

CITY OF FIFTY LAKES, MINNESOTA

FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

DECEMBER 31, 2016

Conway, Deuth & Schmiesing, PLLP
Certified Public Accountants & Consultants
Willmar, Minnesota

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CITY OF FIFTY LAKES, MINNESOTA

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CITY OF FIFTY LAKES, MINNESOTA

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CITY OF FIFTY LAKES, MINNESOTA
ELECTED AND APPOINTED OFFICIALS
DECEMBER 31, 2016

<u>Title</u>	<u>Name</u>	<u>Term Expires</u>
Mayor	Tim Anick	12/31/2016
Council Member	Jodie Schrupp	12/31/2018
Council Member	Don Rierson	12/31/2016
Council Member	Greg Buchite	12/31/2016
Council Member	Jay Weinmann	12/31/2016
Clerk-Treasurer	Karen Stern	Appointed

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members of the City Council
City of Fifty Lakes
Fifty Lakes, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of each major fund of the City of Fifty Lakes, Minnesota, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of the Minnesota Office of the State Auditor as provided for Reporting on the Regulatory Basis of Accounting. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash position of each major fund of the City of Fifty Lakes, Minnesota, as of December 31, 2016, and the respective changes in cash position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund, Road and Bridge Special Revenue Fund, and Fire and First Responders Special Revenue Fund 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 of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the basis of the financial reporting provisions of the Minnesota Office of the State Auditor, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to comply with the requirements of the Minnesota Office of the State Auditor. Our opinion is not modified with respect to

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The statements and schedules listed in the table of contents as supplementary information and the Elected and Appointed Officials section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Elected and Appointed Officials section 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 the information presented.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 21, 2017, 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 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 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.

Restriction on Use

This report is intended solely for the information and use of management, City Council, others within the City of Fifty Lakes, Minnesota and the Minnesota Office of the State Auditor and is not intended to be and should not be used by anyone other than these specified parties.

Conway, Deuth & Schmiesing, PLLP

CONWAY, DEUTH & SCHMIESING, PLLP
Certified Public Accountants & Consultants
Willmar, Minnesota

February 21, 2017

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BASIC FINANCIAL STATEMENTS

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CITY OF FIFTY LAKES, MINNESOTA

STATEMENT OF BALANCES ARISING FROM CASH TRANSACTIONS
 GOVERNMENTAL FUNDS
 DECEMBER 31, 2016

	<u>General</u>	<u>Road and Bridge</u>	<u>Fire and First Responders</u>	<u>Total</u>
ASSETS				
Cash	<u>\$ 293,405</u>	<u>\$ 751,771</u>	<u>\$ 107,393</u>	<u>\$ 1,152,569</u>
CASH FUND BALANCE				
Assigned	\$	\$ 751,771	\$ 107,393	\$ 859,164
Unassigned	<u>293,405</u>	<u></u>	<u></u>	<u>293,405</u>
Total Cash Fund Balance	<u>\$ 293,405</u>	<u>\$ 751,771</u>	<u>\$ 107,393</u>	<u>\$ 1,152,569</u>

CITY OF FIFTY LAKES, MINNESOTA

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH FUND BALANCES
 GOVERNMENTAL FUNDS
 YEAR ENDED DECEMBER 31, 2016

	General	Road and Bridge	Fire and First Responders	Total
RECEIPTS				
Property Taxes	\$ 213,793	\$ 177,765	\$ 59,170	\$ 450,728
Special Assessments	13,045	500		13,545
Licenses and Permits	11,100			11,100
Intergovernmental	1,887	10,000	18,044	29,931
Charges for Services	3,741	1,300	2	5,043
Fines and Forfeits	972			972
Miscellaneous	6,874	2,884	13,100	22,858
Total Receipts	<u>251,412</u>	<u>192,449</u>	<u>90,316</u>	<u>534,177</u>
DISBURSEMENTS				
Current				
General Government	171,965			171,965
Public Safety			71,273	71,273
Public Works	16,742	89,932		106,674
Culture and Recreation	530			530
Economic Development		2,395		2,395
Capital Outlay				
General Government	652			652
Public Safety			168,902	168,902
Public Works		69,019		69,019
Culture and Recreation	30,559			30,559
Total Disbursements	<u>220,448</u>	<u>161,346</u>	<u>240,175</u>	<u>621,969</u>
Receipts Over (Under) Disbursements	30,964	31,103	(149,859)	(87,792)
OTHER FINANCING SOURCES (USES)				
Capital-Related Debt Issued			200,000	200,000
Net Change in Cash Fund Balances	<u>30,964</u>	<u>31,103</u>	<u>50,141</u>	<u>112,208</u>
CASH FUND BALANCE, BEGINNING OF YEAR	<u>262,441</u>	<u>720,668</u>	<u>57,252</u>	<u>1,040,361</u>
CASH FUND BALANCE, END OF YEAR	<u>\$ 293,405</u>	<u>\$ 751,771</u>	<u>\$ 107,393</u>	<u>\$ 1,152,569</u>

See Accompanying Notes to the Financial Statements

CITY OF FIFTY LAKES, MINNESOTA

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH FUND BALANCES
 BUDGET AND ACTUAL
 GENERAL FUND
 YEAR ENDED DECEMBER 31, 2016

	Budgeted Amounts		Actual	Over (Under) Final Budget
	Original	Final		
RECEIPTS				
Property Taxes	\$ 213,083	\$ 213,083	\$ 213,793	\$ 710
Special Assessments			13,045	13,045
Licenses and Permits				
Business	1,200	1,200	1,200	
Non-Business	12,500	12,500	9,900	(2,600)
Total Licenses and Permits	<u>13,700</u>	<u>13,700</u>	<u>11,100</u>	<u>(2,600)</u>
Intergovernmental				
Federal Grants			70	70
Market Value			1,185	1,185
PERA Aid	632	632	632	
Total Intergovernmental	<u>632</u>	<u>632</u>	<u>1,887</u>	<u>1,255</u>
Charges for Services				
General Government	3,290	3,290	3,741	451
Fines and Forfeits			972	972
Miscellaneous				
Investment Earnings	100	100	1,176	1,076
Contributions and Donations	20,000	20,000	250	(19,750)
Refunds Received			4,501	4,501
Other	595	595	947	352
Total Miscellaneous	<u>20,695</u>	<u>20,695</u>	<u>6,874</u>	<u>(13,821)</u>
Total Receipts	<u>251,400</u>	<u>251,400</u>	<u>251,412</u>	<u>12</u>
DISBURSEMENTS				
Current				
General Government				
Mayor and Council	20,635	20,635	18,243	(2,392)
Finance-Municipal Clerk/Treasurer	84,640	84,640	76,178	(8,462)
Planning and Zoning	61,200	61,200	32,200	(29,000)
Independent Accounting and Auditing	6,000	6,000	4,075	(1,925)
Legal	7,000	7,000	4,440	(2,560)
Elections	1,000	1,000	788	(212)

See Accompanying Notes to the Financial Statements

CITY OF FIFTY LAKES, MINNESOTA

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH FUND BALANCES
 BUDGET AND ACTUAL
 GENERAL FUND
 YEAR ENDED DECEMBER 31, 2016

	Budgeted Amounts		Actual	Over (Under) Final Budget
	Original	Final		
DISBURSEMENTS (Cont'd)				
Current (Cont'd)				
General Government (Cont'd)				
City Hall, General Government Buildings	\$ 42,275	\$ 42,275	\$ 36,041	\$ (6,234)
Total General Government	<u>222,750</u>	<u>222,750</u>	<u>171,965</u>	<u>(50,785)</u>
Public Works				
Streets and Highways				
Street Maintenance	26,150	26,150	16,742	(9,408)
Culture and Recreation				
Parks	2,500	2,500	530	(1,970)
Total Current	<u>251,400</u>	<u>251,400</u>	<u>189,237</u>	<u>(62,163)</u>
Capital Outlay				
General Government	3,000	3,000	652	(2,348)
Culture and Recreation			30,559	30,559
Total Capital Outlay	<u>3,000</u>	<u>3,000</u>	<u>31,211</u>	<u>28,211</u>
Total Disbursements	<u>254,400</u>	<u>254,400</u>	<u>220,448</u>	<u>(33,952)</u>
Net Change in Cash Fund Balance	<u>\$ (3,000)</u>	<u>\$ (3,000)</u>	<u>30,964</u>	<u>\$ 33,964</u>
CASH FUND BALANCE, BEGINNING OF YEAR			<u>262,441</u>	
CASH FUND BALANCE, END OF YEAR			<u>\$ 293,405</u>	

See Accompanying Notes to the Financial Statements

CITY OF FIFTY LAKES, MINNESOTA

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH FUND BALANCES
 BUDGET AND ACTUAL
 ROAD AND BRIDGE SPECIAL REVENUE FUND
 YEAR ENDED DECEMBER 31, 2016

	Budgeted Amounts		Actual	Over (Under) Final Budget
	Original	Final		
RECEIPTS				
Property Taxes	\$ 176,185	\$ 176,185	\$ 177,765	\$ 1,580
Special Assessments	3,000	3,000	500	(2,500)
Intergovernmental Local Grants			10,000	10,000
Charges for Services	1,000	1,000	1,300	300
Miscellaneous				
Investment Earnings			2,067	2,067
Refunds Received			687	687
Contributions and Donations			100	100
Other			30	30
Total Miscellaneous	<u>0</u>	<u>0</u>	<u>2,884</u>	<u>2,884</u>
Total Receipts	<u>180,185</u>	<u>180,185</u>	<u>192,449</u>	<u>12,264</u>
DISBURSEMENTS				
Current				
Public Works				
Street Maintenance	133,185	133,185	89,932	(43,253)
Ice and Snow	2,000	2,000		(2,000)
Total Public Works	<u>135,185</u>	<u>135,185</u>	<u>89,932</u>	<u>(45,253)</u>
Economic Development			2,395	2,395
Total Current	<u>135,185</u>	<u>135,185</u>	<u>92,327</u>	<u>(42,858)</u>
Capital Outlay				
Public Works	45,000	45,000	69,019	24,019
Total Disbursements	<u>180,185</u>	<u>180,185</u>	<u>161,346</u>	<u>(18,839)</u>
Net Change in Cash Fund Balance	<u>\$ 0</u>	<u>\$ 0</u>	31,103	<u>\$ 31,103</u>
CASH FUND BALANCE, BEGINNING OF YEAR			<u>720,668</u>	
CASH FUND BALANCE, END OF YEAR			<u>\$ 751,771</u>	

See Accompanying Notes to the Financial Statements

CITY OF FIFTY LAKES, MINNESOTA

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH FUND BALANCES
 BUDGET AND ACTUAL
 FIRE AND FIRST RESPONDERS SPECIAL REVENUE FUND
 YEAR ENDED DECEMBER 31, 2016

	Budgeted Amounts		Actual	Over (Under) Final Budget
	Original	Final		
RECEIPTS				
Property Taxes	\$ 59,500	\$ 59,500	\$ 59,170	\$ (330)
Intergovernmental				
State Grants			17,642	17,642
Local Grants			402	402
Total Intergovernmental	<u>0</u>	<u>0</u>	<u>18,044</u>	<u>18,044</u>
Charges for Services			2	2
Miscellaneous				
Investment Earnings			142	142
Refunds Received			608	608
Contributions and Donations	4,000	4,000	12,000	8,000
Other			350	350
Total Miscellaneous	<u>4,000</u>	<u>4,000</u>	<u>13,100</u>	<u>9,100</u>
Total Receipts	<u>63,500</u>	<u>63,500</u>	<u>90,316</u>	<u>26,816</u>
DISBURSEMENTS				
Current				
Public Safety				
Fire	43,500	43,500	71,273	27,773
Capital Outlay				
Public Safety	20,000	20,000	168,902	148,902
Total Disbursements	<u>63,500</u>	<u>63,500</u>	<u>240,175</u>	<u>176,675</u>
Receipts Over (Under) Disbursements	0	0	(149,859)	(149,859)
OTHER FINANCING SOURCES (USES)				
Capital-Related Debt Issued			200,000	200,000
Net Change in Cash Fund Balance	<u>\$ 0</u>	<u>\$ 0</u>	<u>50,141</u>	<u>50,141</u>
CASH FUND BALANCE, BEGINNING OF YEAR			<u>57,252</u>	
CASH FUND BALANCE, END OF YEAR			<u>\$ 107,393</u>	

See Accompanying Notes to the Financial Statements

CITY OF FIFTY LAKES, MINNESOTA

STATEMENT OF BALANCES ARISING FROM CASH TRANSACTIONS
PROPRIETARY FUND - LIQUOR
DECEMBER 31, 2016

	<u>Total</u>
ASSETS	
Current Assets	
Cash	<u>\$ 56,659</u>
NET CASH POSITION	
Unrestricted	<u>\$ 56,659</u>

CITY OF FIFTY LAKES, MINNESOTA

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN NET CASH POSITION
 PROPRIETARY FUND - LIQUOR
 YEAR ENDED DECEMBER 31, 2016

	<u>Total</u>
OPERATING RECEIPTS	
Sales	\$ 501,733
Rent	13,449
Vending Machines	3,283
Other Receipts	5,830
Cost of Sales	<u>(264,509)</u>
Total Operating Receipts	259,786
OPERATING DISBURSEMENTS	
Salaries and Benefits	187,586
Professional Services	6,361
Utilities	18,738
Telephone and Television	3,482
Repairs and Maintenance	5,270
Supplies	19,477
Advertising and Entertainment	8,171
Insurance	9,273
Miscellaneous	<u>1,815</u>
Total Operating Disbursements	<u>260,173</u>
Operating Income (Loss)	(387)
NONOPERATING RECEIPTS (DISBURSEMENTS)	
Interest Income	<u>2,502</u>
Change in Net Cash Position	2,115
NET CASH POSITION, BEGINNING OF YEAR	<u>54,544</u>
NET CASH POSITION, END OF YEAR	<u><u>\$ 56,659</u></u>

See Accompanying Notes to the Financial Statements

CITY OF FIFTY LAKES, MINNESOTA

STATEMENT OF CASH FLOWS - CASH BASIS
 PROPRIETARY FUND - LIQUOR
 YEAR ENDED DECEMBER 31, 2016

	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from Customers	\$ 524,295
Payments to Suppliers	(337,096)
Payments to Employees	(187,586)
Net Cash Provided (Used) by Operating Activities	<u>(387)</u>
CASH FLOW FROM INVESTING ACTIVITIES	
Interest Income	<u>2,502</u>
Net Increase (Decrease) in Cash	2,115
CASH, BEGINNING OF YEAR, AS ORIGINALLY STATED	<u>54,544</u>
CASH, END OF YEAR	<u><u>\$ 56,659</u></u>

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CITY OF FIFTY LAKES, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

The City of Fifty Lakes is a statutory city governed by an elected mayor and four council members. The accompanying financial statements present the government entities for which the government is considered to be financially accountable.

The financial statements present the City and its component units. The City includes all funds, organizations, institutions, agencies, departments and offices that are not legally separate from such. Component units are legally separate entities for which the City is financially accountable, or for which the exclusion of the component unit would render the financial statements of the City misleading.

The criteria used to determine if the City is financially accountable for a component unit includes whether or not 1) the City appoints the voting majority of the potential component unit's governing body and is able to impose its will on the potential component unit or is in a relationship of financial benefit or burden with the potential component unit, or 2) the potential component unit is fiscally dependent on and there is a potential for the potential component unit to provide specific financial benefits to, or impose specific financial burdens on, the City.

As a result of applying the criteria above, the City of Fifty Lakes does not have any component units.

B. FUND FINANCIAL STATEMENTS

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The City of Fifty Lakes follows the regulatory basis of accounting for all funds. The accompanying statements were prepared on the regulatory basis 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 and inventories and accordingly, are not presented in accordance with accounting principles generally accepted in the United States of America.

The fund financial statements provide information about the City's funds. Separate statements for each fund category-governmental and proprietary-are presented. The emphasis of governmental and proprietary fund financial statements is on major individual governmental and enterprise funds, with each displayed as a separate column in the fund financial statements.

The City reports the following major governmental funds:

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

The Road and Bridge Special Revenue Fund is used to account for the receipts and disbursements associated with Road and Bridge operations.

The Fire and First Responders Special Revenue Fund is used to account for the receipts and disbursements associated with Fire and First Responders operations.

CITY OF FIFTY LAKES, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION
(Cont'd)

The City reports the following major enterprise fund:

The Liquor Fund accounts for the operations of the City's liquor store.

Proprietary funds distinguish operating receipts and disbursements from nonoperating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating receipts of the enterprise fund are charges to customers for sales and services. Operating disbursements for the enterprise fund include the cost of sales and services. All receipts and disbursements not meeting this definition are reported as nonoperating receipts and disbursements.

It is generally the City's policy to use restricted resources first, then unrestricted resources as they are needed when an expense is incurred for purposes for which both restricted and unrestricted net cash position are available.

D. CASH

The City's cash is considered to be cash on hand, demand deposits and short-term instruments purchased with original maturities of three months or less from the date of acquisition.

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

- (1) securities which are direct obligations or are guaranteed or insured 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;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) 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;
- (4) time deposits that are fully insured by the Federal Deposit Insurance Corporation or bankers acceptances of United States bank;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by at least two nationally recognized rating agencies and matures in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

Cash was comprised of deposits and nonbrokered certificates of deposit.

CITY OF FIFTY LAKES, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

D. CASH (Cont'd)

Custodial Credit Risk - Deposits: For deposits, this is the risk that in the event of bank failure, the City's deposits may not be returned to it. Minnesota Statutes requires that all City deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110 percent.

Authorized collateral includes the obligations of the U.S. Treasury, agencies, and instrumentalities, shares of investment companies whose only investments are in the aforementioned securities, obligations of the State of Minnesota or its municipalities, bankers' acceptances, futures contracts, repurchase and reverse repurchase agreements, and commercial paper of the highest quality with a maturity of no longer than 270 days, as well as certain first mortgage notes, and certain other state or local government obligations. Minnesota Statutes require that securities pledged as collateral be held in safekeeping by the City treasurer or in a financial institution other than that furnishing the collateral.

The City does not have a policy that further limits its collateral choices.

E. PROPERTY TAXES

The City levies its property tax for the subsequent year during the month of December. December 30th is the last day the City can certify a tax levy to the County Auditor for collection the following year. Such taxes become a lien on January 1 and are recorded as receivables by the City at that date. The property tax is recorded as revenue when it becomes measurable and available. Crow Wing County is the collecting agency for the levy and remits the collections to the City. The City receives its taxes in two installments in July and December.

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

The County Auditor submits the list of taxes and special assessments to be collected on each parcel of property to the County Treasurer in January of each year.

F. CAPITAL ASSETS

Capital assets acquired and constructed for use in the governmental and proprietary fund type operations are reflected as capital outlay disbursements in the governmental and proprietary funds.

G. COMPENSATED ABSENCES

City employees earn vacation days based upon the number of completed years of service. The City compensates employees for unused vacation upon termination of employment. Employees are entitled to payment of unused sick days at the rate of 40% of the accumulated days at the current salary upon termination of employment.

CITY OF FIFTY LAKES, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

H. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

Employees of the City pay health care premiums based on single or family coverage. Additionally, Minnesota Statutes require the City to allow retired employees to stay on the health care plan with the retiree responsible to pay the entire premium for continuation of coverage (except as otherwise provided in a collective bargaining agreement or personnel policy). The City's personnel policy does not provide for any contributions upon retirement. Other postemployment benefits are recognized as disbursements as they are paid.

I. LONG-TERM OBLIGATIONS

Principal and interest payments are recorded as disbursements when paid in the governmental and proprietary fund types.

J. CASH FUND BALANCE

In the governmental fund financial statements, cash fund balance is divided into four 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. These classifications are as follows:

Restricted - consists of amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by state statutory provisions.

Committed - consists of amounts that are constrained for specific purposes that are internally imposed by formal action of the City Council. Those committed amounts cannot be used for any other purpose unless the Council removes or changes the specified use by taking the same type of action it employed to previously commit those amounts.

Assigned - consists of amounts intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or 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 or by an official to which the governing body delegates the authority.

Unassigned - is the residual classification for the General Fund and also reflects negative residual amounts in the remaining governmental funds.

As of year end, the City had not formally adopted a fund balance policy. The City uses restricted amounts to be spent first when both restricted and unrestricted fund balance is available. Additionally, the City would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

K. NET CASH POSITION

Net cash position represents the difference between assets and liabilities in the proprietary fund financial statements. Net cash position is reported as restricted in the proprietary fund financial statements when there are limitations on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Unrestricted net cash position consists of all other net cash position that does not meet the definition of restricted.

CITY OF FIFTY LAKES, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

L. USE OF ESTIMATES

The preparation of the financial statements in conformity with the Regulatory Basis of Accounting requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of receipts and disbursements during the reporting period. Actual results could differ from those estimates.

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. BUDGETARY INFORMATION

The City Council adopts an annual budget. The amounts shown in the financial statements as "budget" represent the original budgeted amounts and all revisions made during the year. The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to October 1, the City Clerk/Treasurer submits to the City Council a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed disbursements and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally enacted through Council action after obtaining taxpayer comments. The action approved by the City Council sets forth the budgets at the function level for the General Fund.
4. A budget for the General Fund is adopted on the Regulatory Basis of Accounting in accordance with the Office of the State Auditor.
5. Disbursements may not legally exceed budgeted appropriations at the department level. No fund's budget can be increased without City Council approval. The City Council may authorize transfer of budgeted amounts between departments within any fund. Management may amend budgets within a department level, so long as the total department budget is not changed.
6. An annual appropriated budget is adopted during the year for the General Fund and Special Revenue Funds. Budgetary control for Capital Projects Fund is accomplished through the use of project controls and formal appropriated budgets are not adopted. Annual appropriated budgets are not adopted for Debt Service Funds because effective budgetary control is alternatively achieved through bond indenture provisions.
7. Budgeted amounts are as originally adopted or as amended by the City Council. Individual amendments were not material in relation to the original amounts budgeted. Budgeted disbursement appropriations lapse at year-end.

Encumbrance accounting is not used.

B. DEFICIT FUND CASH BALANCES

The City does not have deficit cash fund balances.

CITY OF FIFTY LAKES, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Cont'd)

C. DISBURSEMENTS EXCEEDING APPROPRIATIONS

The following fund has disbursements that exceed appropriations:

	<u>Budget</u>	<u>Actual</u>
Fire and First Responders Special Revenue Fund	\$ 63,500	\$ 240,175

NOTE 3. DEPOSITS

In accordance with applicable Minnesota Statutes, the City maintains deposits at depository banks authorized by the City Council.

Custodial Credit Risk-Deposits: The City's bank balances were not exposed to custodial credit risk because they were fully insured through the FDIC as well as collateralized with securities held by the pledging financial institution's trust department or agent and in the City's name.

NOTE 4. RISK MANAGEMENT

The City purchases commercial insurance coverage through the League of Minnesota Cities Insurance Trust (LMCIT), which is a public entity risk pool currently operating as a common risk management and insurance program, with other cities in the state. The City pays an annual premium to the LMCIT for its insurance coverage. The LMCIT is self-sustaining through commercial companies for excess claims. The City is covered through the pool for any claims incurred but unreported, but retains risk for the deductible portion of its insurance policies. The amount of these deductibles is considered immaterial to the financial statements.

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

The City's workers' compensation insurance policy is retrospectively rated. With this type of policy, final premiums are determined after loss experience is known. The amount of premium adjustment for 2016 is estimated to be immaterial based on workers' compensation rates and salaries for the year.

There are no other claims liabilities reported in the funds based on the requirements of accounting standards, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

NOTE 5. CITY OF FIFTY LAKES FIRE RELIEF ASSOCIATION

The City contributes to the City of Fifty Lakes Fireman's Relief Association, a single employer retirement system that acts as a common investment and administrator for the City's firefighters. All active members of the fire department are members of the association.

The Association provides retirement benefits based on years of active service. The City may be required to make contributions to fund relief association pension benefits. The City may levy property taxes for the discretion of, and for the benefit of, the fire relief association. State aids allocated to the Association are passed through the City in accordance with the State statutes.

CITY OF FIFTY LAKES, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 6. DEFINED BENEFIT PENSION PLAN - STATEWIDE

A. PLAN DESCRIPTION

All full-time and certain part-time employees of the City of Fifty Lakes, Minnesota are covered by defined benefit plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund (GERF) which is a cost-sharing, multiple-employer retirement plan. This plan is established and administered in accordance with Minnesota Statutes, Chapters 353 and 356.

GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan.

PERA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by State Statute, and vest after five years of credited service. The defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first 10 years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For all GERF members hired prior to July 1, 1989 whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90.

Normal retirement age is 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

There are different types of annuities available to members upon retirement. A single-life annuity is a lifetime annuity that ceases upon the death of the retiree--no survivor annuity is payable. There are also various types of joint and survivor annuity options available which will be payable over joint lives.

Members may also leave their contributions in the fund upon termination of public service in order to qualify for a deferred annuity at retirement age. Refunds of contributions are available at any time to members who leave public service, but before retirement benefits begin.

The benefit provisions stated in the previous paragraphs of this section are current provisions and apply to active plan participants.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERF. That report may be obtained on the Internet at mnpera.org, by writing to PERA at 60 Empire Drive, Suite #200, St. Paul, Minnesota, 55103-2088 or by calling (651) 296-7460 or (800) 652-9026.

CITY OF FIFTY LAKES, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 6. DEFINED BENEFIT PENSION PLAN - STATEWIDE (Cont'd)

B. FUNDING POLICY

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. GERP Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 6.50%, respectively, of their annual covered salary in 2016. The City is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan members and 7.50% for Coordinated Plan members.

The City's contributions to the Public Employees Retirement Fund for the years ending December 31, 2016, 2015 and 2014, were \$18,281, \$16,883, and \$17,271, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute.

SUPPLEMENTARY INFORMATION

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CITY OF FIFTY LAKES, MINNESOTA

STATEMENT OF NET POSITION
 PROPRIETARY FUND - LIQUOR
 DECEMBER 31, 2016

	<u>Total</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	
Assets	
Current Assets	
Cash	\$ 56,659
Accounts Receivable	647
Inventory	36,136
Prepaid Items	<u>4,636</u>
Total Current Assets	98,078
Noncurrent Assets	
Capital Assets	
Capital Assets, Net of Depreciation	<u>225,841</u>
Total Assets	<u>323,919</u>
Deferred Outflows of Resources	
Related to Pensions	<u>70,082</u>
Total Assets and Deferred Outflows of Resources	<u><u>\$ 394,001</u></u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	
Liabilities	
Current Liabilities	
Accounts Payable	\$ 1,409
Noncurrent Liabilities	
Advances From Other Funds	190,562
Compensated Absences	13,339
Net Pension Liabilities	<u>168,206</u>
Total Noncurrent Liabilities	<u>372,107</u>
Total Liabilities	<u>373,516</u>
Deferred Inflows of Resources	
Related to Pensions	25,715
Net Position	
Unrestricted	<u>(5,230)</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u><u>\$ 394,001</u></u>

CITY OF FIFTY LAKES, MINNESOTA

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
 PROPRIETARY FUND - LIQUOR
 YEAR ENDED DECEMBER 31, 2016

	<u>Total</u>
OPERATING REVENUES	
Sales	\$ 501,733
Rent	13,449
Vending Machines	3,283
Other Revenues	5,830
Cost of Sales	<u>(266,873)</u>
Total Operating Revenues	257,422
OPERATING EXPENSES	
Salaries and Benefits	202,655
Contractual Services	6,361
Utilities	18,738
Telephone and Television	3,482
Repairs and Maintenance	5,443
Supplies	19,477
Advertising and Entertainment	8,171
Insurance	7,120
Miscellaneous	1,815
Depreciation	<u>10,246</u>
Total Operating Expenses	<u>283,508</u>
Operating Income (Loss)	(26,086)
NONOPERATING REVENUES (EXPENSES)	
Interest Income	<u>2,502</u>
Change in Net Position	(23,584)
NET POSITION, BEGINNING OF YEAR, AS ORIGINALLY STATED	(440)
PRIOR PERIOD ADJUSTMENT*	<u>18,794</u>
NET POSITION, BEGINNING OF YEAR, AS RESTATED	<u>18,354</u>
NET POSITION, END OF YEAR	<u><u>\$ (5,230)</u></u>

* Prior period adjustment is due to the proper recording of the Liquor Store's portion of the building, related improvements, and accumulated depreciation as well as the Advance from the General Fund to pay for the Liquor Store's portion of the building.

CITY OF FIFTY LAKES, MINNESOTA

STATEMENT OF CASH FLOWS
 PROPRIETARY FUND - LIQUOR
 YEAR ENDED DECEMBER 31, 2016

	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from Customers	\$ 524,295
Payments to Suppliers	(337,096)
Payments to Employees	(187,586)
Net Cash Provided (Used) by Operating Activities	<u>(387)</u>
CASH FLOW FROM INVESTING ACTIVITIES	
Interest Income	<u>2,502</u>
Net Increase (Decrease) in Cash	2,115
CASH, BEGINNING OF YEAR	<u>54,544</u>
CASH, END OF YEAR	<u><u>\$ 56,659</u></u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO CASH FLOWS FROM OPERATING ACTIVITY	
Operating Income (Loss)	\$ (26,086)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
Pension Related Adjustments	12,708
Depreciation	10,246
(Increase) Decrease in Assets	
Accounts Receivable	(647)
Inventory	3,011
Prepays	(2,153)
Increase (Decrease) in Liabilities	
Accounts Payable	173
Compensated Absences	2,361
Net Cash Provided (Used) by Operating Activities	<u><u>\$ (387)</u></u>

CITY OF FIFTY LAKES, MINNESOTA
 SCHEDULE OF CITY INDEBTEDNESS
 DECEMBER 31, 2016

<u>Indebtedness</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Final Maturity Date</u>	<u>Outstanding January 1, 2016</u>	<u>Issued in 2016</u>	<u>Paid in 2016</u>	<u>Outstanding December 31, 2016</u>
General Obligation General Obligation Equipment Certificate of 2016	2.87%	10/04/2016	07/15/2026	<u>\$</u>	<u>\$ 200,000</u>	<u>\$</u>	<u>\$ 200,000</u>

CITY OF FIFTY LAKES, MINNESOTA

SCHEDULE OF ACCOUNTS RECEIVABLE
DECEMBER 31, 2016

<u>Fund</u>	<u>Source of Revenue and Purpose</u>	<u>Amount</u>
General	Property Tax Statement	\$ 18,709
Road and Bridge	Property Tax Statement	15,922
Fire and First Responders	Property Tax Statement	5,175
Liquor	Credit from Viking Coca Cola Bottling Co.	647
		<u>\$ 40,453</u>

SCHEDULE OF ACCOUNTS PAYABLE
DECEMBER 31, 2016

<u>Fund</u>	<u>Vendor Name</u>	<u>Item and Purpose</u>	<u>Claim Number</u>	<u>Amount</u>
General	Borden, Steinbauer, Krueger, & Knudson	December Legal Services	38501	\$ 95
General	Crow Wing Power	December Electrical Services	38503	144
General	CTC IT	December IT Services	38505	250
General	Reed's Country Market	Office Supplies	38508	25
General	Vortex	Replace Cell Backup Dialer	38509	130
Road and Bridge	Crow Wing Power	December Electrical Services	38503	143
Road and Bridge	Crosslake Sheet Metal	Building Maintenance	38506	1,960
Road and Bridge	Emily Ace Hardware	Building Maintenance	38515	40
Fire and First Responders	Crow Wing Power	December Electrical Services	38503	143
Liquor	Crow Wing Power	December Electrical Services	38503	1,106
Liquor	Reed's Country Market	Bar Supplies	38508	62
Liquor	Vortex	Replace Cell Backup Dialer	38509	241
				<u>\$ 4,339</u>

CITY OF FIFTY LAKES, MINNESOTA

SCHEDULE OF CAPITAL ASSETS
DECEMBER 31, 2016

<u>Business-Type Activities</u>	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital Assets, Being Depreciated				
Building and Improvements	\$ 259,775	\$	\$	\$ 259,775
Machinery, Furniture, and Equipment	37,828			37,828
Total Capital Assets, Being Depreciated	<u>297,603</u>	<u>0</u>	<u>0</u>	<u>297,603</u>
Less Accumulated Depreciation for				
Building and Improvements	50,419	5,841		56,260
Machinery, Furniture, and Equipment	11,097	4,405		15,502
Total Accumulated Depreciation	<u>61,516</u>	<u>10,246</u>	<u>0</u>	<u>71,762</u>
Business-Type Activities Net Capital Assets	<u>\$ 236,087</u>	<u>\$ (10,246)</u>	<u>\$ 0</u>	<u>\$ 225,841</u>

Depreciation expense was charged to fuctions/programs as follows:

Business-Type Activities	
Liquor Fund	<u>\$ 10,246</u>

COMPLIANCE SECTION

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INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

Honorable Mayor and Members of the City Council
City of Fifty Lakes
Fifty Lakes, 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 Fifty Lakes, Minnesota, as of and for the year ended December 31, 2016, and the related notes to the financial statements, and have issued our report thereon dated February 21, 2017.

The *Minnesota Legal Compliance Audit Guide for Political Cities*, promulgated by the State Auditor pursuant to Minn. Stat. §6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for tax increment financing because the City does not have any tax increment financing.

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 *Minnesota Legal Compliance Audit Guide for Cities*. 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.

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.

CONWAY, DEUTH & SCHMIESING, PLLP
Certified Public Accountants & Consultants
Willmar, Minnesota

February 21, 2017

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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*

Honorable Mayor and Members of the City Council
City of Fifty Lakes
Fifty Lakes, 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 Fifty Lakes, Minnesota, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated February 21, 2017.

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) to determine 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. 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 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 Findings, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings as 2016-001 and 2016-002 to be material weaknesses.

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*.

City's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result 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.

Conway, Deuth & Schmiesing, PLLP

CONWAY, DEUTH & SCHMIESING, PLLP
Certified Public Accountants & Consultants
Willmar, Minnesota

February 21, 2017

CITY OF FIFTY LAKES, MINNESOTA

SCHEDULE OF FINDINGS
DECEMBER 31, 2016

I. FINDINGS RELATED TO FINANCIAL STATEMENTS AUDITED IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS

FINDING: 2016-001 LIMITED SEGREGATION OF DUTIES

Condition: There is an absence of appropriate segregation of duties consistent with appropriate control objectives due to a limited number of employees.

Criteria: The basic premise is that no one person should have access to both physical assets and the related accounting records or to all phases of a transaction. The lack of such controls could result in the occurrence of a material error or fraud in relation to the financial statements not being detected by management.

Cause: The City has assigned duties to staff based on a cost-benefit relationship to the City and the practicality of the level of staffing the City maintains.

Effect: The lack of adequate segregation of duties could adversely affect the City's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements.

Recommendation: The City should continue to monitor and evaluate the job responsibilities assigned to staff to determine whether there is an unacceptable risk.

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Finding:

None

Actions Planned in Response to Finding:

The City is aware of the limited segregation of duties and will continue to review internal controls and make changes when they can be made.

Official Responsible for Ensuring CAP:

Karen Stern, City Clerk-Treasurer

Planned Completion Date for CAP:

December 31, 2017

Plan to Monitor Completion of CAP:

City Council

CITY OF FIFTY LAKES, MINNESOTA

SCHEDULE OF FINDINGS

DECEMBER 31, 2016

I. FINDINGS RELATED TO FINANCIAL STATEMENTS AUDITED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS (Cont'd)

FINDING: 2016-002 AUDITOR PREPARED FINANCIAL STATEMENTS

Condition: The City does not have an internal control system designed to provide for the preparation of the financial statements and the related notes being audited. However, based on the degree of complexity and level of detail needed to prepare the financial statements in accordance with the financial reporting provisions of the Minnesota Office of the State Auditor, which is a basis of accounting other than accounting principles generally accepted in the United States of America, the City has requested the auditors to prepare them.

Criteria: The preparation of the financial statements and the related notes are the responsibility of management.

Cause: There are a limited number of employees and resources available to allow for the adequate preparation of the financial statements and the related notes by the City.

Effect: This could result in a material misstatement to the financial statements and related notes that would not be prevented, or detected and corrected as a result of the City's current internal control.

Recommendation: The City should continue to request the assistance to draft the financial statements and related notes and thoroughly review these financial statements after they have been prepared so the City can take responsibility for them.

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Finding:

None

Actions Planned in Response to Finding:

The City is aware of this; however, due to significant cost and a limited number of employees, it is in the City's best financial interest to contract for the preparation of the financial statements.

Official Responsible for Ensuring CAP:

Karen Stern, City Clerk-Treasurer

Planned Completion Date for CAP:

December 31, 2017

Plan to Monitor Completion of CAP:

Karen Stern, City Clerk-Treasurer

CITY OF FIFTY LAKES, MINNESOTA

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2016

<u>Comment Reference</u>	<u>Comment Title</u>	<u>Status</u>	<u>Year Finding Initially Occurred</u>	<u>If Not Corrected, Provide Planned Corrective Action or Other Explanation</u>
Financial Statement Findings:				
2015-001	Limited Segregation of Duties	Not Corrected	2015	See current year finding 2016-001
2015-002	Auditor Prepared Financial Statements	Not Corrected	2015	See current year finding 2016-002
Minnesota Legal Compliance Findings:				
None				