	611
Sewer	LMCIT	Insurance	11929	732
Sewer	Minnesota Department of Revenue	State Withholding Tax	MN.WH.TX.12	80
Sewer	Minnesota Department of Revenue	State Withholding Tax	MN.WH.TX.11	27
Sewer	Ottertail Power Company	Electricity	OTP.DEC.24*	42
Water	CenterPoint Energy	Gas	CPE.DEC.2024	252
Water	CenterPoint Energy	Gas	CPE.NOV.24	190
Water	Ellingson Plumbing, Heating, A/C	Maintenance and Repairs	11925	361
Water	Internal Revenue Service	Payroll Taxes	IRS.DEC.2024	611
Water	LMCIT	Insurance	11929	732
Water	Minnesota Department of Revenue	State Withholding Tax	MN.WH.TX.12	80
Water	Minnesota Department of Revenue	State Withholding Tax	MN.WH.TX.11	27
Water	Ottertail Power Company	Electricity	OTP.DEC.24*	142
				<u>\$ 43,731</u>

## OTHER REPORTS SECTION





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

To the Honorable Mayor and  
Members of the City Council  
City of 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 *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of each major fund of the City of Carlos, Minnesota (the City), as of and for the year ended December 31, 2024, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated May 1, 2025.

**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 the 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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 were not identified. However, as described in the accompanying Schedule of Current Year Findings and Responses, we identified certain deficiencies in internal control that we consider to be a material weakness and a significant deficiency.

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. We consider item 2024-001 described in the accompanying Schedule of Current Year Findings and Responses to be a material weakness.

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 the attention of those charged with governance. We consider the deficiency described in the accompanying Schedule of Current Year Findings and Responses as item 2024-002 to be a significant deficiency.

## Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. 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*.

### Minnesota Legal Compliance

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 depositories of public funds and public investments, contracting – bid laws, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions sections of the *Minnesota Legal Compliance Audit Guide for Cities* insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City's noncompliance with the above referenced provisions, insofar as they relate to accounting matters.

### City of Carlos' Response to Findings

*Government Auditing Standards* require the auditor to perform limited procedures on the City of Carlos' responses to the findings identified in our audit and described in the accompanying Schedule of Current Year Findings and Responses. The City's responses were not subjected to the other auditing procedures applied in the audit of the financial statements, and, accordingly, we express no opinion on them.

### 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.

*Clasen & Schiessl, CPAs, Ltd.*

Clasen & Schiessl CPAs, Ltd.

Pequot Lakes, Minnesota

May 1, 2025

**CITY OF CARLOS  
SCHEDULE OF CURRENT YEAR FINDINGS AND RESPONSES  
YEAR ENDED DECEMBER 31, 2024**

**Current Year Internal Control Findings**

Material Weakness

2024-001 Lack of Segregation of Accounting Duties

*Criteria or Specific Requirement:* Adequate segregation of duties is a key internal control in an organization's accounting system.

*Condition:* The size of the City and its staff limits the internal control that management can design and implement into the organization. The City Council should be aware that segregation of duties is not adequate from an internal control point of view.

*Effect:* The underlying accounting records used to draft the financial statements could be incomplete or inaccurate.

*Cause:* The size of the City and its staffing limits the internal control that management can design and implement into the organization.

*Recommendation:* This circumstance is not unusual in a City of your size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

*Views of Responsible Officials:* The City agrees with this finding. However, given expected continuing budget constraints on staffing, the City cannot commit that they will be able to mitigate this condition, but will continue to provide training and take other steps to increase the City's segregation of duties as much as possible.

Significant Deficiency

2024-002 Preparation of Financial Statements and Related Footnotes

*Criteria or Specific Requirement:* A good system of internal control contemplates the preparation of financial statements including the relevant footnote disclosures.

*Condition:* The City does not have an internal control system designed to provide for the preparation of the financial statements being audited. The auditors were requested to, and did, draft the City's financial statements and accompanying notes to the financial statements.

*Effect:* The financial disclosures in the financial statements could be incomplete.

*Cause:* The City does not have an internal control system designed to provide for the preparation of the financial statements being audited.

*Recommendation:* This circumstance is not unusual in a City of your size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

*Views of Responsible Officials:* The City agrees with this finding. However, given expected continuing budget constraints on staffing, the City cannot commit that they will be able to prepare financial statements internally in future years, but will continue to provide training and take other steps to increase the City's direct involvement in annual financial statement preparation.

**CITY OF CARLOS  
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS  
DECEMBER 31, 2024**

**STATUS OF PRIOR AUDIT FINDINGS**

Material Weakness

2023-001 Segregation of Duties

<i>Condition:</i>	The City has a limited number of office personnel and, accordingly, does not have adequate internal controls in certain areas because of a lack of segregation of duties.
<i>Current Status:</i>	This condition is noted again during the current year audit of the financial statements.

Significant Deficiency

2023-002 Preparation of Financial Statements and Related Footnotes

<i>Condition:</i>	The City does not have an internal control system designed to provide for the preparation of the financial statements.
<i>Current Status:</i>	This condition is noted again during the current year audit of the financial statements.

Compliance Finding

2023-003 Prompt Deposit of Fire State Aid

<i>Condition:</i>	The City did not remit the fire state aid to the relief association within 30 days of receipt.
<i>Current Status:</i>	This condition was not noted again during the current year audit of the financial statements.