

CITY OF FIFTY LAKES, MINNESOTA

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED DECEMBER 31, 2022

**CITY OF FIFTY LAKES, MINNESOTA
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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 accompanying statements of balances arising from cash transactions of each major governmental fund and the proprietary fund of the City of Fifty Lakes, Minnesota (the City), as of December 31, 2022, and the related statements of cash receipts, disbursements, and changes in cash fund balances of each 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, and the related notes to the financial statements, as listed in the table of contents.

Unmodified Opinion of Regulatory Basis of Accounting

In our opinion, the 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, 2022, and the respective cash receipts, disbursements, and changes in cash fund balances of each major governmental fund, the budgetary comparison schedules, and 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 accompanying 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 each fund of the City as of December 31, 2022, or changes in cash fund balance/net position, and 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). Our responsibilities under those standards are further described in the Auditors' 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 State Auditor. Management is also responsible for the 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 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, 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.
- 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.

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

- 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 fund statement of net position, statement of revenues, expenses, and changes in net position, and statement of cash flows for the proprietary fund 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 Information

Management is responsible for the other information included in the annual report. The other information comprises the schedule of City indebtedness, schedule of accounts receivable, schedule of accounts payable, and schedule of capital assets but does not include the regulatory basis financial statements and our auditors' report thereon. Our opinions on the regulatory basis financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the regulatory basis financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the regulatory basis financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.



CliftonLarsonAllen LLP

Brainerd, Minnesota
March 10, 2023

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BASIC FINANCIAL STATEMENTS

CITY OF FIFTY LAKES, MINNESOTA
STATEMENT OF BALANCES ARISING FROM CASH TRANSACTIONS
GOVERNMENTAL FUNDS
DECEMBER 31, 2022

	General Fund	Road and Bridge	Fire and First Responders	Debt Service	Total Governmental Funds
ASSETS					
Cash	\$ 473,115	\$ 573,500	\$ 83,453	\$ 21,565	\$ 1,151,633
CASH FUND BALANCES					
Restricted	\$ -	\$ -	\$ -	\$ 21,565	\$ 21,565
Committed	80,000	-	15,000	-	95,000
Assigned	-	573,500	68,453	-	641,953
Unassigned	393,115	-	-	-	393,115
Total Cash Fund Balances	\$ 473,115	\$ 573,500	\$ 83,453	\$ 21,565	\$ 1,151,633

See accompanying Notes to Financial Statements.

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CITY OF FIFTY LAKES, MINNESOTA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH FUND
BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2022

	General	Road and Bridge	Fire and First Responders	Debt Service	Total Governmental Funds
RECEIPTS					
Property Taxes	\$ 254,380	\$ 209,746	\$ 73,116	\$ -	\$ 537,242
Licenses and Permits	21,500	-	-	-	21,500
Intergovernmental	29,839	-	11,000	-	40,839
Charges for Services	16,768	1,285	-	-	18,053
Fines and Forfeits	627	-	-	-	627
Donations	46,418	-	5,000	33,000	84,418
Investment Earnings	1,140	2,022	-	-	3,162
Other	11,535	317	940	-	12,792
Total Receipts	<u>382,207</u>	<u>213,370</u>	<u>90,056</u>	<u>33,000</u>	<u>718,633</u>
DISBURSEMENTS					
Current:					
General Government	344,422	-	-	-	344,422
Public Safety	-	-	54,837	-	54,837
Public Works	15,687	179,040	-	-	194,727
Capital Outlay:					
General Government	31,870	-	-	-	31,870
Public Works	-	2,750	-	-	2,750
Debt Service:					
Principal	-	-	-	20,138	20,138
Interest	-	-	-	2,906	2,906
Total Disbursements	<u>391,979</u>	<u>181,790</u>	<u>54,837</u>	<u>23,044</u>	<u>651,650</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER DISBURSEMENTS	(9,772)	31,580	35,219	9,956	66,983
OTHER FINANCING SOURCES					
Transfers In	14,036	-	-	-	14,036
NET CHANGE IN CASH FUND BALANCES	4,264	31,580	35,219	9,956	81,019
Cash Fund Balances - Beginning of Year	<u>468,851</u>	<u>541,920</u>	<u>48,234</u>	<u>11,609</u>	<u>1,070,614</u>
CASH FUND BALANCES - END OF YEAR	<u>\$ 473,115</u>	<u>\$ 573,500</u>	<u>\$ 83,453</u>	<u>\$ 21,565</u>	<u>\$ 1,151,633</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, 2022

	Budgeted Amounts		Actual	Over (Under) Final Budget
	Original	Final		
CASH RECEIPTS				
TAXES				
General Property Taxes	\$ 244,765	\$ 244,765	\$ 254,380	\$ 9,615
LICENSES AND PERMITS				
Business	1,200	1,200	1,200	-
Nonbusiness	20,000	20,000	20,300	300
Total Licenses and Permits	<u>21,200</u>	<u>21,200</u>	<u>21,500</u>	<u>300</u>
INTERGOVERNMENTAL RECEIPTS				
Federal Grants:				
Other Grants and Aid	-	-	22,075	22,075
State Grants and Aid:				
Market Value Credits	-	-	1,157	1,157
Other Local Grants and Aid	-	-	6,607	6,607
Total Intergovernmental Receipts	<u>-</u>	<u>-</u>	<u>29,839</u>	<u>29,839</u>
CHARGES FOR SERVICES	2,675	2,675	16,768	14,093
FINES AND FORFEITS	1,000	1,000	627	(373)
OTHER RECEIPTS				
Donations	-	-	46,418	46,418
Interest and Dividends	100	100	1,140	1,040
Refunds and Reimbursements	2,000	2,000	3,642	1,642
Miscellaneous	1,500	1,500	7,893	6,393
Total Other Receipts	<u>3,600</u>	<u>3,600</u>	<u>59,093</u>	<u>55,493</u>
Total Cash Receipts	273,240	273,240	382,207	108,967

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, 2022

	Budgeted Amounts		Actual	Over (Under) Final Budget
	Original	Final		
CASH DISBURSEMENTS				
GENERAL GOVERNMENT				
Mayor and Council	\$ 19,500	\$ 19,500	\$ 18,010	\$ (1,490)
Municipal Clerk - Treasurer	152,376	152,376	156,104	3,728
Planning and Zoning	30,945	30,945	26,027	(4,918)
Independent Accounting and Auditing	6,000	6,000	8,505	2,505
Legal	5,000	5,000	2,471	(2,529)
City Hall, General Government Buildings	39,315	39,315	73,363	34,048
Elections	1,400	1,400	915	(485)
Parks - Lake Improvement	2,500	2,500	59,027	56,527
Total General Government	<u>257,036</u>	<u>257,036</u>	<u>344,422</u>	<u>87,386</u>
PUBLIC WORKS				
Street Maintenance	17,240	17,240	15,687	(1,553)
GENERAL GOVERNMENT				
Capital Outlay	<u>9,000</u>	<u>9,000</u>	<u>31,870</u>	<u>22,870</u>
Total Cash Disbursements	<u>283,276</u>	<u>283,276</u>	<u>391,979</u>	<u>108,703</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER CASH DISBURSEMENTS				
	(10,036)	(10,036)	(9,772)	264
OTHER FINANCING SOURCES				
Transfers In	<u>10,036</u>	<u>10,036</u>	<u>14,036</u>	<u>4,000</u>
NET CHANGE IN CASH FUND BALANCES				
	-	-	4,264	4,264
Cash Fund Balances - Beginning of Year	<u>468,851</u>	<u>468,851</u>	<u>468,851</u>	<u>-</u>
CASH FUND BALANCES - END OF YEAR	<u><u>\$ 468,851</u></u>	<u><u>\$ 468,851</u></u>	<u><u>\$ 473,115</u></u>	<u><u>\$ 4,264</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, 2022

	<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	\$ 204,110	\$ 204,110	\$ 209,746	\$ 5,636
INTERGOVERNMENTAL RECEIPTS				
Local Government Aid	20,000	20,000	-	(20,000)
CHARGES FOR SERVICES	2,500	2,500	1,285	(1,215)
OTHER RECEIPTS				
Interest and Dividends	-	-	2,022	2,022
Miscellaneous	6,000	6,000	317	(5,683)
Total Other Receipts	<u>6,000</u>	<u>6,000</u>	<u>2,339</u>	<u>(3,661)</u>
Total Cash Receipts	232,610	232,610	213,370	(19,240)
CASH DISBURSEMENTS				
PUBLIC WORKS				
Street Maintenance	207,610	207,610	179,040	(28,570)
PUBLIC WORKS				
Capital Outlay	<u>25,000</u>	<u>25,000</u>	<u>2,750</u>	<u>(22,250)</u>
Total Cash Disbursements	<u>232,610</u>	<u>232,610</u>	<u>181,790</u>	<u>(50,820)</u>
NET CHANGE IN CASH FUND BALANCES	-	-	31,580	31,580
Cash Fund Balances - Beginning of Year	<u>541,920</u>	<u>541,920</u>	<u>541,920</u>	<u>-</u>
CASH FUND BALANCES - END OF YEAR	<u>\$ 541,920</u>	<u>\$ 541,920</u>	<u>\$ 573,500</u>	<u>\$ 31,580</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, 2022

	Budgeted Amounts		Actual	Over (Under) Final Budget
	Original	Final		
CASH RECEIPTS				
TAXES				
General Property Taxes	\$ 71,625	\$ 71,625	\$ 73,116	\$ 1,491
INTERGOVERNMENTAL RECEIPTS				
State Grants and Aid				
State Fire Aid	10,500	10,500	11,000	500
OTHER RECEIPTS				
Donations	-	-	5,000	5,000
Miscellaneous	-	-	940	940
Total Other Receipts	<u>-</u>	<u>-</u>	<u>5,940</u>	<u>5,940</u>
Total Cash Receipts	82,125	82,125	90,056	7,931
CASH DISBURSEMENTS				
PUBLIC SAFETY				
Fire Department:				
Fire Services	43,625	43,625	54,837	11,212
PUBLIC SAFETY				
Capital Outlay	<u>10,000</u>	<u>10,000</u>	<u>-</u>	<u>(10,000)</u>
Total Cash Disbursements	<u>53,625</u>	<u>53,625</u>	<u>54,837</u>	<u>1,212</u>
EXCESS OF RECEIPTS OVER CASH DISBURSEMENTS	28,500	28,500	35,219	6,719
OTHER FINANCING SOURCES AND (USES)				
Transfers Out	(7,500)	(7,500)	-	7,500
Interfund Loan Payment	(22,000)	(22,000)	-	22,000
Total Other Financing Sources and Uses	<u>(29,500)</u>	<u>(29,500)</u>	<u>-</u>	<u>29,500</u>
NET CHANGE IN CASH FUND BALANCES	(1,000)	(1,000)	35,219	36,219
Cash Fund Balances - Beginning of Year	<u>48,234</u>	<u>48,234</u>	<u>48,234</u>	<u>-</u>
CASH FUND BALANCES - END OF YEAR	<u>\$ 47,234</u>	<u>\$ 47,234</u>	<u>\$ 83,453</u>	<u>\$ 36,219</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, 2022**

ASSETS

Cash

\$ 245,294

NET CASH POSITION

Unrestricted

\$ 245,294

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, 2022**

OPERATING RECEIPTS	
Sales	\$ 828,320
Rent	30,560
Vending Machines	7,890
Other Receipts	8,453
Cost of Sales	<u>(422,570)</u>
Total Operating Receipts	452,653
OPERATING DISBURSEMENTS	
Salaries and Benefits	220,937
Professional Services	4,985
Utilities	22,207
Telephone and Television	3,420
Credit Card Service Fees	12,442
Repairs and Maintenance	9,885
Supplies	14,984
Advertising and Entertainment	32,980
Insurance	14,367
Dues and Subscriptions	3,503
Miscellaneous	<u>5,591</u>
Total Operating Disbursements	<u>345,301</u>
OPERATING CASH INCOME	107,352
TRANSFERS	
Transfers Out	<u>(14,036)</u>
CHANGE IN NET CASH POSITON	93,316
Net Cash Position - Beginning of Year	<u>151,978</u>
NET CASH POSITION - END OF YEAR	<u><u>\$ 245,294</u></u>

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, 2022**

CASH FLOWS FROM OPERATING ACTIVITIES

Cash Received from Customers	\$ 875,223
Cash Payments to Suppliers	(532,567)
Cash Payments to Employees	(235,304)
Net Cash Provided by Operating Activities	107,352

**CASH FLOWS FROM NONCAPITAL FINANCING
 ACTIVITIES**

Transfers from Other Funds	(14,036)
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NET INCREASE IN CASH

93,316

Cash - Beginning of The Year

151,978

CASH - END OF YEAR

\$ 245,294

**CITY OF FIFTY LAKES, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

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, 2022**

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, 2022**

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. Leases – Proprietary Funds

The City determines if an arrangement is a lease at inception. Leases are included in right-to-use assets and lease liabilities in the statement of net position.

Right-to-use assets represent the City's control of the right to use an underlying capital asset for the lease term, as specified in the contract, in an exchange or exchange-like transaction. Right-to-use assets are recognized at the commencement date based on the initial measurement of the lease liability, plus any payments made to the lessor at or before the commencement of the lease term and certain direct costs. Right-to-use assets are amortized in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying asset.

**CITY OF FIFTY LAKES, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Leases – Proprietary Funds (Continued)

Lease liabilities represent the City's obligation to make lease payments arising from the lease. Lease liabilities are recognized at the commencement date based on the present value of expected lease payments over the lease term, less any lease incentives. Interest expense is recognized ratably over the contract term.

The lease term may include options to extend or to terminate the lease when it is reasonably certain that the City will exercise that option.

The City has recognized payments for short-term leases with a lease term of 12 months or less as expenses are incurred, and these leases are not included as lease liabilities or right-to-use assets on the statement of net position.

The City accounts for contracts containing both lease and nonlease components as separate contracts when possible. In cases where the contract does not provide separate price information for lease and nonlease components, and it is impractical to estimate the price of such components, the City treats the components as a single lease unit.

K. 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.

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.

**CITY OF FIFTY LAKES, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Use of Estimates

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

M. Adoption of New Accounting Standards

In June 2017, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 87, *Leases*. This standard requires the recognition of certain lease asset and liabilities for leases that were previously classified as operating leases and as inflows of resources or outflows of resources recognized based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this standard, a lessee is required to recognize a lease liability and a Right-to-use asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources.

The City adopted the requirements of the guidance effective July 1, 2021, and has applied the provisions of this standard to the beginning of the period of adoption. The implementation of this standard did not result in any material leases being identified.

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.

**CITY OF FIFTY LAKES, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONTINUED)

A. Budgetary Information (Continued)

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. 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	\$ 283,276	\$ 391,979	\$ 108,703
Fire and First Responders Special Revenue Fund	53,625	54,837	1,212

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

**CITY OF FIFTY LAKES, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 3 DEPOSITS (CONTINUED)

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, 2022, 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	\$	691,690
Certificate of Deposits		698,697
Petty Cash and ATM Machines		6,540
Total	\$	1,396,927
Governmental Funds	\$	1,151,633
Proprietary Fund		245,294
Total	\$	1,396,927

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, 2021	Additions	Retirements	Balance December 31, 2022	Due Within One Year
GOVERNMENTAL FUNDS							
General Obligation Equipment Certificate of 2016 Interest Rate 2.87%	10/04/16	07/15/26	\$ 106,242	\$ -	\$ 20,138	\$ 86,104	\$ 20,720

Annual debt service requirements to maturity are as follows:

<u>Year Ending December 31,</u>	Governmental Funds		
	Principal	Interest	Total
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	\$ 86,104	\$ 5,632	\$ 91,736

**CITY OF FIFTY LAKES, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

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 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, 2022**

NOTE 5 PENSION PLAN (CONTINUED)

A. Public Employees Retirement Association (Continued)

Benefits Provided (Continued)

Benefit increases are provided to benefits recipients each January. 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. 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 2022 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, 2022 were \$24,803. 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, 2022**

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	\$ 14,036
Total		<u>\$ 14,036</u>

The purpose of the above transfer from Liquor Fund to General Fund was to provide funding for the operations and events related to Fifty Lakes Day, and to pay down the interfund payable.

SUPPLEMENTARY INFORMATION

**CITY OF FIFTY LAKES, MINNESOTA
STATEMENT OF NET POSITION
PROPRIETARY FUND – LIQUOR FUND
DECEMBER 31, 2022**

ASSETS

CURRENT ASSETS

Cash	\$	245,294
Inventory		50,919
Prepaid Items		6,752
Total Current Assets		302,965

NONCURRENT ASSETS

Capital Assets		
Building and Improvements		291,839
Equipment and Fixtures		66,497
Less: Accumulated Depreciation		(148,385)
Capital Assets, Net		209,951
Total Assets		512,916

DEFERRED OUTFLOWS OF RESOURCES

Related to Pensions		56,024
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LIABILITIES

CURRENT LIABILITIES

Accounts Payable		4,929
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NONCURRENT LIABILITIES

Compensated Absences		4,909
Net Pension Liability		149,372
Advances from Other Funds		135,376
Total Noncurrent Liabilities		289,657
Total Liabilities		294,586

DEFERRED INFLOWS OF RESOURCES

Related to Pensions		3,668
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NET POSITION

Net Investment in Capital Assets		209,951
Unrestricted		60,735
Net Position		\$ 270,686

**CITY OF FIFTY LAKES, MINNESOTA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUND – LIQUOR FUND
YEAR ENDED DECEMBER 31, 2022**

OPERATING REVENUES

Sales	\$ 828,320
Rent	30,560
Vending Machines	7,890
Other Receipts	7,893
Cost of Sales	(424,887)
Total Operating Revenues	<u>449,776</u>

OPERATING EXPENSES

Salaries and Benefits	237,247
Professional Services	4,985
Utilities	21,698
Telephone and Television	3,420
Credit Card Service Fees	13,212
Repairs and Maintenance	9,885
Supplies	14,424
Advertising and Entertainment	34,379
Insurance	11,541
Dues and Subscriptions	3,503
Miscellaneous	4,736
Depreciation	18,851
Total Operating Expenses	<u>377,881</u>

OPERATING INCOME

71,895

TRANSFERS OUT

(4,723)

CHANGE IN NET POSITION

67,172

Net Position - Beginning of Year

203,514

NET POSITION - END OF YEAR

\$ 270,686

**CITY OF FIFTY LAKES, MINNESOTA
STATEMENT OF CASH FLOWS
PROPRIETARY FUND – LIQUOR FUND
YEAR ENDED DECEMBER 31, 2022**

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Customers	\$ 874,663
Cash Payments to Suppliers	(534,288)
Cash Payments to Employees	(233,023)
Net Cash Provided by Operating Activities	107,352
 CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers to Other Funds	(4,723)
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Payment on Advance	(9,313)
Net Cash Used by Capital and Related Financing Activities	(9,313)
 NET INCREASE IN CASH AND CASH EQUIVALENTS	
	93,316
Cash and Cash Equivalents - Beginning of the Year	151,978
 CASH AND CASH EQUIVALENTS - END OF YEAR	
	\$ 245,294
 RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating Income	\$ 71,895
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	18,851
Increase (Decrease) in Pension Liability	81,728
Increase (Decrease) in Deferred Outflow for Pensions	(5,302)
Increase (Decrease) in Deferred Inflow for Pensions	(61,284)
(Increase) Decrease in Assets:	
Inventory	2,532
Prepays	(2,826)
Increase (Decrease) in Liabilities:	
Accounts Payable	1,135
Compensated Absences	623
Net Cash Provided by Operating Activities	\$ 107,352

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OTHER INFORMATION

**CITY OF FIFTY LAKES, MINNESOTA
SCHEDULE OF CITY INDEBTEDNESS
DECEMBER 31, 2022**

Indebtedness	Interest Rate	Issue Date	Maturity Date	Outstanding January 1, 2022	Issued in 2022	Paid in 2022	Outstanding December 31, 2022
General Obligation: General Obligation Equipment Certificate of 2016	2.87%	10/4/2016	7/15/2026	\$ 106,242	-	\$ 20,138	\$ 86,104

**CITY OF FIFTY LAKES, MINNESOTA
SCHEDULE OF ACCOUNTS RECEIVABLE
DECEMBER 31, 2022**

Fund	Source of Revenue and Purpose	Amount
General	Crow Wing County: Tax Settlement	\$ 5,085
Road and Bridge	Crow Wing County: Tax Settlement	4,052
Road and Bridge	State of Minnesota: Grant Funding	27,429
Fire and First Responders	State of Minnesota: Grant Funding	5,000
Fire and First Responders	Crow Wing County: Tax Settlement	1,739
	Total	<u>\$ 43,305</u>

**SCHEDULE OF ACCOUNTS PAYABLE
DECEMBER 31, 2022**

Fund	Vendor	Purpose	Amount
General	Blue Cross Blue Shield of Minnesota	Vision Insurance Premium Dec 2022	\$ 30
General	Crow Wing County	E911 Address Fee Bury	75
General	Sourcewell	PZ Services December 2022	1,251
General	Sourcewell	PZ Services November 2022	1,334
General	Crow Wing Power	Electricity	215
General	Crow Wing Power	Electricity - Line Conversion	400
Road & Bridge	Crow Wing Power	Electricity	110
Road & Bridge	Best Oil Company	Fuel	3,088
Fire and First Responders	Crow Wing Power	Electricity	110
Fire and First Responders	Best Oil Company	Fuel	574
Fire and First Responders	Med Compass	SCBA Med Exams	1,395
Liquor	Crosby-Ironton Courier	Handbag Bingo Advertisement	126
Liquor	Blue Cross Blue Shield of Minnesota	Vision Insurance Premium Dec 2022	16
Liquor	Merchant Services	Various Credit Card Purchases	770
Liquor	Petty Cash - Liquor Store	Bar Supplies	73
Liquor	Crow Wing Power	Electricity	1,208
Liquor	Crosby-Ironton Courier	Christmas Greeting Ad	51
Liquor	Hubbard Radio Brainerd	Radio Ads	2,156
Liquor	MN Department of Revenue	Unemployment Wages - 2022	529
	Total		<u>\$ 13,511</u>

**CITY OF FIFTY LAKES, MINNESOTA
SCHEDULE OF CAPITAL ASSETS
DECEMBER 31, 2022**

<u>Business-Type Activities</u>	Balance December 31, 2021	Increase	Decrease	Balance December 31, 2022
Capital Assets Being Depreciated:				
Buildings and Improvements	\$ 291,839	\$ -	\$ -	\$ 291,839
Machinery, Furniture, and Equipment	66,497	-	-	66,497
Total Capital Assets Being Depreciated	<u>358,336</u>	-	-	<u>358,336</u>
Less: Accumulated Depreciation:				
Buildings and Improvements	90,759	9,691	-	100,450
Machinery, Furniture, and Equipment	<u>38,775</u>	<u>9,160</u>	-	<u>47,935</u>
Total Accumulated Depreciation	<u>129,534</u>	<u>18,851</u>	-	<u>148,385</u>
 Total Capital Assets, Net	 <u>\$ 228,802</u>	 <u>\$ (18,851)</u>	 <u>\$ -</u>	 <u>\$ 209,951</u>

Depreciation expense was charged to functions/programs as follows:

Business-Type Activities:
Liquor Fund

\$ 18,851

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OTHER REPORTS SECTION



INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

In planning and performing our audit of the accompanying statements of balances arising from cash transactions of each governmental fund and the proprietary fund of the City of Fifty Lakes, Minnesota (the City), 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 of the proprietary fund for the year ended December 31, 2022 and the related notes to the financial statements, in accordance with auditing standards generally accepted in the United States of America, 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 opinion 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 first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to fraud or error may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and recommendations as items 2022-001 and 2022-002 to be material weaknesses.

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

The City's Response to Findings

The City's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely for the information and use of the City Council, management, and others within the City, and is not intended to be, and should not be, used by anyone other than those specified parties.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Brainerd, Minnesota
March 10, 2023



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, 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, 2022, 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 of the proprietary fund for the year ended, and the related notes to the financial statements and have issued our report thereon dated March 10, 2023. We expressed an adverse opinion on accounting principles generally accepted in the United States of America 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 differs 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 – bid laws, depositories of public funds and public 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

CliftonLarsonAllen LLP

Brainerd, Minnesota
March 10, 2023

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**CITY OF FIFTY LAKES, MINNESOTA
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
YEAR ENDED DECEMBER 31, 2022**

Section I – Financial Statement Findings

Finding 2022-001 – Lack of Segregation of Duties

Type of Finding: Material Weakness in Internal Control Over Financial Reporting

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

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

Cause: The City has a limited number of staff in the business office but has implemented some compensatory controls to try to address this issue.

Repeat Finding: Prior year finding identified as 2021-001.

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.

View of Responsible Official: There is no disagreement with the finding.

**CITY OF FIFTY LAKES, MINNESOTA
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)
YEAR ENDED DECEMBER 31, 2022**

Section I – Financial Statement Findings (Continued)

Finding 2022-002 – Financial Reporting

Type of Finding: Material Weakness in Internal Control Over 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 or Specific Requirement: 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.

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.

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.

Repeat Finding: Prior year finding identified as 2021-002.

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

View of Responsible Official: There is no disagreement with the finding.

**CITY OF FIFTY LAKES, MINNESOTA
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)
YEAR ENDED DECEMBER 31, 2022**

Section II – Minnesota Legal Compliance

None noted.