

**CITY OF FIFTY LAKES, MINNESOTA**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**YEAR ENDED DECEMBER 31, 2021**



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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 Audit of the Financial Statements

#### **Opinions**

We have audited the financial statements of the City of Fifty Lakes, Minnesota (the City), which comprise the statement of balances arising from cash transactions of each major governmental fund and the proprietary fund as of December 31, 2021, and the related statements of cash receipts, disbursements, and changes in cash fund balances of each major governmental fund, the budgetary comparison schedules, and the statements 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, 2021 and the related notes to the financial statements.

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

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the balances arising from cash transactions of each major governmental fund and the proprietary fund of the City as of December 31, 2021 and the respective cash receipts, disbursements, and changes in cash fund balances of each major governmental fund, the budgetary comparison schedules, and the respective cash receipts, disbursements, and changes in net cash position and the cash flows for the proprietary fund for the year then ended in accordance with the financial reporting provisions of the Minnesota Office of the State Auditor described in Note 1.

#### **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* section of our report, 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, 2021, or changes in financial position, or where applicable, cash flows thereof for the year then ended.

#### **Basis for Opinions**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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

As described in Note 1 of the financial statements, the financial statements are prepared by the City on the basis of the financial reporting provisions of the Minnesota Office of the State Auditor, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements of the Minnesota Office of the State Auditor. The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material and pervasive.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the financial reporting 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' Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, no such opinion is expressed.

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

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

### ***Supplementary Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's regulatory basis financial statements. The liquor store statement of net position, statement of revenues, expenses, and changes in net position, statement of cash flows for the proprietary fund, schedule of city indebtedness, schedule of accounts receivable, schedule of accounts payable, and schedule of capital assets are presented for purposes of additional analysis and are not a required part of the regulatory basis financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the regulatory basis financial statements. The information has been subjected to the auditing procedures applied in the audit of the regulatory basis financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the regulatory basis financial statements or to the regulatory basis financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the regulatory basis 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 8, 2022, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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 8, 2022

## **BASIC FINANCIAL STATEMENTS**



**CITY OF FIFTY LAKES, MINNESOTA**  
**STATEMENT OF BALANCES ARISING FROM CASH TRANSACTIONS**  
**GOVERNMENTAL FUNDS**  
**DECEMBER 31, 2021**

	General Fund	Road and Bridge	Fire and First Responders	Debt Service	Total Governmental Funds
<b>ASSETS</b>					
Cash	\$ 468,851	\$ 541,920	\$ 48,234	\$ 11,609	\$ 1,070,614
<b>CASH FUND BALANCES</b>					
Restricted	\$ 22,075	\$ -	\$ -	\$ 11,609	\$ 33,684
Committed	80,000	66,235	15,000	-	161,235
Assigned	-	475,685	33,234	-	508,919
Unassigned	366,776	-	-	-	366,776
Total Cash Fund Balances	\$ 468,851	\$ 541,920	\$ 48,234	\$ 11,609	\$ 1,070,614

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, 2021**

	General	Road and Bridge	Fire and First Responders	Debt Service	Total Governmental Funds
<b>RECEIPTS</b>					
Property Taxes	\$ 225,308	\$ 200,053	\$ 66,383	\$ -	\$ 491,744
Licenses and Permits	18,225	-	-	-	18,225
Intergovernmental	23,282	41,480	20,645	-	85,407
Charges for Services	3,555	1,000	-	-	4,555
Fines and Forfeits	2,654	-	-	-	2,654
Donations	6,210	35	32,000	12,000	50,245
Investment Earnings	1,595	2,918	-	-	4,513
Other	5,512	8,391	402	-	14,305
Total Receipts	<u>286,341</u>	<u>253,877</u>	<u>119,430</u>	<u>12,000</u>	<u>671,648</u>
<b>DISBURSEMENTS</b>					
Current:					
General Government	266,325	-	-	-	266,325
Public Safety	-	-	48,383	-	48,383
Public Works	13,778	286,214	-	-	299,992
Capital Outlay:					
General Government	68,309	-	-	-	68,309
Public Safety	-	-	111,750	-	111,750
Debt Service:					
Principal	-	-	-	19,572	19,572
Interest	-	-	-	3,471	3,471
Total Disbursements	<u>348,412</u>	<u>286,214</u>	<u>160,133</u>	<u>23,043</u>	<u>817,802</u>
<b>DEFICIENCY OF RECEIPTS OVER DISBURSEMENTS</b>	(62,071)	(32,337)	(40,703)	(11,043)	(146,154)
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers In	30,064	-	-	12,000	42,064
Transfers Out	-	-	(12,000)	-	(12,000)
Total Other Financing Sources (Uses)	<u>30,064</u>	<u>-</u>	<u>(12,000)</u>	<u>12,000</u>	<u>30,064</u>
<b>NET CHANGE IN CASH FUND BALANCES</b>	(32,007)	(32,337)	(52,703)	957	(116,090)
Cash Fund Balances - Beginning of Year	<u>500,858</u>	<u>574,257</u>	<u>100,937</u>	<u>10,652</u>	<u>1,186,704</u>
<b>CASH FUND BALANCES - END OF YEAR</b>	<u>\$ 468,851</u>	<u>\$ 541,920</u>	<u>\$ 48,234</u>	<u>\$ 11,609</u>	<u>\$ 1,070,614</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, 2021**

	Budgeted Amounts		Actual	Over (Under) Final Budget
	Original	Final		
<b>CASH RECEIPTS</b>				
<b>TAXES</b>				
General Property Taxes	\$ 225,900	\$ 225,900	\$ 225,308	\$ (592)
<b>LICENSES AND PERMITS</b>				
Business	1,200	1,200	1,200	-
Nonbusiness	20,000	20,000	17,025	(2,975)
Total Licenses and Permits	<u>21,200</u>	<u>21,200</u>	<u>18,225</u>	<u>(2,975)</u>
<b>INTERGOVERNMENTAL RECEIPTS</b>				
Federal Grants:				
Other Grants and Aid	-	-	22,136	22,136
State Grants and Aid:				
Market Value Credits	-	-	1,146	1,146
Total Intergovernmental Receipts	<u>-</u>	<u>-</u>	<u>23,282</u>	<u>23,282</u>
<b>CHARGES FOR SERVICES</b>	2,420	2,420	3,555	1,135
<b>FINES AND FORFEITS</b>	-	-	2,654	2,654
<b>OTHER RECEIPTS</b>				
Donations	-	-	6,210	6,210
Interest and Dividends	100	100	1,595	1,495
Refunds and Reimbursements	1,000	1,000	4,671	3,671
Miscellaneous	1,500	1,500	841	(659)
Total Other Receipts	<u>2,600</u>	<u>2,600</u>	<u>13,317</u>	<u>10,717</u>
 Total Cash Receipts	 252,120	 252,120	 286,341	 34,221

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, 2021**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>CASH DISBURSEMENTS</b>				
<b>GENERAL GOVERNMENT</b>				
Mayor and Council	\$ 20,750	\$ 20,750	\$ 18,562	\$ (2,188)
Municipal Clerk - Treasurer	136,290	136,290	137,062	772
Planning and Zoning	30,981	30,981	31,669	688
Independent Accounting and Auditing	6,000	6,000	5,259	(741)
Legal	5,000	5,000	1,659	(3,341)
City Hall, General Government Buildings	39,700	39,700	61,392	21,692
Parks	3,700	3,700	10,722	7,022
Total General Government	<u>242,421</u>	<u>242,421</u>	<u>266,325</u>	<u>23,904</u>
<b>PUBLIC WORKS</b>				
Street Maintenance	13,935	13,935	13,778	(157)
<b>GENERAL GOVERNMENT</b>				
Capital Outlay	<u>5,800</u>	<u>5,800</u>	<u>68,309</u>	<u>62,509</u>
Total Cash Disbursements	<u>262,156</u>	<u>262,156</u>	<u>348,412</u>	<u>86,256</u>
<b>DEFICIENCY OF RECEIPTS OVER</b>				
<b>CASH DISBURSEMENTS</b>				
	(10,036)	(10,036)	(62,071)	(52,035)
<b>OTHER FINANCING SOURCES AND (USES)</b>				
Transfers In	<u>10,036</u>	<u>10,036</u>	<u>30,064</u>	<u>20,028</u>
Total Other Financing Sources and Uses	<u>10,036</u>	<u>10,036</u>	<u>30,064</u>	<u>20,028</u>
<b>NET CHANGE IN CASH FUND BALANCES</b>				
	-	-	(32,007)	(32,007)
Cash Fund Balances - Beginning of Year	<u>500,858</u>	<u>500,858</u>	<u>500,858</u>	<u>-</u>
<b>CASH FUND BALANCES - END OF YEAR</b>	<u><u>\$ 500,858</u></u>	<u><u>\$ 500,858</u></u>	<u><u>\$ 468,851</u></u>	<u><u>\$ (32,007)</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, 2021**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>CASH RECEIPTS</b>				
<b>TAXES</b>				
General Property Taxes	\$ 200,360	\$ 200,360	\$ 200,053	\$ (307)
<b>INTERGOVERNMENTAL RECEIPTS</b>				
Local Government Aid	-	-	41,480	41,480
<b>CHARGES FOR SERVICES</b>	4,500	4,500	1,000	(3,500)
<b>OTHER RECEIPTS</b>				
Donations	-	-	35	35
Interest and Dividends	-	-	2,918	2,918
Miscellaneous	7,000	7,000	8,391	1,391
Total Other Receipts	<u>7,000</u>	<u>7,000</u>	<u>11,344</u>	<u>4,344</u>
Total Cash Receipts	211,860	211,860	253,877	42,017
<b>CASH DISBURSEMENTS</b>				
<b>PUBLIC WORKS</b>				
Street Maintenance	186,860	186,860	286,214	99,354
<b>PUBLIC WORKS</b>				
Capital Outlay	<u>25,000</u>	<u>25,000</u>	<u>-</u>	<u>(25,000)</u>
Total Cash Disbursements	<u>211,860</u>	<u>211,860</u>	<u>286,214</u>	<u>74,354</u>
<b>NET CHANGE IN CASH FUND BALANCES</b>	-	-	(32,337)	(32,337)
Cash Fund Balances - Beginning of Year	<u>574,257</u>	<u>574,257</u>	<u>574,257</u>	<u>-</u>
<b>CASH FUND BALANCES - END OF YEAR</b>	<u>\$ 574,257</u>	<u>\$ 574,257</u>	<u>\$ 541,920</u>	<u>\$ (32,337)</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, 2021**

	Budgeted Amounts		Actual	Over (Under) Final Budget
	Original	Final		
<b>CASH RECEIPTS</b>				
<b>TAXES</b>				
General Property Taxes	\$ 66,265	\$ 66,265	\$ 66,383	\$ 118
<b>INTERGOVERNMENTAL RECEIPTS</b>				
State Grants and Aid				
State Fire Aid	10,500	10,500	20,645	10,145
Total Intergovernmental Receipts	<u>10,500</u>	<u>10,500</u>	<u>20,645</u>	<u>10,145</u>
<b>OTHER RECEIPTS</b>				
Donations	-	-	32,000	32,000
Miscellaneous	-	-	402	402
Total Other Receipts	<u>-</u>	<u>-</u>	<u>32,402</u>	<u>32,402</u>
Total Cash Receipts	76,765	76,765	119,430	42,665
<b>CASH DISBURSEMENTS</b>				
<b>PUBLIC SAFETY</b>				
Fire Department:				
Fire Services	42,265	42,265	48,383	6,118
<b>PUBLIC SAFETY</b>				
Capital Outlay	<u>5,000</u>	<u>5,000</u>	<u>111,750</u>	<u>106,750</u>
Total Cash Disbursements	<u>47,265</u>	<u>47,265</u>	<u>160,133</u>	<u>112,868</u>
<b>EXCESS (DEFICIENCY) OF RECEIPTS OVER CASH DISBURSEMENTS</b>	29,500	29,500	(40,703)	(70,203)
<b>OTHER FINANCING SOURCES AND (USES)</b>				
Transfers Out	(7,500)	(7,500)	(12,000)	(4,500)
Interfund Loan Payment	(22,000)	(22,000)	-	22,000
Total Other Financing Sources and Uses	<u>(29,500)</u>	<u>(29,500)</u>	<u>(12,000)</u>	<u>17,500</u>
<b>NET CHANGE IN CASH FUND BALANCES</b>	-	-	(52,703)	(52,703)
Cash Fund Balances - Beginning of Year	<u>100,937</u>	<u>100,937</u>	<u>100,937</u>	<u>-</u>
<b>CASH FUND BALANCES - END OF YEAR</b>	<u><u>\$ 100,937</u></u>	<u><u>\$ 100,937</u></u>	<u><u>\$ 48,234</u></u>	<u><u>\$ (52,703)</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, 2021**

<b>ASSETS</b>	
Cash	<u>\$ 151,978</u>
 <b>NET CASH POSITION</b>	
Unrestricted	<u>\$ 151,978</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, 2021**

<b>OPERATING RECEIPTS</b>	
Sales	\$ 728,946
Rent	23,097
Vending Machines	8,433
Other Receipts	12,716
Cost of Sales	(374,858)
Total Operating Receipts	398,334
 <b>OPERATING DISBURSEMENTS</b>	
Salaries and Benefits	204,463
Professional Services	2,615
Utilities	22,068
Telephone and Television	4,149
Credit Card Service Fees	12,647
Repairs and Maintenance	2,901
Supplies	18,361
Advertising and Entertainment	14,033
Insurance	7,853
Dues and Subscriptions	4,137
Miscellaneous	4,912
Total Operating Disbursements	298,139
<b>OPERATING CASH INCOME</b>	100,195
 <b>NONOPERATING RECEIPTS (DISBURSEMENTS)</b>	
Capital Outlay	(24,120)
<b>NET CASH INCOME BEFORE TRANSFERS</b>	76,075
 <b>TRANSFERS</b>	
Transfers Out	(30,064)
<b>CHANGE IN NET CASH POSITON</b>	46,011
Net Cash Position - Beginning of Year	105,967
<b>NET CASH POSITION - END OF YEAR</b>	\$ 151,978

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, 2021**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash Received from Customers	\$ 773,192
Cash Payments to Suppliers	(460,681)
Cash Payments to Employees	<u>(212,316)</u>
Net Cash Provided by Operating Activities	100,195
 <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Transfers from Other Funds	(30,064)
 <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Purchases of Capital Assets	<u>(24,120)</u>
 <b>NET INCREASE IN CASH</b>	 46,011
Cash - Beginning of The Year	<u>105,967</u>
 <b>CASH - END OF YEAR</b>	 <u><u>\$ 151,978</u></u>

See accompanying Notes to Financial Statements.

**CITY OF FIFTY LAKES, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

**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, 2021**

**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. In the Supplementary Information, property, plant, and equipment of the Liquor Fund is 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, 2021**

**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.

Within 30 days after the May settlement, the County Treasurer is required to pay 70% of the estimated collections of taxes and special assessments to the City Treasurer. The County Treasurer must pay the balance to the City Treasurer within 60 days after the settlement, provided that after 45 days interest begins to accrue.

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.

**CITY OF FIFTY LAKES, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

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

J. Equity (Continued)

Committed fund balance is required to be established, modified, or rescinded by resolution of the City Council prior to year-end. Based on resolution of the City Council, the City Clerk has the authority to establish or modify assigned fund balance. When restricted and unrestricted fund balance is available for an expenditure, it is the City's policy to first use restricted fund balance. When committed, assigned, and unassigned fund balance is available for expenditure, it is the City's policy to use committed, assigned, and finally unassigned fund balance.

**Proprietary Fund Statements** – Net cash position is reported as restricted in the statements when there are limitations 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.

**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 and Special Revenue Funds.
4. Budgets for the General Fund and Special Revenue Funds are 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.

**CITY OF FIFTY LAKES, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

**NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONTINUED)**

A. Budgetary Information (Continued)

6. An annual appropriated budget is adopted during the year for the General Fund and Special Revenue Funds. Budgetary control for Capital Projects Fund, when applicable, is accomplished through the use of project controls and formal appropriated budgets are not adopted. Annual appropriated budgets are not adopted for the 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 funds had disbursements that exceed appropriations:

	Budget	Actual	Over
General Fund	\$ 262,156	\$ 348,412	\$ 86,256
Road and Bridge Special Revenue Fund	211,860	286,214	74,354
Fire and First Responders Special Revenue Fund	47,265	160,133	112,868

**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.

**CITY OF FIFTY LAKES, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

**NOTE 3 DEPOSITS (CONTINUED)**

As of December 31, 2021, 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	\$	767,046
Certificate of Deposits		445,606
Petty Cash and ATM Machines		9,940
Total		\$ 1,222,592
Governmental Funds	\$	1,070,614
Proprietary Fund		151,978
Total		\$ 1,222,592

**NOTE 4 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, 2020	Additions	Retirements	Balance December 31, 2021	Due Within One Year
<b>GOVERNMENTAL FUNDS</b>							
General Obligation Equipment							
Certificate of 2016							
Interest Rate 2.87%	10/04/16	07/15/26	\$ 125,814	\$ -	\$ 19,572	\$ 106,242	\$ 20,138

Annual debt service requirements to maturity are as follows:

<u>Year Ending December 31,</u>	Governmental Funds		
	Principal	Interest	Total
2022	\$ 20,138	\$ 2,906	\$ 23,044
2023	20,720	2,324	23,044
2024	21,320	1,725	23,045
2025	21,935	1,108	23,043
2026	22,129	475	22,604
Total	\$ 106,242	\$ 8,538	\$ 114,780

**CITY OF FIFTY LAKES, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

**NOTE 5 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.

Benefits Provided

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

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, 2021**

**NOTE 5 PENSION PLAN (CONTINUED)**

A. Public Employees Retirement Association (Continued)

Benefits Provided (Continued)

Benefit increases are provided to benefits recipients each January. Beginning in 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.

Contributions

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state Legislature.

Coordinated Plan members were required to contribute 6.50% of their annual covered salary in fiscal year 2020 and the City was required to contribute 7.50% for Coordinated Plan members. The City's contributions to the General Employees Fund for the year ended December 31, 2021 were \$20,322. The City's contributions were equal to the required contributions as set by state statute.

**NOTE 6 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 aid allocated to the association are passed through the City in accordance with state Statutes.

**CITY OF FIFTY LAKES, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

**NOTE 7 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 8 INTERFUND TRANSFERS**

The composition of interfund transfers is as follows:

<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>
Liquor	General	\$ 30,064
Fire and First Responders	Debt Service	12,000
Total		<u>\$ 42,064</u>

The purpose of the above transfer from Liquor Fund to General Fund was to provide funding for operating purposes, purchase of park equipment and pay down interfund payable.

The purpose of the above transfer from Fire and First Responders Fund to Debt Service Fund was to provide funding for the fire truck debt payment.

## **SUPPLEMENTARY INFORMATION**

**CITY OF FIFTY LAKES, MINNESOTA  
STATEMENT OF NET POSITION  
PROPRIETARY FUND – LIQUOR FUND  
DECEMBER 31, 2021**

**ASSETS**

**CURRENT ASSETS**

Cash	\$ 151,978
Inventory	53,451
Prepaid Items	3,926
Total Current Assets	<u>209,355</u>

**NONCURRENT ASSETS**

Capital Assets	
Building and Improvements	291,839
Equipment and Fixtures	66,497
Less: Accumulated Depreciation	<u>(129,534)</u>
Capital Assets, Net	<u>228,802</u>

Total Assets 438,157

**DEFERRED OUTFLOWS OF RESOURCES**

Related to Pensions	50,722
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**LIABILITIES**

**CURRENT LIABILITIES**

Accounts Payable	3,794
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**NONCURRENT LIABILITIES**

Compensated Absences	4,286
Net Pension Liability	67,644
Advances from Other Funds	144,689
Total Noncurrent Liabilities	<u>216,619</u>

Total Liabilities 220,413

**DEFERRED INFLOWS OF RESOURCES**

Related to Pensions	<u>64,952</u>
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**NET POSITION**

Net Investment in Capital Assets	228,802
Unrestricted	<u>(25,288)</u>
Net Position	<u><u>\$ 203,514</u></u>

**CITY OF FIFTY LAKES, MINNESOTA  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
PROPRIETARY FUND – LIQUOR FUND  
YEAR ENDED DECEMBER 31, 2021**

<b>OPERATING REVENUES</b>	
Sales	\$ 728,946
Rent	23,097
Vending Machines	8,433
Other Receipts	6,065
Cost of Sales	(364,416)
Total Operating Revenues	<u>402,125</u>
<b>OPERATING EXPENSES</b>	
Salaries and Benefits	192,393
Professional Services	2,615
Utilities	23,023
Telephone and Television	4,149
Credit Card Service Fees	12,540
Repairs and Maintenance	2,901
Supplies	11,710
Advertising and Entertainment	14,967
Insurance	8,696
Dues and Subscriptions	4,137
Miscellaneous	5,744
Depreciation	17,052
Total Operating Expenses	<u>299,927</u>
<b>OPERATING INCOME</b>	102,198
<b>TRANSFERS OUT</b>	<u>(20,798)</u>
<b>CHANGE IN NET POSITION</b>	81,400
Net Position - Beginning of Year	<u>122,114</u>
<b>NET POSITION - END OF YEAR</b>	<u><u>\$ 203,514</u></u>

**CITY OF FIFTY LAKES, MINNESOTA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND – LIQUOR FUND  
YEAR ENDED DECEMBER 31, 2021**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash Received from Customers	\$ 766,541
Cash Payments to Suppliers	(453,187)
Cash Payments to Employees	(213,159)
Net Cash Provided by Operating Activities	<u>100,195</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Transfers to Other Funds	(20,798)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Purchases of Capital Assets	(24,120)
Payment on Advance	(9,266)
Net Cash Used by Capital and Related Financing Activities	<u>(33,386)</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	46,011
Cash and Cash Equivalents - Beginning of the Year	<u>105,967</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u><u>\$ 151,978</u></u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	
Operating Income	\$ 102,198
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	17,052
Increase (Decrease) in Pension Liability	(22,048)
Increase (Decrease) in Deferred Outflow for Pensions	(43,822)
Increase (Decrease) in Deferred Inflow for Pensions	53,715
(Increase) Decrease in Assets:	
Inventory	(10,730)
Prepays	843
Increase (Decrease) in Liabilities:	
Accounts Payable	2,902
Compensated Absences	85
Net Cash Provided by Operating Activities	<u><u>\$ 100,195</u></u>

**CITY OF FIFTY LAKES, MINNESOTA  
SCHEDULE OF CITY INDEBTEDNESS  
DECEMBER 31, 2021**

Indebtedness	Interest Rate	Issue Date	Maturity Date	Outstanding January 1, 2021	Issued in 2021	Paid in 2021	Outstanding December 31, 2021
General Obligation:							
General Obligation Equipment							
Certificate of 2016	2.87%	10/4/2016	7/15/2026	\$ 125,814	-	\$ 19,572	\$ 106,242

**CITY OF FIFTY LAKES, MINNESOTA  
SCHEDULE OF ACCOUNTS RECEIVABLE  
DECEMBER 31, 2021**

Fund	Source of Revenue and Purpose	Amount
General	Crow Wing County: Tax Settlement	\$ 5,933
Road and Bridge	Crow Wing County: Tax Settlement	5,253
Fire and First Responders	Crow Wing County: Tax Settlement	1,739
	Total	<u>\$ 12,925</u>

**SCHEDULE OF ACCOUNTS PAYABLE  
DECEMBER 31, 2021**

Fund	Vendor	Purpose	Amount
General	Xcel Energy	Natural Gas	\$ 274
General	Crow Wing Power	Electricity	151
General	Ratwik, Roszak & Maloney, P.A.	December Attorney Fee	240
General	Sourcewell	Planning & Zoning Services	853
Road and Bridge	Xcel Energy	Natural Gas	493
Road and Bridge	Crow Wing Power	Electricity	122
Fire and First Responders	Xcel Energy	Natural Gas	493
Fire and First Responders	Crow Wing Power	Electricity	122
Liquor	Merchant Services	Credit Card Transactions	810
Liquor	Crosby- Ironton Courier	Christmas Ad	124
Liquor	Xcel Energy	Natural Gas	508
Liquor	Vinocopia	Wine	296
Liquor	Hubbard Radio Brainerd	Radio Ads	847
Liquor	Crow Wing Power	Electricity	1,209
	Total		<u>\$ 6,542</u>



**CITY OF FIFTY LAKES, MINNESOTA  
SCHEDULE OF CAPITAL ASSETS  
DECEMBER 31, 2021**

<u>Business-Type Activities</u>	<u>Balance December 31, 2020</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance December 31, 2021</u>
Capital Assets Being Depreciated:				
Buildings and Improvements	\$ 282,293	\$ 9,546	\$ -	\$ 291,839
Machinery, Furniture, and Equipment	<u>51,923</u>	<u>14,574</u>	<u>-</u>	<u>66,497</u>
Total Capital Assets Being Depreciated	334,216	24,120	-	358,336
Less: Accumulated Depreciation:				
Buildings and Improvements	81,725	9,034	-	90,759
Machinery, Furniture, and Equipment	<u>30,757</u>	<u>8,018</u>	<u>-</u>	<u>38,775</u>
Total Accumulated Depreciation	<u>112,482</u>	<u>17,052</u>	<u>-</u>	<u>129,534</u>
 Total Capital Assets, Net	 <u>\$ 221,734</u>	 <u>\$ 7,068</u>	 <u>\$ -</u>	 <u>\$ 228,802</u>

Depreciation expense was charged to functions/programs as follows:

Business-Type Activities:

Liquor Fund	<u>\$ 17,052</u>
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**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 financial statements of the City of Fifty Lakes, Minnesota (the City), which comprise the statement of balances arising from cash transactions of each major governmental fund and the proprietary fund as of December 31, 2021, and the related statements of cash receipts, disbursements, and changes in cash fund balances of each major governmental fund, the budgetary comparison schedules, and the statements 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, 2021 and the related notes to the financial statements, and have issued our report thereon dated March 8, 2022. We expressed an adverse opinion on U.S. generally accepted accounting principles because the financial statements are prepared on a 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.

**Report on Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) as a basis for designing 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 identified certain deficiencies in internal control that we consider to be material weaknesses and a significant deficiency.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and recommendations as items 2021-001 and 2021-002 to be material weaknesses.

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 responses as item 2021-003 to be a significant deficiency.

### **Report on Compliance and Other Matters**

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

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

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



**CliftonLarsonAllen LLP**

Brainerd, Minnesota  
March 8, 2022



## 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 financial statements of the City of Fifty Lakes, Minnesota (the City), which comprise the statement of balances arising from cash transactions of each major governmental fund and the proprietary fund as of December 31, 2021, and the related statements of cash receipts, disbursements, and changes in cash fund balances of each major governmental fund, the budgetary comparison schedules, and the statements 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, 2021 and the related notes to the financial statements and have issued our report thereon dated March 8, 2022. 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.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

**CliftonLarsonAllen LLP**

Brainerd, Minnesota  
March 8, 2022



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**CITY OF FIFTY LAKES, MINNESOTA  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
YEAR ENDED DECEMBER 31, 2021**

**MATERIAL WEAKNESSES IN INTERNAL CONTROL OVER FINANCIAL REPORTING**

**2021-001 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:** 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 2020-001.

**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, 2022

**CITY OF FIFTY LAKES, MINNESOTA  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)  
YEAR ENDED DECEMBER 31, 2021**

**MATERIAL WEAKNESSES IN INTERNAL CONTROL OVER FINANCIAL REPORTING  
(CONTINUED)**

**2021-002 Financial Reporting**

**Condition:** As part of the audit, management requested us to prepare a draft of the financial statements, including the related notes to the financial statements. The City does not have a formal internal control policy in place over financial reporting that would enable management to prepare its annual financial statements and determine related footnote disclosures. Management does review and accept responsibility for the financial statements and footnote disclosures.

**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:** 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 2020-002.

**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, 2022



**CITY OF FIFTY LAKES, MINNESOTA  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)  
YEAR ENDED DECEMBER 31, 2021**

**SIGNIFICANT DEFICIENCY IN INTERNAL CONTROL OVER FINANCIAL REPORTING**

**2021-003 Lack of Invoice to Support Disbursement**

**Condition:** One of 25 disbursements selected for testing did not have supporting documentation, and one disbursement did not have a supporting invoice but did have an email with the vendor name and amount listed.

**Criteria:** Management is responsible for establishing and maintaining internal controls.

**Cause:** Proper support was not obtained or retained.

**Effect:** An incorrect or unsupported amount could be paid.

**Repeat Finding:** No.

**Recommendation:** We recommend the City require an invoice from the musicians in the future and print out, and retain, the support.

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

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

**Corrective Action Planned:** The City is aware of the issue and will work to obtain better documentation in the future.

**Anticipated Completion Date:** December 31, 2022

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