

CITY OF FIFTY LAKES, MINNESOTA

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED DECEMBER 31, 2019

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INTRODUCTORY SECTION

**CITY OF FIFTY LAKES, MINNESOTA
PRINCIPAL OFFICIALS
DECEMBER 31, 2019**

ELECTED

<u>Position</u>	<u>Official</u>	<u>Term Expires</u>
Mayor	Linda Steffens	December 31, 2020
Council Member	Mark Bradley	December 31, 2022
Council Member	Jodie Schrupp	December 31, 2022
Council Member	Toni Buchite	December 31, 2020
Council Member	Julie Engle	December 31, 2020

APPOINTED

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, 2019, 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, 2019 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, 2019, 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, 2019, 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 liquor store 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, schedules 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, 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 4, 2020, 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 the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

Brainerd, Minnesota
March 4, 2020

BASIC FINANCIAL STATEMENTS

CITY OF FIFTY LAKES, MINNESOTA
STATEMENT OF BALANCES ARISING FROM CASH TRANSACTIONS
GOVERNMENTAL FUNDS
DECEMBER 31, 2019

	General Fund	Road and Bridge	Fire and First Responders	Debt Service	Total Governmental Funds
ASSETS					
Cash	\$ 471,036	\$ 541,685	\$ 100,155	\$ 13,696	\$ 1,126,572
CASH FUND BALANCES					
Restricted	\$ -	\$ -	\$ -	\$ 13,696	\$ 13,696
Committed	30,000	11,235	15,000	-	56,235
Assigned	-	530,450	85,155	-	615,605
Unassigned	441,036	-	-	-	441,036
Total Cash Fund Balances	\$ 471,036	\$ 541,685	\$ 100,155	\$ 13,696	\$ 1,126,572

See accompanying Notes to Financial Statements.

CITY OF FIFTY LAKES, MINNESOTA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH FUND
BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2019

	General	Road and Bridge	Fire and First Responders	Debt Service	Total Governmental Funds
RECEIPTS					
Property Taxes	\$ 195,958	\$ 174,844	\$ 62,060	\$ -	\$ 432,862
Licenses and Permits	17,825	-	-	-	17,825
Intergovernmental	1,901	-	8,575	-	10,476
Charges for Services	4,761	3,074	-	-	7,835
Fines and Forfeits	626	-	-	-	626
Donations	5,300	-	2,000	15,000	22,300
Investment Earnings	2,792	8,297	-	-	11,089
Other	4,402	11,800	4,643	328	21,173
Total Receipts	<u>233,565</u>	<u>198,015</u>	<u>77,278</u>	<u>15,328</u>	<u>524,186</u>
DISBURSEMENTS					
Current:					
General Government	208,440	-	-	-	208,440
Public Safety	-	-	48,174	-	48,174
Public Works	15,505	160,225	-	-	175,730
Capital Outlay:					
General Government	5,421	-	-	-	5,421
Public Safety	-	-	28,017	-	28,017
Public Works	-	27,000	-	-	27,000
Debt Service:					
Principal	-	-	-	18,488	18,488
Interest	-	-	-	4,556	4,556
Total Disbursements	<u>229,366</u>	<u>187,225</u>	<u>76,191</u>	<u>23,044</u>	<u>515,826</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER DISBURSEMENTS	4,199	10,790	1,087	(7,716)	8,360
OTHER FINANCING SOURCES (USES)					
Proceeds from Sale of Capital Assets	-	11,235	-	-	11,235
Transfers In	10,036	-	-	-	10,036
Total Other Financing Sources (Uses)	<u>10,036</u>	<u>11,235</u>	<u>-</u>	<u>-</u>	<u>21,271</u>
NET CHANGE IN CASH FUND BALANCES	14,235	22,025	1,087	(7,716)	29,631
Cash Fund Balances (Deficits) - Beginning of Year	456,801	519,660	99,068	21,412	1,096,941
CASH FUND BALANCES - END OF YEAR	<u>\$ 471,036</u>	<u>\$ 541,685</u>	<u>\$ 100,155</u>	<u>\$ 13,696</u>	<u>\$ 1,126,572</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, 2019

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
CASH RECEIPTS				
TAXES				
General Property Taxes	\$ 201,680	\$ 201,680	\$ 195,958	\$ (5,722)
LICENSES AND PERMITS				
Business	1,200	1,200	1,200	-
Nonbusiness	20,000	20,000	16,625	(3,375)
Total Licenses and Permits	<u>21,200</u>	<u>21,200</u>	<u>17,825</u>	<u>(3,375)</u>
INTERGOVERNMENTAL RECEIPTS				
Federal Grants:				
Other Grants and Aid	-	-	147	147
State Grants and Aid:				
Market Value Credits	-	-	1,122	1,122
PERA Aid	632	632	632	-
Total Intergovernmental Receipts	<u>632</u>	<u>632</u>	<u>1,901</u>	<u>1,269</u>
CHARGES FOR SERVICES	2,825	2,825	4,761	1,936
FINES AND FORFEITS	-	-	626	626
OTHER RECEIPTS				
Donations	-	-	5,300	5,300
Interest and Dividends	100	100	2,792	2,692
Refunds and Reimbursements	1,000	1,000	1,076	76
Miscellaneous	1,500	1,500	3,326	1,826
Total Other Receipts	<u>2,600</u>	<u>2,600</u>	<u>12,494</u>	<u>9,894</u>
 Total Cash Receipts	 228,937	 228,937	 233,565	 4,628

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, 2019

	Budgeted Amounts		Actual	Over (Under) Final Budget
	Original	Final		
CASH DISBURSEMENTS				
GENERAL GOVERNMENT				
Mayor and Council	\$ 20,760	\$ 20,760	\$ 20,102	\$ (658)
Municipal Clerk - Treasurer	85,220	85,220	99,512	14,292
Planning and Zoning	27,405	27,405	27,989	584
Independent Accounting and Auditing	6,500	6,500	5,822	(678)
Legal	7,000	7,000	6,587	(413)
City Hall, General Government Buildings	52,165	52,165	48,428	(3,737)
Total General Government	<u>199,050</u>	<u>199,050</u>	<u>208,440</u>	<u>9,390</u>
PUBLIC WORKS				
Street Maintenance	15,430	15,430	15,505	75
GENERAL GOVERNMENT				
Capital Outlay	<u>24,495</u>	<u>24,495</u>	<u>5,421</u>	<u>(19,074)</u>
Total Cash Disbursements	<u>238,975</u>	<u>238,975</u>	<u>229,366</u>	<u>(9,609)</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER DISBURSEMENTS				
	(10,038)	(10,038)	4,199	14,237
OTHER FINANCING SOURCES AND (USES)				
Transfers In	<u>10,038</u>	<u>10,038</u>	<u>10,036</u>	<u>(2)</u>
NET CHANGE IN CASH FUND BALANCES				
	-	-	14,235	14,235
Cash Fund Balances (Deficit) - Beginning of Year	<u>456,801</u>	<u>456,801</u>	<u>456,801</u>	<u>-</u>
CASH FUND BALANCES - END OF YEAR				
	<u>\$ 456,801</u>	<u>\$ 456,801</u>	<u>\$ 471,036</u>	<u>\$ 14,235</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, 2019

	Budgeted Amounts		Actual	Over (Under) Final Budget
	Original	Final		
CASH RECEIPTS				
TAXES				
General Property Taxes	\$ 173,870	\$ 173,870	\$ 174,844	\$ 974
INTERGOVERNMENTAL RECEIPTS				
State Grants and Aid:				
Local Government Aid	1,500	1,500	-	(1,500)
CHARGES FOR SERVICES	2,000	2,000	3,074	1,074
OTHER RECEIPTS				
Interest and Dividends	-	-	8,297	8,297
Miscellaneous	-	-	11,800	11,800
Total Other Receipts	-	-	20,097	20,097
Total Cash Receipts	177,370	177,370	198,015	20,645
CASH DISBURSEMENTS				
PUBLIC WORKS				
Street Maintenance	157,370	157,370	160,225	2,855
Total Public Works	157,370	157,370	160,225	2,855
PUBLIC WORKS				
Capital Outlay	20,000	20,000	27,000	7,000
Total Cash Disbursements	177,370	177,370	187,225	9,855
EXCESS (DEFICIENCY) OF RECEIPTS OVER DISBURSEMENTS	-	-	10,790	10,790
OTHER FINANCING SOURCES AND (USES)				
Proceeds from Sale of Capital Assets	-	-	11,235	11,235
NET CHANGE IN CASH FUND BALANCES	-	-	22,025	22,025
Cash Fund Balances (Deficit) - Beginning of Year	508,425	508,425	519,660	11,235
CASH FUND BALANCES - END OF YEAR	<u>\$ 508,425</u>	<u>\$ 508,425</u>	<u>\$ 541,685</u>	<u>\$ 33,260</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, 2019

	Budgeted Amounts		Actual	Over (Under) Final Budget
	Original	Final		
CASH RECEIPTS				
TAXES				
General Property Taxes	\$ 65,450	\$ 65,450	\$ 62,060	\$ (3,390)
INTERGOVERNMENTAL RECEIPTS				
State Grants and Aid				
Fire Aid	-	-	8,575	8,575
OTHER RECEIPTS				
Donations	15,000	15,000	2,000	(13,000)
Miscellaneous	-	-	4,643	4,643
Total Other Receipts	<u>15,000</u>	<u>15,000</u>	<u>6,643</u>	<u>(8,357)</u>
Total Cash Receipts	80,450	80,450	77,278	(3,172)
CASH DISBURSEMENTS				
PUBLIC SAFETY				
Fire Department:				
Current	41,590	41,590	48,174	6,584
PUBLIC SAFETY				
Capital Outlay	<u>19,860</u>	<u>19,860</u>	<u>28,017</u>	<u>8,157</u>
Total Cash Disbursements	<u>61,450</u>	<u>61,450</u>	<u>76,191</u>	<u>14,741</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER DISBURSEMENTS	<u>19,000</u>	<u>19,000</u>	<u>1,087</u>	<u>(17,913)</u>
OTHER FINANCING SOURCES AND (USES)				
Interfund Loan Payment	<u>(22,000)</u>	<u>(22,000)</u>	<u>-</u>	<u>22,000</u>
NET CHANGE IN CASH FUND BALANCES	(3,000)	(3,000)	1,087	4,087
Cash Fund Balances (Deficit) - Beginning of Year	<u>99,068</u>	<u>99,068</u>	<u>99,068</u>	<u>-</u>
CASH FUND BALANCES - END OF YEAR	<u><u>\$ 96,068</u></u>	<u><u>\$ 96,068</u></u>	<u><u>\$ 100,155</u></u>	<u><u>\$ 4,087</u></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, 2019**

	<u>Total</u>
ASSETS	
Cash	<u>\$ 96,931</u>
 NET CASH POSITION	
Unrestricted	<u>\$ 96,931</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, 2019

	Total
OPERATING RECEIPTS	
Sales	\$ 599,270
Rent	11,980
Vending Machines	7,362
Other Receipts	2,090
Cost of Sales	(320,014)
Total Operating Receipts	300,688
OPERATING DISBURSEMENTS	
Salaries and Benefits	179,324
Professional Services	3,321
Utilities	20,301
Telephone and Television	3,209
Credit Card Service Fees	8,696
Repairs and Maintenance	4,490
Supplies	21,889
Advertising and Entertainment	9,623
Insurance	8,492
Dues and Subscriptions	2,864
Miscellaneous	3,056
Total Operating Disbursements	265,265
OPERATING INCOME (LOSS)	35,423
NONOPERATING REVENUES (EXPENSES)	
Capital Outlay	(3,800)
NET INCOME (LOSS) BEFORE TRANSFERS CONTRIBUTIONS AND TRANSFERS	31,623
Transfers Out	(10,036)
CHANGE IN NET CASH POSITON	21,587
Net Cash Position - Beginning of Year	75,344
NET CASH POSITION - END OF YEAR	\$ 96,931

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, 2019**

	Total
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Customers	\$ 620,702
Cash Payments to Suppliers	(397,463)
Cash Payments to Employees	(187,816)
Net Cash Provided by Operating Activities	35,423
 CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfer to Other Funds	(10,036)
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchases of Capital Assets	(3,800)
 NET INCREASE IN CASH	 21,587
Cash - Beginning of The Year	75,344
 CASH - END OF YEAR	 \$ 96,931

See accompanying Notes to Financial Statements.

**CITY OF FIFTY LAKES, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Fifty Lakes (the City), Minnesota 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 fund.

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, 2019**

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 and Cash Equivalents

Cash and cash equivalents consist 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. Capital assets are defined by the City, as assets with an initial, individual cost of more than \$500. Property, plant, and equipment of the city are depreciated using the straight-line method to allocate the cost on an annual basis over the estimated useful lives. Buildings and Improvements have an estimated useful life between 25 and 50 years. Machinery, Furniture, and Equipment have an estimated useful life between 5 and 7 years.

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.

**CITY OF FIFTY LAKES, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 City 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.

**CITY OF FIFTY LAKES, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

**CITY OF FIFTY LAKES, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONTINUED)

B. Excess of Disbursements Over Budgeted Appropriations

The following fund has disbursements that exceed appropriations:

	Budget	Actual	Over
Road and Bridge Special Revenue Fund	\$ 177,370	\$ 187,225	\$ 9,855
Fire and First Responders Special Revenue Fund	61,450	76,191	14,741

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 which 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, 2019, all City deposits were covered by insurance or collateral.

**CITY OF FIFTY LAKES, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 3 DEPOSITS (CONTINUED)

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	\$	763,611
Certificate of Deposits		457,672
Petty Cash		2,220
Total		\$ 1,223,503
Governmental Funds	\$	1,126,572
Proprietary Fund		96,931
Total		\$ 1,223,503

NOTE 4 CAPITAL ASSETS

Capital asset activity for the Liquor Fund for the year ended December 31, 2019 is as follows:

Business-Type Activities	Balance December 31, 2018	Increase	Decrease	Balance December 31, 2019
Capital Assets Being Depreciated:				
Buildings and Improvements	\$ 259,775	\$ 3,800	\$ -	\$ 263,575
Machinery, Furniture, and Equipment	43,768	19,753	13,325	50,196
Total Capital Assets Being Depreciated	303,543	23,553	13,325	313,771
Less: Accumulated Depreciation:				
Buildings and Improvements	67,942	6,203	-	74,145
Machinery, Furniture, and Equipment	23,963	6,740	7,234	23,469
Total Accumulated Depreciation	91,905	12,943	7,234	97,614
Total Capital Assets, Net	\$ 211,638	\$ 10,610	\$ 6,091	\$ 216,157

Depreciation expense was charged to functions/programs as follows:

Business-Type Activities:	
Liquor Fund	\$ 12,943

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, 2018	Additions	Retirements	Balance December 31, 2019	Due Within One Year
GOVERNMENTAL FUNDS							
General Obligation Equipment Certificate of 2016							
Interest Rate 2.87%	10/04/16	07/15/26	\$ 163,325	\$ -	\$ 18,488	\$ 144,837	\$ 19,023

**CITY OF FIFTY LAKES, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 5 LONG-TERM DEBT (CONTINUED)

Annual debt service requirements to maturity are as follows:

<u>Year Ending December 31 .</u>	Governmental Funds		
	Principal	Interest	Total
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	21,319	1,725	23,044
2025-2026	44,065	1,583	45,648
Total	\$ 144,837	\$ 16,030	\$ 160,867

NOTE 6 PENSION PLAN

A. Public Employees Retirement Association

Plan Description

The City participates in the following cost-sharing multiple-employer defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA's defined benefit pension plans are established and administered in accordance with *Minnesota Statutes*, Chapters 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

All full-time and certain part-time employees of the City of Fifty Lakes are covered by the General Employees Plan. General Employees Plan members belong to the Coordinated Plan. Coordinated Plan members are covered by Social Security.

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state Legislature. Vested, terminated employees who are entitled to benefits, but are not receiving them yet, are bound by the provisions in effect at the time they last terminated their public service.

General Employees Plan 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 Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated members is 1.2% of average salary for each of the first 10 years of service and 1.7% of average salary for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7% of average salary for all years of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

**CITY OF FIFTY LAKES, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 6 PENSION PLAN (CONTINUED)

A. Public Employees Retirement Association (Continued)

Plan Description (Continued)

Annuities, disability benefits, and survivor benefits are increased effective every January 1. Beginning January 1, 2019, the postretirement increase will be equal to 50% of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1% and a maximum of 1.5%. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. For recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase. For members retiring on January 1, 2024, or later, the increase will be delayed until normal retirement age (age 65 if hired prior to July 1, 1989, or age 66 for individuals hired on or after July 1, 1989). Members retiring under Rule of 90 are exempt from the delay to normal retirement.

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.

Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state Legislature. The City makes annual contributions to the pension plan equal to the amount required by state statutes. Coordinated Plan members were required to contribute 6.50% of their annual covered salary in fiscal year 2019 and the City was required to contribute 7.50% for Coordinated Plan members. The City's contributions to the General Employees Fund for the years ended December 31, 2019, 2018, 2017, and 2016 were \$19,167, \$19,613, \$19,019, and \$18,282, respectively. The City's contributions were equal to the required contributions as set by state statute.

**CITY OF FIFTY LAKES, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

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.

SUPPLEMENTARY INFORMATION

**CITY OF FIFTY LAKES, MINNESOTA
STATEMENT OF NET POSITION
PROPRIETARY FUND – LIQUOR FUND
DECEMBER 31, 2019**

	Total
ASSETS	
CURRENT ASSETS	
Cash	\$ 96,931
Inventory	39,805
Prepaid Items	4,665
Total Current Assets	141,401
NONCURRENT ASSETS	
Capital Assets	
Building and Improvements	263,575
Equipment and Fixtures	50,196
Less: Accumulated Depreciation	(97,614)
Capital Assets, Net	216,157
Total Assets	357,558
DEFERRED OUTFLOWS OF RESOURCES	
Related to Pensions	10,427
LIABILITIES	
CURRENT LIABILITIES	
Accounts Payable	6,930
Total Current Liabilities	6,930
NONCURRENT LIABILITIES	
Compensated Absences	4,159
Net Pension Liability	99,518
Advances from Other Funds	163,175
Total Noncurrent Liabilities	266,852
Total Liabilities	273,782
DEFERRED INFLOWS OF RESOURCES	
Related to Pensions	25,563
NET POSITION	
Net Investment in Capital Assets	216,157
Unrestricted	(147,517)
Net Position	\$ 68,640

CITY OF FIFTY LAKES, MINNESOTA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUND – LIQUOR FUND
YEAR ENDED DECEMBER 31, 2019

	Total
OPERATING REVENUES	
Sales	\$ 599,270
Rent	11,980
Vending Machines	7,362
Other Receipts	3,990
Cost of Sales	(309,200)
Total Operating Revenues	313,402
OPERATING EXPENSES	
Salaries and Benefits	189,860
Professional Services	3,321
Utilities	20,023
Telephone and Television	3,209
Credit Card Service Fees	8,696
Repairs and Maintenance	4,490
Supplies	9,466
Advertising and Entertainment	9,800
Insurance	9,195
Dues and Subscriptions	2,864
Miscellaneous	3,056
Depreciation	12,943
Total Operating Expenses	276,923
OPERATING INCOME (LOSS)	36,479
NONOPERATING REVENUES (EXPENSES)	
Loss on Disposal of Capital Asset	(6,091)
NET INCOME BEFORE CONTRIBUTIONS AND TRANSFERS	30,388
Transfers Out	(861)
CHANGE IN NET POSITION	29,527
Net Position - Beginning of Year	39,113
NET POSITION - END OF YEAR	\$ 68,640

**CITY OF FIFTY LAKES, MINNESOTA
STATEMENT OF CASH FLOWS
PROPRIETARY FUND – LIQUOR FUND
YEAR ENDED DECEMBER 31, 2019**

	Total
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Customers	\$ 622,602
Cash Payments to Suppliers	(380,740)
Cash Payments to Employees	(186,686)
Net Cash Provided by Operating Activities	55,176
 CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers to Other Funds	(861)
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchases of Capital Assets	(23,553)
Payment on Advance	(9,175)
Net Cash Used by Capital and Related Financing Activities	(32,728)
 NET INCREASE IN CASH AND CASH EQUIVALENTS	21,587
Cash and Cash Equivalents - Beginning of the Year	75,344
 CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 96,931
 RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating Income	\$ 36,479
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	12,943
Increase (Decrease) in pension liability	11,644
Increase (Decrease) in deferred outflow for pensions	9,080
Increase (Decrease) in deferred inflow for pensions	(7,046)
(Increase) Decrease in Assets:	
Inventory	(10,814)
Prepays	453
Increase (Decrease) in Liabilities:	
Accounts Payable	3,746
Compensated Absences	(1,309)
Net Cash Provided by Operating Activities	\$ 55,176

**CITY OF FIFTY LAKES, MINNESOTA
SCHEDULE OF CITY INDEBTEDNESS
DECEMBER 31, 2019**

Indebtedness	Interest Rate	Issue Date	Maturity Date	Outstanding January 1, 2019	Issued in 2019	Paid in 2019	Outstanding December 31, 2019
General Obligation:							
General Obligation Equipment Certificate of 2016	2.87%	10/4/2016	7/15/2026	\$ 163,325	-	\$ 18,488	\$ 144,837

**CITY OF FIFTY LAKES, MINNESOTA
SCHEDULE OF ACCOUNTS RECEIVABLE
DECEMBER 31, 2019**

Fund	Source of Revenue and Purpose	Amount
General	Tax Settlement	\$ 2,339
Road and Bridge	Tax Settlement	1,997
Fire and First Responders	Tax Settlement	751
	Total	<u>\$ 5,087</u>

**SCHEDULE OF ACCOUNTS PAYABLE
DECEMBER 31, 2019**

Fund	Vendor	Purpose	Amount
General	Sourcewell	Planning and Zoning Services	\$ 1,080
General	Ratwik, Roszak & Maloney, P.A.	December Attorney Fee	15
General	Bolton & Menk	Wright Property	912
General	Crow Wing Power	Electricity	163
Road and Bridge	Crow Wing Power	Electricity	109
Road and Bridge	Crow Wing County Highway Dept.	Construction & Engineering	15,888
Fire and First Responders	Crow Wing Power	Electricity	109
Liquor	Crow Wing Power	Electricity	1,073
Liquor	LMCIT	Worker's Comp Ins Deductible	250
Liquor	Crosby-Ironton Courier	Holiday Craft Fair	58
Liquor	Northland Press	Holiday Craft Fair	119
Liquor	Transform	POS System	5,430
	Total		<u>\$ 25,206</u>

**CITY OF FIFTY LAKES, MINNESOTA
SCHEDULE OF CAPITAL ASSETS
DECEMBER 31, 2019**

<u>Business-Type Activities</u>	Balance December 31, 2018	Increase	Decrease	Balance December 31, 2019
Capital Assets Being Depreciated:				
Buildings and Improvements	\$ 259,775	\$ 3,800	\$ -	\$ 263,575
Machinery, Furniture, and Equipment	43,768	19,753	13,325	50,196
Total Capital Assets Being Depreciated	303,543	23,553	13,325	313,771
Less: Accumulated Depreciation:				
Buildings and Improvements	67,942	6,203	-	74,145
Machinery, Furniture, and Equipment	23,963	6,740	7,234	23,469
Total Accumulated Depreciation	91,905	12,943	7,234	97,614
 Total Capital Assets, Net	 <u>\$ 211,638</u>	 <u>\$ 10,610</u>	 <u>\$ 6,091</u>	 <u>\$ 216,157</u>

Depreciation expense was charged to functions/programs as follows:

Business-Type Activities:	
Liquor Fund	<u>\$ 12,943</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, 2019, 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 4, 2020.

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 have not been identified. However, as described in the accompanying schedule of findings and recommendations, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider deficiencies described in the accompanying schedule of findings and recommendations as items 2019-001 and 2019-002 to be material weaknesses.

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

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. We consider the deficiency described in the accompanying schedule of findings and recommendations as item 2019-003 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 4, 2020



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 statements of balances arising from cash transactions of the governmental funds and the proprietary funds of the City of Fifty Lakes (the City), Minnesota, as of and for the year then ended December 31, 2019 and the related statements of cash receipts, disbursements, and changes in cash fund balances of the governmental funds and the statement of revenues, expenses, and changes in net cash position and the statement of cash flows of the proprietary funds for the year then ended and the related notes to the financial statements and have issued our report thereon dated March 4, 2020. We expressed an adverse opinion on U.S. generally accepted accounting principles because the financial statements are prepared on a cash basis of accounting that demonstrates compliance with the regulatory basis of accounting prescribed or permitted by the Minnesota Office of the State Auditor, which practices differ from accounting principles generally accepted in the United States of America. However, our opinion was unmodified on the financial statements presented under this regulatory basis.

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 contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing sections of the *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City's noncompliance with the above-referenced provisions, insofar as they relate to accounting matters.

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 report is not suitable for any other purpose.

CliftonLarsonAllen LLP

Brainerd, Minnesota
March 4, 2020

**CITY OF FIFTY LAKES, MINNESOTA
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
YEAR ENDED DECEMBER 31, 2019**

MATERIAL WEAKNESSES

2019-001 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 2018-001.

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, 2020

**CITY OF FIFTY LAKES, MINNESOTA
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)
YEAR ENDED DECEMBER 31, 2019**

MATERIAL WEAKNESSES (CONTINUED)

2019-002 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 2018-002.

Recommendation: Management should continue to evaluate its 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, 2020

**CITY OF FIFTY LAKES, MINNESOTA
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)
YEAR ENDED DECEMBER 31, 2019**

SIGNIFICANT DEFICIENCY

2019-003 Budget Reconciliation

Condition: The City council does not have a formal internal control policy to approve the budget in detail and have that detailed approval identified in the resolution or minutes. In addition, the city does not have a process in place to verify that the budgets entered into the general ledger system match the detailed budget approved by the council.

Criteria: Standard internal controls suggest the City council approve the detailed budgets, have that approval documented in the minutes or resolution and review the budget in the general ledger system to the council approved detailed budget each year.

Cause/Context: The City council's approval of the budget does have the details identified in the minutes or within the resolution.

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.

Repeat Finding: Prior year finding identified as 2018-003.

Recommendation: We recommend the City implement procedures to ensure the council approves the detailed budget and the council approved detailed 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.

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