

CITY OF CARLOS
Carlos, Minnesota

COMMUNICATIONS LETTER

Year Ended December 31, 2024



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

CITY OF CARLOS

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**EXECUTIVE AUDIT SUMMARY (EAS)
FOR
CITY OF CARLOS
YEAR ENDED DECEMBER 31, 2024**

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 2024 the fund balance in the General Fund increased by \$127,064 ending at \$776,639 as of December 31, 2024. The ending fund balance at December 31, 2024, for the City represents 339.0% 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 \$18,361 (or 4.5%) higher than the budgeted amount while total disbursements and other financing uses were \$47,010 (or 13.6%) 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 2025, 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, 2024**

GOVERNMENTAL FUNDS:

Statement of Balances Arising From Cash Transactions - Regulatory Basis

| | |
|---------------------------|--------------|
| Cash and Cash Equivalents | \$ 1,005,037 |
|---------------------------|--------------|

Statement of Cash Receipts, Disbursements, and Changes in Cash Fund Balances
- Regulatory Basis

| | |
|----------------------------------|------------|
| Receipts | \$ 602,541 |
| Disbursements | (457,910) |
| Net Change in Cash Fund Balances | \$ 144,631 |

PROPRIETARY FUNDS:

Statement of Balances Arising From Cash Transactions - Regulatory Basis

| | |
|---------------------------|------------|
| Cash and Cash Equivalents | \$ 553,226 |
|---------------------------|------------|

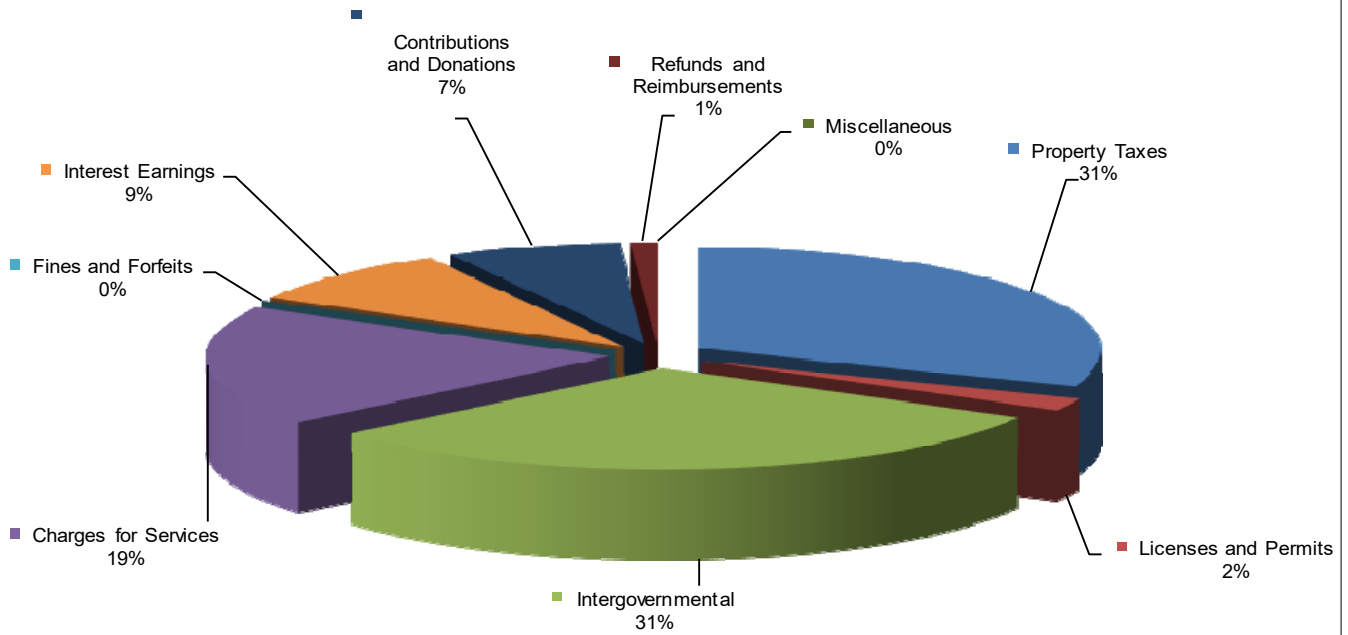
Statement of Receipts, Disbursements, and Changes in Net Cash Position
- Regulatory Basis

| | |
|-----------------------------|------------|
| Operating Receipts | \$ 278,303 |
| Operating Disbursements | (123,655) |
| Operating Cash Income | 154,648 |
| Nonoperating Receipts | 2,522 |
| Nonoperating Disbursements | (17,460) |
| Debt Principal Paid | (71,000) |
| Change in Net Cash Position | \$ 68,710 |

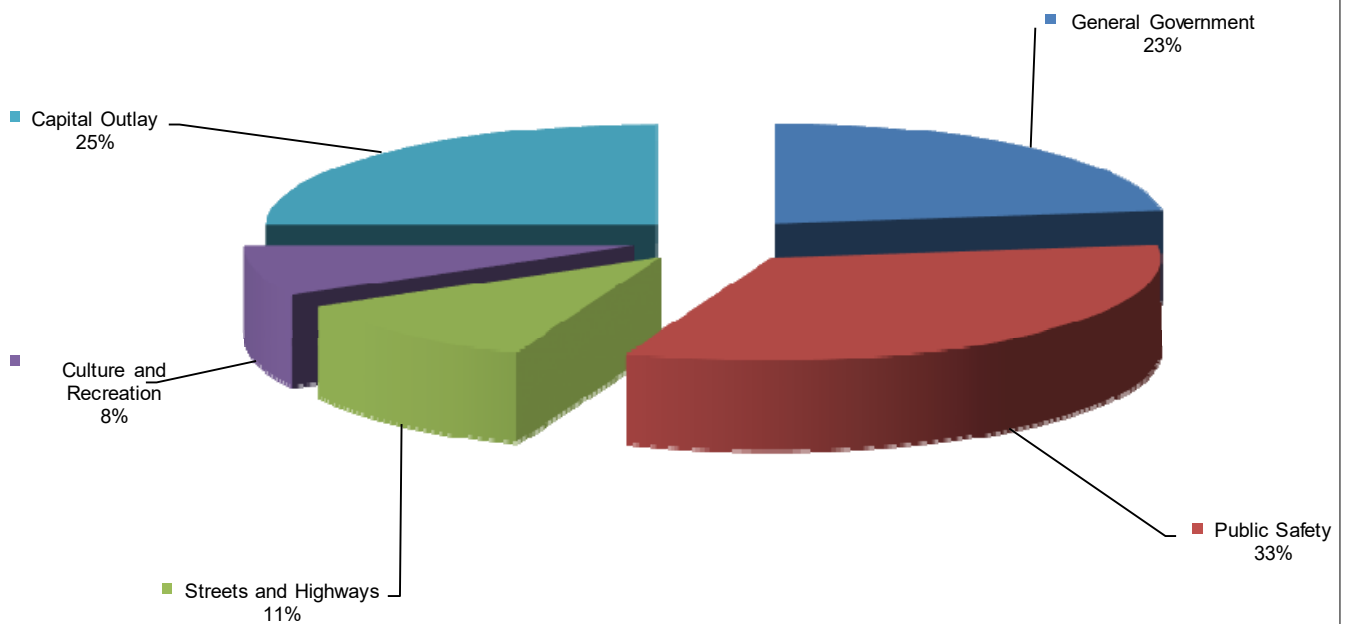
SUPPLEMENTARY INFORMATION SECTION:

| | Variance |
|--|------------|
| Budgetary Comparison Schedule - Regulatory Basis - General Fund | |
| Total Receipts - Positive Variance | \$ 18,361 |
| Total Disbursements and Other Financing Uses - Positive Variance | 47,010 |
| Budgetary Fund Balance with a Positive Variance | \$ 65,371 |
| | |
| Budgetary Comparison Schedule - Regulatory Basis - Fire Operating Fund | |
| Total Receipts and Other Financing Sources - Positive Variance | \$ 129,988 |
| Total Disbursements and Other Financing Uses - Positive Variance | 238,036 |
| Budgetary Fund Balance with a Positive Variance | \$ 368,024 |

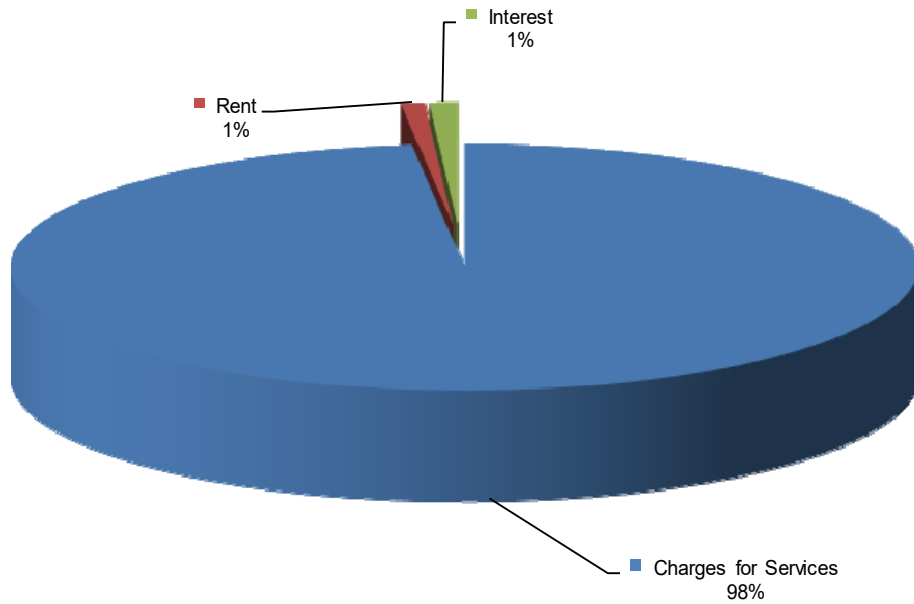
**City of Carlos, Minnesota
Governmental Funds
Receipts
Year Ended December 31, 2024**



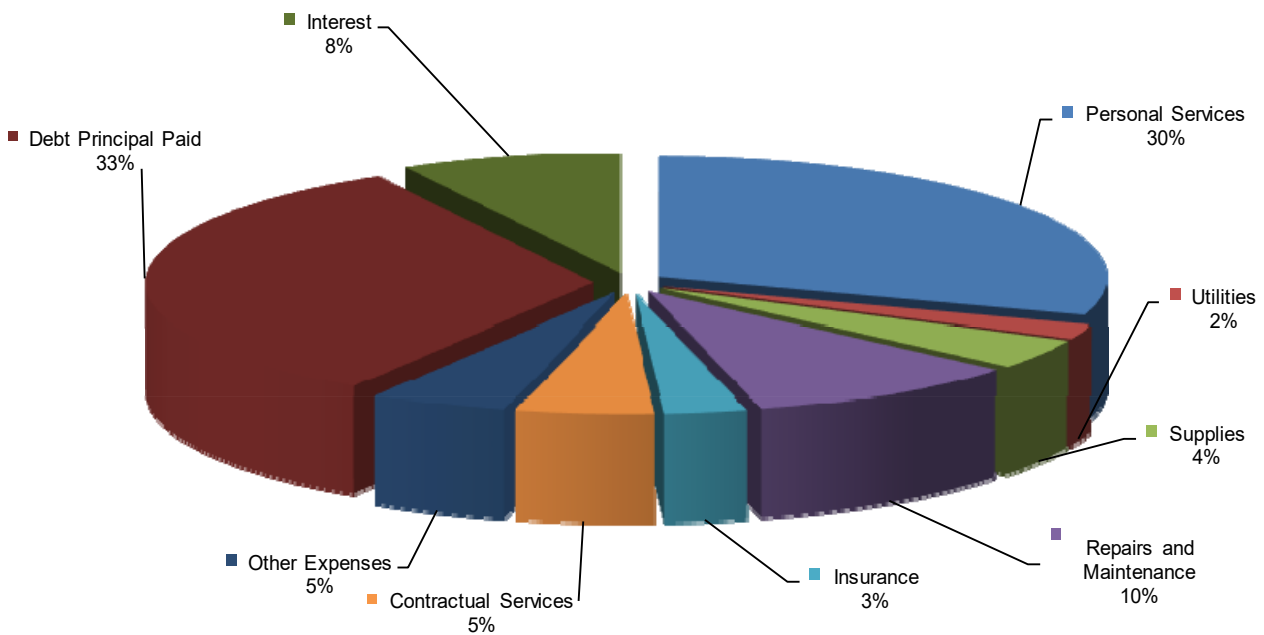
**City of Carlos, Minnesota
Governmental Funds
Disbursements
Year Ended December 31, 2024**



**City of Carlos, Minnesota
Proprietary Funds
Receipts
Year Ended December 31, 2024**



**City of Carlos, Minnesota
Proprietary Funds
Disbursements
Year Ended December 31, 2024**





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REPORT ON MATTERS IDENTIFIED AS A RESULT OF THE AUDIT OF THE FINANCIAL STATEMENTS

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

In planning and performing our audit of 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, in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, 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 preceding 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 sections, 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 deficiency 2024-001 in the following section 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 deficiency 2024-002 in the following section 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 Finding

The City of Carlos' responses to the findings identified in our audit are described in the Schedule of Current Year Findings and Responses. The City's responses were not subjected to the 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

MATERIAL WEAKNESS

December 31, 2024

2024-001

LACK OF SEGREGATION OF ACCOUNTING DUTIES

The objective of internal control for accounting is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets. An essential part of internal control is that procedures are properly segregated and the results of their performance adequately reviewed. This is normally accomplished by assigning duties so that 1) no one person handles a transaction from beginning to end, and 2) incompatible duties between functions are not handled by the same person. In addition, a review of these completed duties should be performed by an individual independent of those functions.

The Organization does not have effective controls to safeguard assets, and prevent or detect misstatements on a timely basis, as a result of a lack of segregation of duties. This condition increases the possibility that errors or irregularities may occur without being detected on a timely basis. Proper segregation of duties can be difficult to achieve due to the limited City staff and hiring additional staff may be costly. Additionally, segregation of duties can, at times, lead to inefficiencies in the financial reporting process. Therefore, consideration must be given to the cost of implementing additional controls.

SIGNIFICANT DEFICIENCY

2024-002

PREPARATION OF FINANCIAL STATEMENTS AND RELATED FOOTNOTES

Internal controls over financial reporting include those related to the actual preparation and review of the audited financial statements. In order to prepare a complete set of financial statements in conformity with the regulatory basis of accounting, the preparer must have the necessary expertise.

The City does not have an internal control system designed to provide for the preparation of the financial statements being audited. City personnel prepare periodic financial statements and other financial information for internal use that meets the needs of management and the City Council. However, the City does not have the internal resources to prepare full-disclosure financial statements required by the regulatory basis of accounting for external reporting. As auditors, we were requested to draft the financial statements and accompanying footnotes.

This control deficiency could result in a misstatement to the financial statements that would not be prevented or detected.

This control deficiency is not unusual in a small City. However, it is the responsibility of management and the Council to decide whether to accept the degree of risk associated with this condition based on the cost of correction and other considerations.

CITY OF CARLOS

SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS December 31, 2024

STATUS OF PRIOR AUDIT FINDINGS

The prior audit contained three 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. |



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REQUIRED COMMUNICATION

May 1, 2025

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, 2024. 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 3, 2025. 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 2024. 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, an understatement of Charges for Services of \$890 and \$424 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
- Purchase of Investments and Sale of Investments
- Reclassing receipt accounts

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 May 1, 2025.

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.

Clasen & Schiessl, CPAs, Ltd.

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Pequot Lakes, Minnesota