

**CITY OF FIFTY LAKES, MINNESOTA**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**YEAR ENDED DECEMBER 31, 2018**

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## **INTRODUCTORY SECTION**



**CITY OF FIFTY LAKES, MINNESOTA  
PRINCIPAL OFFICIALS  
DECEMBER 31, 2018**

**ELECTED**

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<u>Position</u>	<u>Official</u>	<u>Term Expires</u>
Mayor	Tim Anick	December 31, 2018
Council Member	Mark Bradley	December 31, 2018
Council Member	Jodie Schrupp	December 31, 2018
Council Member	Jay Weinmann	December 31, 2020
Council Member	Linda Steffens	December 31, 2020

**APPOINTED**

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Clerk-Treasurer	Karen Stern	Appointed
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## **FINANCIAL SECTION**





## INDEPENDENT AUDITORS' 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 statement of balances arising from cash transactions of each governmental fund and the proprietary fund of the City of Fifty Lakes (City), Minnesota as of December 31, 2018, and the related statements of cash receipts, disbursements, and changes in cash fund balances of each governmental fund, the budgetary comparison schedules, and the statement of cash receipts, disbursements, and changes in net cash position and the statement of cash flows – cash basis of the proprietary fund for the year ended December 31, 2018 and the related notes to the 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 accounting practices prescribed or permitted by the Minnesota Office of the State Auditor, as described in Note 1, to meet the requirements of the Minnesota Office of the State Auditor. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' 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 auditors' 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 City'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 City'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.

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

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

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

As described in Note 1 to the financial statements, to meet the financial reporting requirements of the Minnesota Office of the State Auditor, the financial statements are prepared by the City in accordance with the financial reporting provisions of the accounting practices prescribed or permitted 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.

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.

***Adverse Opinion on U.S. Generally Accepted Accounting Principles***

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the City as of December 31, 2018, or changes in financial position, or where applicable, cash flows thereof for the year then ended.

***Opinion on Regulatory Basis of Accounting***

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash balances and cash fund balances of each governmental fund and the proprietary fund of the City as of December 31, 2018, and the related receipts, disbursements, and changes in cash fund balance of each governmental fund, the budgetary comparison schedules, and the related receipts, disbursements, and changes in net cash position and the cash flow for the proprietary fund for the year then ended.

**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 elected and appointed officials section and the statement of net position, statement of revenues, expenses, and changes in net position, and the statement of cash flow for the proprietary fund, schedule of city indebtedness, schedule of accounts receivable and accounts payable, and the schedule of capital assets are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

The statement of net position, statement of revenues, expenses, and changes in net position, and the statement of cash flow for the proprietary fund, schedule of city indebtedness, schedule of accounts receivable and accounts payable, and the schedule of capital assets as listed as supplementary information in the table of contents, are the responsibility of management and were derived from and relate 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 March 25, 2019, 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 result of that testing, and not to provide an opinion on internal control over the effectiveness of the City's 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.



**CliftonLarsonAllen LLP**

Brainerd, Minnesota  
March 25, 2019

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## **BASIC FINANCIAL STATEMENTS**





**CITY OF FIFTY LAKES, MINNESOTA**  
**STATEMENT OF BALANCES ARISING FROM CASH TRANSACTIONS**  
**GOVERNMENTAL FUNDS**  
**DECEMBER 31, 2018**

	General Fund	Road and Bridge	Fire and First Responders	Debt Service	Total Governmental Funds
<b>ASSETS</b>					
Cash	\$ 456,801	\$ 519,660	\$ 99,068	\$ 21,412	\$ 1,096,941
<b>CASH FUND BALANCES</b>					
Restricted	\$ -	\$ -	\$ -	\$ 21,412	\$ 21,412
Assigned		519,660	99,068	-	618,728
Unassigned	456,801	-	-	-	456,801
Total Cash Fund Balances	\$ 456,801	\$ 519,660	\$ 99,068	\$ 21,412	\$ 1,096,941

See accompanying Notes to Financial Statements.

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**CITY OF FIFTY LAKES, MINNESOTA**  
**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH FUND**  
**BALANCES**  
**GOVERNMENTAL FUNDS**  
**YEAR ENDED DECEMBER 31, 2018**

	General	Road and Bridge	Fire and First Responders	Debt Service	Total Governmental Funds
<b>RECEIPTS</b>					
Property Taxes	\$ 206,175	\$ 179,391	\$ 67,083	\$ -	\$ 452,649
Special Assessments	-	13,367	-	-	13,367
Licenses and Permits	22,090	-	-	-	22,090
Intergovernmental	1,803	21,006	-	-	22,809
Charges for Services	5,417	3,010	-	-	8,427
Fines and Forfeits	1,068	-	-	-	1,068
Donations	1,750	35	2,000	34,000	37,785
Investment Earnings	1,460	4,511	69	-	6,040
Other	3,287	2,226	3,875	-	9,388
Total Receipts	<u>243,050</u>	<u>223,546</u>	<u>73,027</u>	<u>34,000</u>	<u>573,623</u>
<b>DISBURSEMENTS</b>					
Current					
General Government	205,964	-	-	-	205,964
Public Safety	-	-	37,101	-	37,101
Public Works	15,020	106,987	-	-	122,007
Capital Outlay					
General Government	3,033	-	-	-	3,033
Public Safety	-	-	4,971	-	4,971
Public Works	-	219,196	-	-	219,196
Debt Service					
Principal	-	-	-	17,969	17,969
Interest	-	-	-	5,075	5,075
Total Disbursements	<u>224,017</u>	<u>326,183</u>	<u>42,072</u>	<u>23,044</u>	<u>615,316</u>
<b>EXCESS (DEFICIENCY) OF RECEIPTS OVER DISBURSEMENTS</b>	19,033	(102,637)	30,955	10,956	(41,693)
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers In	10,036	-	-	-	10,036
<b>NET CHANGE IN CASH FUND BALANCES</b>	29,069	(102,637)	30,955	10,956	(31,657)
Cash Fund Balances (Deficits) - Beginning of Year	427,732	622,297	68,113	10,456	1,128,598
<b>CASH FUND BALANCES - END OF YEAR</b>	<u>\$ 456,801</u>	<u>\$ 519,660</u>	<u>\$ 99,068</u>	<u>\$ 21,412</u>	<u>\$ 1,096,941</u>

See accompanying Notes to Financial Statements.

**CITY OF FIFTY LAKES, MINNESOTA**  
**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH FUND**  
**BALANCES**  
**BUDGET TO ACTUAL**  
**GENERAL FUND**  
**YEAR ENDED DECEMBER 31, 2018**

	Budgeted Amounts		Actual	Over (Under) Final Budget
	Original	Final		
<b>CASH RECEIPTS</b>				
<b>TAXES</b>				
General Property Taxes	\$ 199,010	\$ 199,010	\$ 206,175	\$ 7,165
<b>LICENSES AND PERMITS</b>				
Business	1,200	1,200	1,200	-
Non-Business	10,000	10,000	20,890	10,890
Total Licenses and Permits	<u>11,200</u>	<u>11,200</u>	<u>22,090</u>	<u>10,890</u>
<b>INTERGOVERNMENTAL RECEIPTS</b>				
State Grants and Aid				
Market Value Credits	-	-	1,171	1,171
PERA Aid	632	632	632	-
Total Intergovernmental Receipts	<u>632</u>	<u>632</u>	<u>1,803</u>	<u>1,171</u>
<b>CHARGES FOR SERVICES</b>	3,330	3,330	5,417	2,087
<b>FINES AND FORFEITS</b>	-	-	1,068	1,068
<b>OTHER RECEIPTS</b>				
Donations	-	-	1,750	1,750
Interest and Dividends	100	100	1,460	1,360
Refunds and Reimbursements	150	150	1,487	1,337
Miscellaneous	5,110	5,110	1,800	(3,310)
Total Other Receipts	<u>5,360</u>	<u>5,360</u>	<u>6,497</u>	<u>1,137</u>
 Total Cash Receipts	 219,532	 219,532	 243,050	 23,518

See accompanying Notes to Financial Statements.

**CITY OF FIFTY LAKES, MINNESOTA**  
**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH FUND**  
**BALANCES**  
**BUDGET TO ACTUAL**  
**GENERAL FUND (CONTINUED)**  
**YEAR ENDED DECEMBER 31, 2018**

	Budgeted Amounts		Actual	Over (Under) Final Budget
	Original	Final		
<b>CASH DISBURSEMENTS</b>				
<b>GENERAL GOVERNMENT</b>				
Mayor and Council	\$ 20,215	\$ 20,215	\$ 19,216	\$ (999)
Municipal Clerk - Treasurer	81,672	81,672	92,956	11,284
Planning and Zoning	28,500	28,500	26,780	(1,720)
Independent Accounting and Auditing	6,000	6,000	5,075	(925)
Legal	5,000	5,000	4,691	(309)
City Hall, General Government Buildings	46,825	46,825	56,385	9,560
Elections	-	-	861	861
Total General Government	<u>188,212</u>	<u>188,212</u>	<u>205,964</u>	<u>17,752</u>
<b>PUBLIC WORKS</b>				
Street Maintenance	<u>12,320</u>	<u>12,320</u>	<u>15,020</u>	<u>2,700</u>
<b>GENERAL GOVERNMENT</b>				
Capital Outlay	<u>19,000</u>	<u>19,000</u>	<u>3,033</u>	<u>(15,967)</u>
Total Cash Disbursements	<u>200,532</u>	<u>200,532</u>	<u>224,017</u>	<u>20,452</u>
<b>EXCESS (DEFICIENCY) OF RECEIPTS OVER DISBURSEMENTS</b>	19,000	19,000	19,033	3,066
<b>OTHER FINANCING SOURCES AND (USES)</b>				
Transfers In	<u>-</u>	<u>-</u>	<u>10,036</u>	<u>20,452</u>
<b>NET CHANGE IN CASH FUND BALANCES</b>	19,000	19,000	29,069	10,069
Cash Fund Balances (Deficit) - Beginning of Year	<u>427,732</u>	<u>427,732</u>	<u>427,732</u>	<u>-</u>
<b>CASH FUND BALANCES - END OF YEAR</b>	<u><u>\$ 446,732</u></u>	<u><u>\$ 446,732</u></u>	<u><u>\$ 456,801</u></u>	<u><u>\$ 10,069</u></u>

See accompanying Notes to Financial Statements.

**CITY OF FIFTY LAKES, MINNESOTA**  
**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH FUND**  
**BALANCES**  
**BUDGET TO ACTUAL**  
**ROAD AND BRIDGE FUND**  
**YEAR ENDED DECEMBER 31, 2018**

	Budgeted Amounts		Actual	Over (Under) Final Budget
	Original	Final		
<b>CASH RECEIPTS</b>				
<b>TAXES</b>				
General Property Taxes	\$ 173,870	\$ 173,870	\$ 179,391	\$ 5,521
Special Assessments	-	-	13,367	13,367
Total Taxes	<u>173,870</u>	<u>173,870</u>	<u>192,758</u>	<u>18,888</u>
<b>INTERGOVERNMENTAL RECEIPTS</b>				
State Grants and Aid				
Local Government Aid	1,500	1,500	21,006	19,506
<b>CHARGES FOR SERVICES</b>	2,000	2,000	3,010	1,010
<b>OTHER RECEIPTS</b>				
Donations	-	-	35	35
Interest and Dividends	-	-	4,511	4,511
Total Other Receipts	<u>-</u>	<u>-</u>	<u>6,772</u>	<u>6,772</u>
Total Cash Receipts	177,370	177,370	223,546	46,176
<b>CASH DISBURSEMENTS</b>				
<b>PUBLIC WORKS</b>				
Street Maintenance	157,370	157,370	104,204	(53,166)
Snow & Ice Removal	-	-	2,783	2,783
Total Public Works	<u>157,370</u>	<u>157,370</u>	<u>106,987</u>	<u>(50,383)</u>
<b>PUBLIC WORKS</b>				
Capital Outlay	<u>20,000</u>	<u>20,000</u>	<u>219,196</u>	<u>199,196</u>
Total Cash Disbursements	<u>177,370</u>	<u>177,370</u>	<u>326,183</u>	<u>148,813</u>
<b>NET CHANGE IN CASH FUND BALANCES</b>	-	-	(102,637)	(102,637)
Cash Fund Balances (Deficit) - Beginning of Year	<u>622,297</u>	<u>622,297</u>	<u>622,297</u>	<u>-</u>
<b>CASH FUND BALANCES - END OF YEAR</b>	<u>\$ 622,297</u>	<u>\$ 622,297</u>	<u>\$ 519,660</u>	<u>\$ (102,637)</u>

See accompanying Notes to Financial Statements.

**CITY OF FIFTY LAKES, MINNESOTA**  
**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH FUND**  
**BALANCES**  
**BUDGET TO ACTUAL**  
**FIRE AND FIRST RESPONDERS FUND**  
**YEAR ENDED DECEMBER 31, 2018**

	Budgeted Amounts		Actual	Over (Under) Final Budget
	Original	Final		
<b>CASH RECEIPTS</b>				
<b>TAXES</b>				
General Property Taxes	\$ 65,450	\$ 65,450	\$ 67,083	\$ 1,633
<b>OTHER RECEIPTS</b>				
Donations	15,000	15,000	2,000	(13,000)
Interest and Dividends	-	-	69	69
Miscellaneous	3,000	3,000	3,875	875
Total Other Receipts	<u>18,000</u>	<u>18,000</u>	<u>5,944</u>	<u>(12,056)</u>
Total Cash Receipts	83,450	83,450	73,027	(10,423)
<b>CASH DISBURSEMENTS</b>				
<b>PUBLIC SAFETY</b>				
Fire Department				
Current	41,590	41,590	37,101	(4,489)
<b>PUBLIC SAFETY</b>				
Capital Outlay	<u>19,860</u>	<u>19,860</u>	<u>4,971</u>	<u>(14,889)</u>
Total Cash Disbursements	<u>61,450</u>	<u>61,450</u>	<u>42,072</u>	<u>(19,378)</u>
<b>EXCESS (DEFICIENCY) OF RECEIPTS OVER DISBURSEMENTS</b>	<u>22,000</u>	<u>22,000</u>	<u>30,955</u>	<u>8,955</u>
<b>OTHER FINANCING SOURCES AND (USES)</b>				
Interfund Loan Payment	<u>(22,000)</u>	<u>(22,000)</u>	<u>-</u>	<u>22,000</u>
<b>NET CHANGE IN CASH FUND BALANCES</b>	-	-	30,955	30,955
Cash Fund Balances (Deficit) - Beginning of Year	<u>68,113</u>	<u>68,113</u>	<u>68,113</u>	<u>-</u>
<b>CASH FUND BALANCES - END OF YEAR</b>	<u>\$ 68,113</u>	<u>\$ 68,113</u>	<u>\$ 99,068</u>	<u>\$ 30,955</u>

See accompanying Notes to Financial Statements.

**CITY OF FIFTY LAKES, MINNESOTA  
STATEMENT OF BALANCES ARISING FROM CASH TRANSACTIONS  
PROPRIETARY FUND – LIQUOR FUND  
DECEMBER 31, 2018**

	<u>Total</u>
<b>ASSETS</b>	
Cash	<u>\$      75,344</u>
 <b>NET CASH POSITION</b>	
Unrestricted	<u>\$      75,344</u>

*See accompanying Notes to Financial Statements.*



**CITY OF FIFTY LAKES, MINNESOTA**  
**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN NET CASH POSITION**  
**PROPRIETARY FUND – LIQUOR FUND**  
**YEAR ENDED DECEMBER 31, 2018**

	Total
<b>OPERATING RECEIPTS</b>	
Sales	\$ 558,041
Rent	11,939
Vending Machines	7,543
Other Receipts	6,287
Cost of Sales	(284,808)
Total Operating Receipts	299,002
<b>OPERATING DISBURSEMENTS</b>	
Salaries and Benefits	182,890
Professional Services	4,233
Utilities	23,379
Telephone and Television	4,285
Credit Card Service Fees	6,336
Repairs and Maintenance	7,902
Supplies	8,363
Advertising and Entertainment	5,699
Insurance	10,236
Dues and Subscriptions	2,169
Miscellaneous	1,833
Total Operating Disbursements	257,325
<b>NET INCOME (LOSS) BEFORE TRANSFERS CONTRIBUTIONS AND TRANSFERS</b>	41,677
Transfers Out	(10,036)
<b>CHANGE IN NET CASH POSITON</b>	31,641
Net Cash Position - Beginning of Year	43,703
<b>NET CASH POSITION - END OF YEAR</b>	\$ 75,344

See accompanying Notes to Financial Statements.

**CITY OF FIFTY LAKES, MINNESOTA  
STATEMENT OF CASH FLOWS – CASH BASIS  
PROPRIETARY FUND – LIQUOR FUND  
YEAR ENDED DECEMBER 31, 2018**

	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash Received from Customers	\$ 583,810
Cash Payments to Suppliers	(345,129)
Cash Payments to Employees	(193,126)
Net Cash Provided by Operating Activities	45,555
 <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Transfer to Other Funds	(10,036)
 <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Purchases of Capital Assets	(3,878)
 <b>NET INCREASE IN CASH</b>	 31,641
Cash - Beginning of The Year	43,703
 <b>CASH - END OF YEAR</b>	 \$ 75,344

See accompanying Notes to Financial Statements.

**CITY OF FIFTY LAKES, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

A. Reporting Entity

The City of Fifty Lakes, Minnesota (City) 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 fiscally 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 benefits to, or impose specific financial burden on the City.

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

B. Description of Funds

The accounts of the City are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its receipts and disbursements and cash balances.

The City reports the following major governmental funds:

**General Fund**

The General Fund accounts for all financial resources and transactions except those required to be accounted for in other funds.

**Road and Bridge Special Revenue Fund**

The Road and Bridge Fund accounts for the receipts and disbursements associated with road and bridge operations.

**Fire and First Responders Special Revenue Fund**

The Fire and First Responders Fund accounts for the receipts and disbursements associated with fire and first responders operations.

**Debt Service Fund**

The Debt Service Fund accounts for the receipts and disbursement associated with the long-term debt of the City.

**CITY OF FIFTY LAKES, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018**

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

B. Description of Funds (Continued)

The City reports the following major enterprise fund:

**Liquor Fund**

The Liquor Fund accounts for the activities 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 delivering good 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.

C. Significant Accounting Policies

The City of Fifty Lakes, Minnesota follows the *Regulatory Basis of Accounting* as prescribed by the State of Minnesota's Office of the State Auditor for all funds. For all government funds and the proprietary fund, the statements were prepared on the cash 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 generally accepted accounting principles.

D. Cash

Cash consists of cash on hand, deposits, and short-term investments purchased with a maturity of three months or less.

E. 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.

F. 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.

G. 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.

**CITY OF FIFTY LAKES, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018**

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

H. Long-Term Obligations

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

I. Property Taxes

The City levies its property taxes for the subsequent year during the month of December. In Minnesota, the lien date and assessment date is January 2. The property tax is recorded as revenue when it is received. Crow Wing County is the collecting agency for the levy and then remits the collections to the City.

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

The County Auditor provides a list of taxes and special assessments to be collected on each parcel of property to the County Treasurer in January of each year. Property owners are required to pay one-half of their real estate taxes by May 15 and the balances by October 15.

J. Equity

**Governmental Fund Financial Statements** – In the fund financial statements, governmental funds report components of cash fund balance to provide information about cash fund balance availability for appropriation. Restricted cash fund balance represents amounts available for appropriation but intended for a specific use and is legally restricted by outside parties. Committed cash fund balance represents constraints on spending that the government imposes upon itself by high-level formal action prior to the close of the fiscal period. Assigned cash fund balance represents resources intended for spending for a purpose set by the government body itself or by some person or body delegated to exercise such authority in accordance with policy established by the board. Unassigned cash fund balance is the residual classification for the City's general fund and includes all spendable amounts not contained in the other classifications.

**Proprietary Fund Statements** – Net cash position is reported as restricted in the statements when there are limitation imposed on its use through external restrictions imposed by creditors, grantor, laws, or regulations of other governments. The remaining balance is considered to be unrestricted.

K. 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.

**CITY OF FIFTY LAKES, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018**

**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 budget are not adopted. Annual appropriated budgets are not adopted for Debt Service Fund because effecting budgetary controls 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.

B. Excess of Disbursements Over Budgeted Appropriations

The following fund has disbursements that exceed appropriations:

	Budget	Actual	Over
General Fund	\$ 200,532	\$ 224,017	\$ 23,485
Road and Bridge Special Revenue Fund	177,370	326,183	148,813

**CITY OF FIFTY LAKES, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018**

**NOTE 3 DEPOSITS**

The City maintains a cash pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the statement of balances arising from cash transactions as "Cash." In accordance with Minnesota Statutes, the City maintains deposits at financial institutions which are authorized by the City Council.

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. The City does not have a deposit policy for custodial credit risk and follows Minnesota Statutes for deposits.

Minnesota Statutes require that all deposits be protected by insurance, surety bond or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance on bonds.

Authorized collateral includes: (a) United States government treasury bills, treasury notes, treasury bonds; (b) issues of United States government agencies and instrumentalities as quoted by a recognized industry quotation service available to the government entity; (c) general obligation securities of any state or local government with taxing powers which is rated "A" or better by a national bond rating service, or revenue obligation securities of any state or local government with taxing powers with is rated "AA" or better by a national bond rating service; (d) unrated general obligation securities of a local government with taxing power pledged as collateral against funds deposited by that same local government entity's; (e) irrevocable standby letters of credit issued by Federal Home Loan Banks to a municipality accompanied by written evidence that the bank's public debt is rated "AA" or better by Moody's Investors Service, Inc. or Standard & Poor's Corporation; and (f) time deposits that are fully insured by the Federal Deposit Insurance Corporation.

Minnesota Statutes require that collateral be placed in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the depository.

As of December 31, 2018, all City deposits were covered by insurance or collateral.

A reconciliation of cash and certificates of deposit as shown on the statement of cash receipts, disbursements, and balances for the City follows:

Pooled Cash in Checking Accounts	\$	619,060
Certificate of Deposits		551,025
Petty Cash		2,200
Total		\$ 1,172,285
Governmental Funds	\$	1,096,941
Proprietary Fund		75,344
Total		\$ 1,172,285

**CITY OF FIFTY LAKES, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018**

**NOTE 4 CAPITAL ASSETS**

Capital asset activity for the Liquor Fund for the year ended December 31, 2018, is as follows:

<u>Business-Type Activities</u>	Balance December 31, 2017	Increase	Decrease	Balance December 31, 2018
Capital Assets Being Depreciated				
Buildings and Improvements	\$ 259,775	\$ -	\$ -	\$ 259,775
Machinery, Furniture, and Equipment	39,890	3,878	-	43,768
Total Capital Assets Being Depreciated	299,665	3,878	-	303,543
Less: Accumulated Depreciation				
Buildings and Improvements	62,101	5,841	-	67,942
Machinery, Furniture, and Equipment	18,352	5,611	-	23,963
Total Accumulated Depreciation	80,453	11,452	-	91,905
Total Capital Assets, Net	<u>\$ 219,212</u>	<u>\$ (7,574)</u>	<u>\$ -</u>	<u>\$ 211,638</u>

Depreciation expense was charged to functions/programs as follows:

Business-Type Activities	
Liquor Fund	<u>\$ 11,452</u>

**NOTE 5 LONG-TERM DEBT**

The City issues general obligation equipment certificates to provide funds for the acquisition of major capital equipment. General obligation bonds are direct obligations and pledge the full-faith and credit of the City.

Long-term obligations currently outstanding for the City are as follows:

	Issue Date	Maturity Date	Balance December 31, 2017	Additions	Retirements	Balance December 31, 2018	Due Within One Year
<b>GOVERNMENTAL FUNDS</b>							
General Obligation Equipment Certificate of 2016 Interest Rate 2.87%	10/04/16	07/15/26	\$ 181,294	\$ -	\$ 17,969	\$ 163,325	\$ 18,488



**CITY OF FIFTY LAKES, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018**

**NOTE 5 LONG-TERM DEBT (CONTINUED)**

Annual debt service requirements to maturity are as follows:

<u>For the Year Ended December 31,</u>	Governmental Funds		
	Principal	Interest	Total
2019	\$ 18,488	\$ 4,556	\$ 23,044
2020	19,023	4,021	23,044
2021	19,572	3,471	23,043
2022	20,138	2,906	23,044
2023	20,720	2,324	23,044
2024-2026	65,384	3,307	68,691
Total	\$ 163,325	\$ 20,585	\$ 183,910

**NOTE 6 PENSION PLAN**

A. Public Employees Retirement Association

Plan Description

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

General Employees Fund 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 three years of credited service. The defined retirement benefits are based on member's highest average salary for any successive months of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for General Employee Fund'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 Basic Plan members is 2.2% of average salary for each of the first ten years of service and 2.7% for each additional year of service. The annuity accrual rate for Coordinated Plan members is 1.2% of average salary for each of the first ten years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service.

**CITY OF FIFTY LAKES, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018**

**NOTE 6 PENSION PLAN (CONTINUED)**

A. Public Employees Retirement Association (Continued)

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 and 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 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 General Employees Retirement Plan. That report may be obtained via internet at [www.mnpera.org](http://www.mnpera.org).

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 plan equal to the amount required by state statutes. General Employees Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 6.5%, respectively, of their annual covered salary in 2018. The City is required to contribute the following percentages of annual covered payroll: 11.78% for the Basic Plan members and 7.50% for the Coordinated Plan members. The City's contributions to the General Employees Retirement Fund for the years ended December 31, 2018, 2017, and 2016 were \$19,613, \$19,019, and \$18,282, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute.

Pension Allocation

The City presents its governmental funds on a cash basis. The proprietary funds are reported using the accrual basis. Therefore, deferred outflows of resources, the net pension liability, and the deferred inflows of resources are not applicable for the governmental funds of the City and only recorded in the financial statements for the proprietary funds. Below is the allocation of the related deferred inflows and outflows of resources and the net pension liability.

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Pension Liability
Governmental Funds (Cash Basis)	\$ 24,828	\$ 41,502	\$ 111,839
Liquor Fund (Full Accrual)	19,507	32,609	87,874
Total	<u>\$ 44,335</u>	<u>\$ 74,111</u>	<u>\$ 199,713</u>

**CITY OF FIFTY LAKES, MINNESOTA  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 2018**

**NOTE 7 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 State Statutes.

**NOTE 8 RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts, theft or destruction of assets, errors and omissions, injuries to employees, employees’ health and life, and natural disasters. The City has entered into a joint powers agreement with the League of Minnesota Cities Insurance Trust (LMCIT). The LMCIT is a public entity risk pool currently operating as common risk management and insurance program for Minnesota cities. The City also carries commercial insurance for certain other risks of loss.

The agreement for formation of the LMCIT provides that the pool will be self-sustaining through member assessments and will reinsure through commercial companies for claims in excess of reserved amounts for each insured event. The pool can make additional assessments to make the pool self-sustaining. The City has determined that it is not possible to estimate the amount of such additional assessments; however, they are not expected to be material to the financial statements.

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

**NOTE 9 INTERFUND TRANSFERS**

The composition of interfund transfers is as follows:

<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>
Liquor	General	\$ 10,036
Total		<u>\$ 10,036</u>

The purpose of the above transfers was to provide funding for operating purposes and pay down interfund payable.

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## **SUPPLEMENTARY INFORMATION**



**CITY OF FIFTY LAKES, MINNESOTA  
STATEMENT OF NET POSITION  
PROPRIETARY FUND – LIQUOR FUND  
DECEMBER 31, 2018**

	Total
<b>ASSETS</b>	
<b>CURRENT ASSETS</b>	
Cash	\$ 75,344
Inventory	28,991
Prepaid Items	5,118
Total Current Assets	109,453
<b>NONCURRENT ASSETS</b>	
Capital Assets	
Building and Improvements	259,775
Equipment and Fixtures	43,768
Less: Accumulated Depreciation	(91,905)
Capital Assets, Net	211,638
Total Assets	321,091
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Related to Pensions	19,507
<b>LIABILITIES</b>	
<b>CURRENT LIABILITIES</b>	
Accounts Payable	3,184
Total Current Liabilities	3,184
<b>NONCURRENT LIABILITIES</b>	
Compensated Absences	5,468
Net Pension Liabilities	87,874
Advances from Other Funds	172,350
Total Noncurrent Liabilities	265,692
Total Liabilities	268,876
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Related to Pensions	32,609
<b>NET POSITION</b>	
Net Investment in Capital Assets	211,638
Unrestricted	(172,525)
Net Position	\$ 39,113

**CITY OF FIFTY LAKES, MINNESOTA**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**PROPRIETARY FUND – LIQUOR FUND**  
**YEAR ENDED DECEMBER 31, 2018**

	Total
<b>OPERATING REVENUES</b>	
Sales	\$ 558,041
Rent	11,939
Vending Machines	7,543
Other Receipts	6,287
Cost of Sales	(293,549)
Total Operating Revenues	290,261
 <b>OPERATING EXPENSES</b>	
Salaries and Benefits	155,968
Professional Services	4,233
Utilities	23,136
Telephone and Television	4,070
Credit Card Service Fees	6,336
Repairs and Maintenance	7,902
Supplies	4,485
Advertising and Entertainment	5,699
Insurance	10,474
Dues and Subscriptions	2,169
Miscellaneous	1,833
Depreciation	11,452
Total Operating Expenses	237,757
 <b>NET INCOME BEFORE CONTRIBUTIONS AND TRANSFERS</b>	 52,504
Transfers Out	(907)
 <b>CHANGE IN NET POSITION</b>	 51,597
Net Position - Beginning of Year	(12,484)
 <b>NET POSITION - END OF YEAR</b>	\$ 39,113



**CITY OF FIFTY LAKES, MINNESOTA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND – LIQUOR FUND  
YEAR ENDED DECEMBER 31, 2018**

	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash Received from Customers	\$ 583,810
Cash Payments to Suppliers	(343,058)
Cash Payments to Employees	(195,197)
Net Cash Provided by Operating Activities	45,555
 <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Transfers to Other Funds	(10,036)
 <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Purchases of Capital Assets	(3,878)
 <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	31,641
Cash and Cash Equivalents - Beginning of The Year	43,703
 <b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 75,344
 <b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	
Operating Income	\$ 52,504
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Depreciation	11,452
Pension Related Adjustments	(30,891)
(Increase) Decrease in Assets:	
Inventory	8,741
Prepays	238
Increase (Decrease) in Liabilities:	
Accounts Payable	1,375
Compensated Absences	2,136
Net Cash Provided by Operating Activities	\$ 45,555

**CITY OF FIFTY LAKES, MINNESOTA  
SCHEDULE OF CITY INDEBTEDNESS  
DECEMBER 31, 2018**

Indebtedness	Interest Rate	Issue Date	Maturity Date	Outstanding January 1, 2018	Issued in 2018	Paid in 2018	Outstanding December 31, 2018
General Obligation							
General Obligation Equipment							
Certificate of 2016	2.87%	10/4/2016	7/15/2026	\$ 181,294	-	\$ 17,969	\$ 163,325

**CITY OF FIFTY LAKES, MINNESOTA  
SCHEDULE OF ACCOUNTS RECEIVABLE  
DECEMBER 31, 2018**

Fund	Source of Revenue and Purpose	Amount
General	January 2019 Taxes	\$ 3,129
Road and Bridge	January 2019 Taxes	2,856
Fire and First Responders	January 2019 Taxes	1,075
Park	January 2019 Taxes	123
	Total	<u>\$ 7,183</u>

**SCHEDULE OF ACCOUNTS PAYABLE  
DECEMBER 31, 2018**

Fund	Vendor	Purpose	Amount
General	Borden Steinbauer Krueger & Knudson	Attorney Fees	\$ 903
General	Crow Wing Power	Electricity	157
General	CTCIT	IT Services	250
General	Sourcewell	Planning & Zoning Services	# 1,406
Road and Bridge	Crow Wing Power	Electricity	105
Fire and First Responders	Crow Wing Power	Electricity	105
Liquor	Crow Wing Power	Electricity	1,351
Liquor	PERA- Employee Retirement Assoc	Payroll	1,833
	Total		<u>\$ 6,110</u>

**CITY OF FIFTY LAKES, MINNESOTA  
SCHEDULE OF CAPITAL ASSETS  
DECEMBER 31, 2018**

<u>Business-Type Activities</u>	Balance December 31, 2017	Increase	Decrease	Balance December 31, 2018
Capital Assets Being Depreciated				
Buildings and Improvements	\$ 259,775	\$ -	\$ -	\$ 259,775
Machinery, Furniture, and Equipment	39,890	3,878	-	43,768
Total Capital Assets Being Depreciated	299,665	3,878	-	303,543
Less: Accumulated Depreciation				
Buildings and Improvements	62,101	5,841	-	67,942
Machinery, Furniture, and Equipment	18,352	5,611	-	23,963
Total Accumulated Depreciation	80,453	11,452	-	91,905
Total Capital Assets, Net	<u>\$ 219,212</u>	<u>\$ (7,574)</u>	<u>\$ -</u>	<u>\$ 211,638</u>

Depreciation expense was charged to functions/programs as follows:

Business-Type Activities	
Liquor Fund	<u>\$ 11,452</u>

**REPORTS RELATED TO *GOVERNMENT AUDITING STANDARDS***



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying statements of balances arising from cash transactions of the governmental funds and the proprietary funds of the City of Fifty Lakes, Minnesota, as of December 31, 2018, and the related statements of cash receipts, disbursements, and changes in cash fund balances of the governmental funds and the statement of receipts, disbursements, and changes in net cash position and the statement of cash flows of the proprietary funds for the year ended and the related notes to the financial statements, and have issued our report thereon dated March 25, 2019.

**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.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and recommendations as 2018-001 and 2018-002, to be material weaknesses. We consider the deficiency described in the accompanying schedule of findings and recommendations as 2018-003 to be a significant deficiency.

### **Compliance and Other Matters**

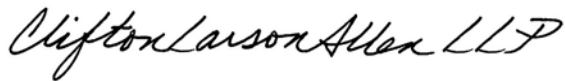
As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect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

### **The City's Responses to Findings**

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and recommendations. 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 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.



**CliftonLarsonAllen LLP**

Brainerd, Minnesota  
March 25, 2019

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## INDEPENDENT AUDITORS' 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 *Governmental Auditing Standards*, issued by the Comptroller General of the United States the accompanying statements of balances arising from cash transactions of the governmental funds and the proprietary funds of the City of Fifty Lakes, Minnesota, as of December 31, 2018 and the related statements of cash receipts, disbursements, and changes in cash fund balances of the governmental funds and the statement of receipts, disbursements, and changes in net cash position and the statement of cash flows of the proprietary funds for the year ended and the related notes to the financial statements and have issued our report thereon dated March 25, 2019.

The *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minnesota Statutes §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 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*, except as described in the Schedule of Findings and Recommendations as items 2018-004 and 2018-005. 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 City's written responses to the legal compliance findings identified in our audit are described in the schedule of findings and recommendations. 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 the responses.

The purpose of this report is solely to describe the scope of our testing of compliance relating to the provisions of the *Minnesota Legal Compliance Audit Guide for Cities* and the results of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.

*CliftonLarsonAllen LLP*

**CliftonLarsonAllen LLP**

Brainerd, Minnesota  
March 25, 2019

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**CITY OF FIFTY LAKES, MINNESOTA  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
YEAR ENDED DECEMBER 31, 2018**

**MATERIAL WEAKNESSES**

**2018-001 Lack of Segregation of Duties**

**Condition:** The City has a limited number of office personnel and, accordingly, does not have adequate internal controls in certain areas because of lack of segregation of duties.

**Criteria:** Effective internal control provides an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion.

**Cause/Context:** The City does not have proper segregation of duties.

**Effect:** Because of the lack of segregation of duties, an individual regularly handles transactions from inception to completion.

**Repeat Finding:** Prior year finding identified as 2017-001.

**Recommendation:** While we recognize the City's office staff may not be large enough to permit an adequate segregation of duties in all respects for an effective internal control structure, it is important that the City be aware of this condition.

**VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS:**

**Contact Person:** Karen Stern, City Clerk-Treasurer

**Corrective Action Planned:** 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.

**Anticipated Completion Date:** December 31, 2019

**CITY OF FIFTY LAKES, MINNESOTA  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)  
YEAR ENDED DECEMBER 31, 2018**

**MATERIAL WEAKNESSES (CONTINUED)**

**2018-002 Financial Reporting**

**Condition:** The City does not have an internal control policy in place over annual financial reporting that would enable management to prepare its annual financial statements and related footnote disclosures are complete and presented in accordance with the regulatory basis. 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 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:** Management is responsible for establishing and maintaining internal controls and for the fair presentation of the financial statements including the related disclosures, in conformity with the regulatory basis.

**Cause/Context:** There are limited number of employees and resources available to allow for the adequate preparation of the financial statements and the related noted by the City.

**Effect:** The potential exists that a material misstatement of the annual financial statements could occur and not be prevented or detected by the City's internal controls.

**Repeat Finding:** Prior year finding identified as 2017-002.

**Recommendation:** Management should continue to evaluate their internal staff capacity to determine if an internal control policy over the annual financial reporting is beneficial.

**VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS:**

**Contact Person:** Karen Stern, City Clerk-Treasurer

**Corrective Action Planned:** The City is aware of this; however, due to the significant cost and limited number of employees employed by the City, it is in the City's best financial interest to contract for the preparation of the financial statements.

**Anticipated Completion Date:** December 31, 2019

**CITY OF FIFTY LAKES, MINNESOTA  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)  
YEAR ENDED DECEMBER 31, 2018**

**SIGNIFICANT DEFICIENCY**

**2018-003 Budget Reconciliation**

**Condition:** The City council does not have an internal control policy to approve the budget or review the general ledger system to the council approved budget each year.

**Criteria:** Standard internal controls suggest the City council approve the budget and review the budget in the general ledger system to the council approved budget each year.

**Cause/Context:** The City council does not approve the budget each year or review the general ledger system to the council approved budget.

**Effect:** The design of the internal controls over the budget process limits the ability of the City to provide accurate information for the financial reporting purposes.

**Recommendation:** We recommend the City implement procedures to ensure the council approves the budget and the council approved budget amounts are recorded in the general ledger system.

**VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS:**

**Contact Person:** Karen Stern, City Clerk-Treasurer

**Corrective Action Planned:** The City will implement procedures to ensure the budget is being approved and entered into the general ledger system.

**Anticipated Completion Date:** December 31, 2019

**CITY OF FIFTY LAKES, MINNESOTA  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)  
YEAR ENDED DECEMBER 31, 2018**

**MINNESOTA LEGAL COMPLIANCE**

**2018-004 Electronic Funds Transfer Annual Delegation**

**Condition:** The City does not make annual delegation of authority to make electronic funds transfers.

**Criteria:** Minnesota Statute §471.38 requires cities to enact an annual delegation of authority to make electronic funds transfers.

**Cause/Context:** The City has an electronic funds transfer policy but does not make an annual delegation of authority.

**Effect:** The City is not in compliance with the Minnesota State Statute.

**Recommendation:** We recommend the City makes an annual delegation of authority to make electronic funds transfers.

**VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS:**

**Contact Person:** Karen Stern, City Clerk-Treasurer

**Corrective Action Planned:** The City will bring their electronic funds transfer policy to the council to make a delegation of authority to make electronic funds transfer each year.

**Anticipated Completion Date:** December 31, 2019

**CITY OF FIFTY LAKES, MINNESOTA  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)  
YEAR ENDED DECEMBER 31, 2018**

**MINNESOTA LEGAL COMPLIANCE (CONTINUED)**

**2018-005 Donations of Funds**

**Condition:** The City donated money to the Fire Relief Association for their pension.

**Criteria:** Minnesota Statute §375.17 prohibits the City to donate money to people or organizations unless allowed by specific authority.

**Cause/Context:** The City has donated \$2,500 to the Fire Relief Association to fund the pensions.

**Effect:** The City is not in compliance with the Minnesota State Statute.

**Recommendation:** We recommend the City implement procedures to ensure it does not donate city funds to people or organizations unless allowed by specific authority.

**VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS:**

**Contact Person:** Karen Stern, City Clerk-Treasurer

**Corrective Action Planned:** The City will discontinue to donate money.

**Anticipated Completion Date:** December 31, 2019