

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

LAKE COUNTY
TWO HARBORS, MINNESOTA

YEAR ENDED DECEMBER 31, 2015

Description of the Office of the State Auditor

The mission of the Office of the State Auditor is to oversee local government finances for Minnesota taxpayers by helping to ensure financial integrity and accountability in local governmental financial activities.

Through financial, compliance, and special audits, the State Auditor oversees and ensures that local government funds are used for the purposes intended by law and that local governments hold themselves to the highest standards of financial accountability.

The State Auditor performs approximately 150 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice - conducts financial and legal compliance audits of local governments;

Government Information - collects and analyzes financial information for cities, towns, counties, and special districts;

Legal/Special Investigations - provides legal analysis and counsel to the Office and responds to outside inquiries about Minnesota local government law; as well as investigates allegations of misfeasance, malfeasance, and nonfeasance in local government;

Pension - monitors investment, financial, and actuarial reporting for approximately 700 public pension funds; and

Tax Increment Financing - promotes compliance and accountability in local governments' use of tax increment financing through financial and compliance audits.

The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**LAKE COUNTY
TWO HARBORS, MINNESOTA**

Year Ended December 31, 2015



**Audit Practice Division
Office of the State Auditor
State of Minnesota**

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**LAKE COUNTY
TWO HARBORS, MINNESOTA**

TABLE OF CONTENTS

	Exhibit	Page
Introductory Section		
Organization		1
Financial Section		
Independent Auditor's Report		2
Management's Discussion and Analysis		5
Basic Financial Statements		
Government-Wide Financial Statements		
Statement of Net Position	1	14
Statement of Activities	2	16
Fund Financial Statements		
Governmental Funds		
Balance Sheet	3	18
Reconciliation of Governmental Funds Balance Sheet to the Government-Wide Statement of Net Position--Governmental Activities	4	20
Statement of Revenues, Expenditures, and Changes in Fund Balances	5	21
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Government-Wide Statement of Activities--Governmental Activities	6	22
Proprietary Fund		
Statement of Net Position	7	23
Statement of Revenues, Expenses, and Changes in Net Position	8	24
Statement of Cash Flows	9	25
Fiduciary Funds		
Statement of Fiduciary Net Position	10	26
Notes to the Financial Statements		27
Required Supplementary Information		
Budgetary Comparison Schedules		
General Fund	A-1	85
Road and Bridge Special Revenue Fund	A-2	88
Human Services Special Revenue Fund	A-3	89
Schedule of Funding Progress - Other Postemployment Benefits	A-4	90

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

TABLE OF CONTENTS

	Exhibit	Page
Financial Section		
Required Supplementary Information (Continued)		
PERA General Employees Retirement Fund		
Schedule of Proportionate Share of Net Pension Liability	A-5	91
Schedule of Contributions	A-6	91
PERA Public Employees Police and Fire Fund		
Schedule of Proportionate Share of Net Pension Liability	A-7	92
Schedule of Contributions	A-8	92
PERA Public Employees Correctional Fund		
Schedule of Proportionate Share of Net Pension Liability	A-9	93
Schedule of Contributions	A-10	93
Notes to the Required Supplementary Information		94
Supplementary Information		
Nonmajor Governmental Funds		
Combining Balance Sheet	B-1	97
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance	B-2	98
Budgetary Comparison Schedules		
Resource Development Special Revenue Fund	B-3	99
Unorganized Townships Special Revenue Fund	B-4	100
Forfeited Tax Special Revenue Fund	B-5	101
Debt Service Fund	B-6	102
Fiduciary Funds		
Combining Statement of Changes in Assets and Liabilities - All Agency Funds	C-1	103
Other Schedules		
Schedule of Intergovernmental Revenue	D-1	106
Schedule of Expenditures of Federal Awards	D-2	108
Notes to the Schedule of Expenditures of Federal Awards		111

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

TABLE OF CONTENTS
(Continued)

	<u>Exhibit</u>	<u>Page</u>
Management and Compliance Section		
Schedule of Findings and Questioned Costs		113
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		121
Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance		124

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**LAKE COUNTY
TWO HARBORS, MINNESOTA**

**ORGANIZATION
DECEMBER 31, 2015**

			<u>Term Expires</u>
Elected			
Commissioner	Peter Walsh	District 1	January 2019
Commissioner	Derrick Goutermont	District 2	January 2017
Commissioner	Brad Jones	District 3	January 2017
Commissioner	Jeremy Hurd	District 4	January 2019
Commissioner	Rich Sve	District 5	January 2017
Attorney	Laura M. Auron		January 2019
Auditor/Treasurer	Linda Libal		January 2019
Recorder	Erica Koski		January 2019
Sheriff	Carey Johnson		January 2019
Appointed			
Assessor	Gregg Swartwoudt		Indefinite
Examiner of Titles	David Adams (St. Louis County)		Indefinite
Health Officer	Harold B. Leppink, M.D.		Indefinite
Highway Engineer	Krysten Foster		May 2018
Veterans Service Officer	Nazareth V. Sando		September 2015
Clerk of the Board	Laurel Buchanan		Indefinite
County Administrator	Matthew Huddleston		Indefinite

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Lake County
Two Harbors, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Lake County, Minnesota, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the County's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of

expressing an opinion on the effectiveness of the County's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Lake County as of December 31, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter - Change in Accounting Principle

As discussed in Note 1.E. to the financial statements, in 2015 the County adopted new accounting guidance by implementing the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, and GASB Statement No. 82, *Pension Issues*, which represents a change in accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Required Supplementary Information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Lake County's basic financial statements. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated September 15, 2016, on our consideration of Lake County’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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 Lake County’s internal control over financial reporting and compliance.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Lake County’s basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (SEFA) as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) is presented for purposes of additional analysis and is not a required part of the basic financial statements. The SEFA is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the SEFA is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

/s/Rebecca Otto

/s/Greg Hierlinger

REBECCA OTTO
STATE AUDITOR

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 15, 2016

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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**LAKE COUNTY
TWO HARBORS, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2015
(Unaudited)**

Lake County's Management's Discussion and Analysis (MD&A) provides an overview of the County's financial activities for the fiscal year ended December 31, 2015. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the County's financial statements.

FINANCIAL HIGHLIGHTS

- Governmental activities have a total net position of \$109,652,401, of which \$85,654,076 is the net investment in capital assets and \$4,337,469 is restricted to specific purposes.
- Business-type activities have a total net position of \$572,098. Net investment in capital assets represents \$18,153,627 of the total.
- Lake County's net position increased by \$323,897 for the year ended December 31, 2015. The Lake County Housing and Redevelopment Authority is shown as the "Discretely Presented Component Unit." The net position of the County's discretely presented component unit increased by \$56,473.
- The net cost of governmental activities was \$9,812,212 for the current fiscal year. The net cost was funded by general revenues and other items totaling \$11,296,578.
- Governmental funds' fund balances increased by \$4,008,540.

OVERVIEW OF THE FINANCIAL STATEMENTS

This MD&A is intended to serve as an introduction to the basic financial statements. Lake County's basic financial statements consist of three parts: government-wide financial statements, fund financial statements, and notes to the financial statements. The MD&A (this section), certain budgetary comparison schedules, the Schedule of Funding Progress - Other Postemployment Benefits, the Schedule of Proportionate Share of Net Pension Liability, and the Schedule of Contributions are required to accompany the basic financial statements and, therefore, are included as required supplementary information.

There are two government-wide financial statements. The statement of net position and the statement of activities provide information about the activities of the County as a whole and present a longer-term view of the County's finances. Fund financial statements report the County's operations in more detail than the government-wide statements by providing information about the County's most significant funds. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. The remaining statements provide financial information about activities for which the County acts solely as a trustee or agent for the benefit of those outside of the government.

Government-Wide Financial Statements--The Statement of Net Position and the Statement of Activities

The statement of net position and the statement of activities report information about the County as a whole and about its activities in a way that helps the reader determine whether the County's financial condition has improved or declined as a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the County's net position and changes in them. You can think of the County's net position--the difference between assets and liabilities--as one way to measure the County's financial health or financial position. Over time, increases or decreases in the County's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the County's property tax base and the condition of County roads, to assess the overall health of the County.

In the statement of net position and the statement of activities, we divide the County into three kinds of activities:

- Governmental activities--Most of the County's basic services are reported here, including general government, public safety, highways and streets, sanitation, human services, health, culture and recreation, conservation of natural resources, and economic development. Property taxes and state and federal grants finance most of these activities.
- Business-type activities--The County charges a fee to customers to help it cover all or most of the cost of services it provides. The County's broadband activities are reported here.
- Component unit--The County includes another separate legal entity in its report. The entity, the Lake County Housing and Redevelopment Authority, is presented in a separate column. Although legally separate, this "component unit" is important because the County is financially accountable for it. Further financial information for this component unit is available in separately issued and audited financial statements.

The government-wide financial statements can be found in Exhibits 1 and 2.

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds--not the County as a whole. Some funds are required to be established by state law and by bond covenants. However, the County Board establishes some funds to help it control and manage money for a particular purpose or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The County's two kinds of funds--governmental and proprietary--use different accounting methods.

- Governmental funds--All of the County's basic services are reported in governmental funds, which focus on how money flows in and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting. This method measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the County's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds in a reconciliation statement following each governmental fund financial statement.

The basic financial statements for governmental funds can be found in Exhibits 3 through 6.

- Proprietary funds--When the County charges customers for services it provides--whether to outside customers or to other units of the County--these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the statement of net position and the statement of activities. In fact, the County's proprietary funds are substantially the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.

Proprietary fund financial statements may be found in Exhibits 7 through 9.

Reporting the County's Fiduciary Responsibilities

The County is the trustee, or fiduciary, over assets that can be used only for the trust beneficiaries, based on the trust arrangement. All of the County's fiduciary activities are reported in a separate statement of fiduciary net position. We exclude these activities from the County's other financial statements because the County cannot use these assets to finance its operations. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The fiduciary funds financial statement is Exhibit 10.

LAKE COUNTY AS A WHOLE

Our analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the County's governmental activities.

Table 1
Net Position
(in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2015	2014	2015	2014	2015	2014
Assets						
Current and other assets	\$ 33,240	\$ 29,940	\$ (11,912)	\$ (3,419)	\$ 21,328	\$ 26,521
Capital assets	88,789	90,699	68,884	44,282	157,673	134,981
Total Assets	\$ 122,029	\$ 120,639	\$ 56,972	\$ 40,863	\$ 179,001	\$ 161,502
Deferred Outflows of Resources	\$ 1,100	\$ -	\$ -	\$ -	\$ 1,100	\$ -
Liabilities						
Long-term liabilities outstanding	\$ 10,835	\$ 4,924	\$ 47,575	\$ 33,054	\$ 58,410	\$ 37,978
Other liabilities	1,849	1,671	8,825	6,077	10,674	7,748
Total Liabilities	\$ 12,684	\$ 6,595	\$ 56,400	\$ 39,131	\$ 69,084	\$ 45,726
Deferred Inflows of Resources	\$ 793	\$ -	\$ -	\$ -	\$ 793	\$ -
Net Position						
Net investment in capital assets	\$ 85,654	\$ 87,086	\$ 18,154	\$ 9,579	\$ 103,808	\$ 96,665
Restricted	4,337	2,896	-	-	4,337	2,896
Unrestricted	19,661	24,062	(17,582)	(7,847)	2,079	16,215
Total Net Position, as reported	\$ 109,652	\$ 114,044	\$ 572	\$ 1,732	\$ 110,224	\$ 115,776
Change in accounting principles*		(5,876)		-		(5,876)
Total Net Position, as restated		\$ 108,168		\$ 1,732		\$ 109,900

*This is the first year the County implemented the pension accounting and financial reporting standards in GASB Statements 68, 71, and 82. The County had to make a prior year change in accounting principles to record the County's net pension liability and related deferred outflows of resources.

Table 2
Changes in Net Position
(in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2015	2014	2015	2014	2015	2014
Revenues						
Program revenues						
Fees, fines, charges, and other	\$ 2,131	\$ 3,249	\$ 934	\$ 192	\$ 3,065	\$ 3,441
Operating grants and contributions	13,420	12,665	-	-	13,420	12,665
Capital grants and contributions	936	2,715	3,274	3,372	4,210	6,087
General revenues						
Property taxes	8,666	8,043	-	-	8,666	8,043
Other taxes	1,900	2,033	-	-	1,900	2,033
Unrestricted grants and contributions	1,221	1,183	-	-	1,221	1,183
Investment earnings	81	355	-	-	81	355
Gain on sale of capital assets	4	11	-	-	4	11
Miscellaneous	156	164	-	-	156	164
Transfers	(731)	-	731	-	-	-
Total Revenues	\$ 27,784	\$ 30,418	\$ 4,939	\$ 3,564	\$ 32,723	\$ 33,982
Expenses						
General government	\$ 4,794	\$ 4,366	\$ -	\$ -	\$ 4,794	\$ 4,366
Public safety	5,028	4,863	-	-	5,028	4,863
Highways and streets	7,601	8,657	-	-	7,601	8,657
Sanitation	260	302	-	-	260	302
Human services	3,307	3,273	-	-	3,307	3,273
Health	2,670	2,684	-	-	2,670	2,684
Culture and recreation	943	974	-	-	943	974
Conservation of natural resources	1,297	770	-	-	1,297	770
Economic development	321	339	-	-	321	339
Interest	79	93	-	-	79	93
Broadband	-	-	6,099	2,860	6,099	2,860
Total Expenses	\$ 26,300	\$ 26,321	\$ 6,099	\$ 2,860	\$ 32,399	\$ 29,181
Increase (Decrease) in Net Position	\$ 1,484	\$ 4,097	\$ (1,160)	\$ 704	\$ 324	\$ 4,801
Net Position, January 1, as restated (Note 1.E.)	*108,168	109,947	1,732	1,028	*109,900	110,975
Net Position, December 31	\$ 109,652	\$ 114,044	\$ 572	\$ 1,732	\$ 110,224	\$ 115,776

*Amount includes a change in accounting principles.

Lake County's business-type activities is the broadband project that started in 2012. This is primarily funded by capital grants and contributions, which includes a Broadband Initiatives Program Grant of \$3,273,709 and a Broadband Initiatives Program Loan of \$50,730,826.

Governmental Activities

The cost of all governmental activities this year was \$26,299,908. However, as shown in the statement of activities, the amount that our taxpayers ultimately financed for these activities through County taxes and other general revenues was \$9,812,212, because some of the cost was paid by those who directly benefited from the programs (\$2,130,922) or by other governments and organizations that subsidized certain programs with grants and contributions (\$14,356,774). Table 3 presents the cost of each of the County's five largest program functions, as well as each function's net cost (total cost, less revenues generated by the activities). The net cost shows the financial burden that was placed on the County's taxpayers by each of these functions.

Table 3
Governmental Activities
(in Thousands)

	Total Cost of Services		Net Cost of Services	
	2015	2014	2015	2014
General government	\$ 4,794	\$ 4,366	\$ 1,089	\$ 735
Public safety	5,028	4,863	4,284	4,150
Highways and streets	7,601	8,657	2,290	1,840
Human services	3,307	3,273	1,602	736
Health	2,670	2,684	(50)	781
All others	2,900	2,478	597	(550)
Total	\$ 26,300	\$ 26,321	\$ 9,812	\$ 7,692

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, Lake County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the County's governmental funds is to provide information on short-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements.

The County's governmental funds reported a combined fund balance of \$28,313,516 in 2015, compared with \$24,304,976 in 2014, an increase of \$4,008,540. Fund balances that are classified as restricted are either nonspendable or restricted and have specific (usually external) constraints placed on their use. Fund balances that are classified as unrestricted are either committed, assigned, or unassigned fund balances. Committed and assigned fund balances are fund balances for which the County has identified a specific purpose. Unassigned fund balances do not have a specific use identified, but generally support cash flows of the County.

Governmental funds reported restricted fund balance for 2015 of \$2,568,356, or 9.07 percent, of total fund balance. Restricted fund balance was \$413,901 nonspendable and \$2,154,455 restricted. Unrestricted fund balance was \$25,745,160, or 90.93 percent, of total fund balance. Unrestricted fund balance was \$4,708,677 committed, \$10,040,737 assigned, and \$10,995,746 unassigned. Committed fund balances are approved by the County Board. For example, the Board has decided, by resolution, to set aside monies to fund a portion of the County's broadband project. Assigned fund balances are amounts that are to be used for specific purposes, but are neither restricted nor committed. Unassigned fund balance is fund balance that has not been reported in any other classification and is only used in the General Fund unless there are deficit fund balances in other funds.

The General Fund is the main operating fund of the County. At December 31, 2015, unrestricted fund balance for the General Fund was \$14,675,019, compared to \$12,661,058 in 2014. This increase in the fund balance of the General Fund is due to an unbudgeted increase in intergovernmental revenues. Unrestricted fund balance at the end of the year represented 115.78 percent of the General Fund's operating revenues and 139.45 percent of operating expenditures.

The Road and Bridge Special Revenue Fund's unrestricted fund balance increased to \$1,594,048 in 2015, compared to unrestricted fund balance of \$152,645 in 2014. In 2015, there was an increase in state revenues received for construction projects undertaken by the Road and Bridge Department. Unrestricted fund balance at the end of the year represented 20.55 percent of the fund's operating revenues and 25.11 percent of operating expenditures.

The Human Services Special Revenue Fund's unrestricted fund balance was \$8,338,388 in 2015, compared to \$7,106,974 in 2014. The increase in the fund balance of the Human Services Special Revenue Fund is attributed to lower expenditures than what was budgeted. Unrestricted fund balance at the end of the year represented 117.02 percent of the fund's operating revenues and 141.47 percent of operating expenditures.

Proprietary Fund

The County's proprietary fund for broadband provides the same type of information found in the government-wide financial statements, only in more detail. The broadband fund's net position was \$572,098 in 2015, compared to \$1,732,567 in 2014. Net position decreased due to an increase in operating expense that was not in proportion to operating revenue. In 2014, the County's broadband fund began operations, collecting operating revenues and incurring operating expenditures. The broadband fund was originally started in 2012 to track the construction and related expenses of the County's broadband project.

General Fund Budgetary Highlights

Over the course of the year, the County Board reviews the County's General Fund budget and may make budget amendments. These budget amendments fall into three categories: new information changing original budget estimations, greater than anticipated revenues or costs, and final agreement reached on employee contracts. There were eight immaterial budget amendments in the General Fund budget in 2015.

In the General Fund, the actual charges to appropriations (expenditures) were \$17,350 less than the final budget amounts. Unbudgeted expenditures included \$159,773 of unbudgeted trail expenditures, \$276,073 of unbudgeted small cities development program expenditures, and \$250,610 of unbudgeted emergency management expenditures. These were offset by savings in various other General Fund departments.

Resources available for appropriation were also above the final budgeted amount by \$1,361,074. This was primarily due to greater than expected collections in intergovernmental revenues.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2015, the County had \$157,673,105 invested in a broad range of capital assets, including land, buildings, highways and streets, and equipment. (See Table 4.)

Table 4
Capital Assets at Year-End
(Net of Depreciation, in Thousands)

	Governmental Activities		Business-Type Activities		Totals	
	2015	2014	2015	2014	2015	2014
Land	\$ 4,021	\$ 4,021	\$ -	\$ -	\$ 4,021	\$ 4,021
Construction in progress	-	-	5,313	31,519	5,313	31,519
Buildings and improvements	9,329	9,682	1,745	1,440	11,074	11,122
Machinery, vehicles, furniture, and equipment	1,751	2,110	2,032	1,805	3,783	3,915
Infrastructure	73,688	74,886	59,794	9,518	133,482	84,404
Totals	<u>\$ 88,789</u>	<u>\$ 90,699</u>	<u>\$ 68,884</u>	<u>\$ 44,282</u>	<u>\$ 157,673</u>	<u>\$ 134,981</u>

The County's fiscal year 2015 capital budget calls for it to spend another \$74,200 for miscellaneous improvements at various buildings, \$239,500 on vehicles for various departments, \$466,157 on equipment for various departments, and \$5,230,100 for road construction. The road construction will be funded by state-aid construction funds.

Debt

At year-end, the County had \$2,130,000 in bonds and notes outstanding versus \$2,410,000 last year--a decrease of 11.6 percent--as shown in Table 5. Capital leases payable decreased by 199,387. The Rural Utilities Service Broadband Loan on the business-type activities portion has a balance of \$50,730,826.

Table 5
Outstanding Debt at Year-End
(in Thousands)

	Governmental Activities		Business-Type Activities		Totals	
	2015	2014	2015	2014	2015	2014
General obligation bonds	\$ 2,130	\$ 2,410	\$ -	\$ -	\$ 2,130	\$ 2,410
Capital leases	1,005	1,204	-	-	1,005	1,204
Loans payable	-	-	50,731	34,703	50,731	34,703
Compensated absences	1,445	1,433	-	-	1,445	1,433
Net pension liability	6,376	-	-	-	6,376	-
Net other postemployment benefits	396	357	-	-	396	357
Total	\$ 11,352	\$ 5,404	\$ 50,731	\$ 34,703	\$ 62,083	\$ 40,107

The state limits the amount of net debt that the County can issue to three percent of the market value of all taxable property in the County. The County's outstanding net debt is below this state-imposed limit.

Other obligations include accrued vacation pay, sick leave payable, net other postemployment benefits, and net pension liability. More detailed information about the County's long-term liabilities is presented in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The County's elected and appointed officials considered many factors when setting the fiscal year 2016 budget and tax rates.

- County General Fund expenditures for 2016 are budgeted to increase 1.82 percent over 2015.
- Property tax levies increased 3.15 percent for 2016.

CONTACTING LAKE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the County's finances and to show the County's accountability for the money it receives. If you have questions about this report, or need additional financial information, contact the County Auditor/Treasurer, Linda Libal, Lake County Courthouse, 601 - 3rd Avenue, Two Harbors, Minnesota 55616.

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BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET POSITION
DECEMBER 31, 2015**

	Primary Government			Housing and Redevelopment Authority Component Unit
	Governmental Activities	Business-Type Activities	Total	
<u>Assets</u>				
Cash and pooled investments	\$ 11,108,562	\$ -	\$ 11,108,562	\$ 746,845
Receivables - net	8,585,837	179,650	8,765,487	132,366
Due from component unit	196,189	-	196,189	-
Internal balances	12,982,862	(12,982,862)	-	-
Inventories	353,901	891,233	1,245,134	-
Prepaid items	13,096	-	13,096	-
Restricted assets for security deposits	-	-	-	16,600
Capital assets				
Non-depreciable capital assets	4,021,386	5,313,226	9,334,612	-
Depreciable capital assets - net of accumulated depreciation	84,767,266	63,571,227	148,338,493	1,032,308
Total Assets	\$ 122,029,099	\$ 56,972,474	\$ 179,001,573	\$ 1,928,119
<u>Deferred Outflows of Resources</u>				
Deferred pension outflows	\$ 1,100,507	\$ -	\$ 1,100,507	\$ -
<u>Liabilities</u>				
Accounts payable and other current liabilities	\$ 1,228,367	\$ 5,669,550	\$ 6,897,917	\$ 3,066
Accrued interest payable	25,376	-	25,376	-
Due to primary government	-	-	-	196,189
Unearned revenue	78,662	-	78,662	863
Payable from restricted assets				
Security deposits payable	-	-	-	16,600
Long-term liabilities				
Due within one year	516,464	3,156,080	3,672,544	55,000
Due in more than one year	4,063,046	47,574,746	51,637,792	616,172
Net pension liability	6,376,317	-	6,376,317	-
Other postemployment benefits	395,578	-	395,578	-
Total Liabilities	\$ 12,683,810	\$ 56,400,376	\$ 69,084,186	\$ 887,890
<u>Deferred Inflows of Resources</u>				
Deferred pension inflows	\$ 793,395	\$ -	\$ 793,395	\$ -

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

**EXHIBIT 1
(Continued)**

**STATEMENT OF NET POSITION
DECEMBER 31, 2015**

	Primary Government			Housing and Redevelopment Authority Component Unit
	Governmental Activities	Business-Type Activities	Total	
<u>Net Position</u>				
Net investment in capital assets	\$ 85,654,076	\$ 18,153,627	\$ 103,807,703	\$ 361,136
Restricted for				
General government	599,730	-	599,730	-
Public safety	628,572	-	628,572	-
Highways and streets	2,183,014	-	2,183,014	-
Conservation of natural resources	93,461	-	93,461	-
Debt service	832,692	-	832,692	-
Unrestricted	19,660,856	(17,581,529)	2,079,327	679,093
Total Net Position	<u>\$ 109,652,401</u>	<u>\$ 572,098</u>	<u>\$ 110,224,499</u>	<u>\$ 1,040,229</u>

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Expenses</u>	<u>Fees, Charges, Fines, and Other</u>	<u>Program Revenues Operating Grants and Contributions</u>
<u>Functions/Programs</u>			
Primary government			
Governmental activities			
General government	\$ 4,793,568	\$ 553,293	\$ 3,150,804
Public safety	5,028,227	160,377	583,961
Highways and streets	7,600,798	122,330	4,252,238
Sanitation	260,572	42,796	-
Human services	3,306,838	79,452	1,625,714
Health	2,670,458	318,400	2,402,139
Culture and recreation	942,748	-	237,412
Conservation of natural resources	1,296,875	854,274	618,163
Economic development	320,774	-	549,939
Interest	79,050	-	-
Total governmental activities	\$ 26,299,908	\$ 2,130,922	\$ 13,420,370
Business-type activities			
Broadband	6,099,492	934,445	-
Total Primary Government	\$ 32,399,400	\$ 3,065,367	\$ 13,420,370
Component unit			
Housing and Redevelopment Authority	\$ 246,715	\$ 177,671	\$ -

General Revenues

Property taxes
Mortgage registry and deed tax
Payments in lieu of tax
Taxes - other
Grants and contributions not restricted to specific programs
Unrestricted investment earnings
Gain on sale of capital assets
Miscellaneous
Transfers

Total general revenues

Change in net position

Net Position - Beginning, as restated (Note 1.E.)

Net Position - Ending

The notes to the financial statements are an integral part of this statement.

EXHIBIT 2

Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position			Discretely Presented Component Unit
	Governmental Activities	Primary Government Business-Type Activities	Total	
\$ -	\$ (1,089,471)	\$ -	\$ (1,089,471)	
-	(4,283,889)	-	(4,283,889)	
936,404	(2,289,826)	-	(2,289,826)	
-	(217,776)	-	(217,776)	
-	(1,601,672)	-	(1,601,672)	
-	50,081	-	50,081	
-	(705,336)	-	(705,336)	
-	175,562	-	175,562	
-	229,165	-	229,165	
-	(79,050)	-	(79,050)	
\$ 936,404	\$ (9,812,212)	\$ -	\$ (9,812,212)	
3,273,709		(1,891,338)	(1,891,338)	
\$ 4,210,113	\$ (9,812,212)	\$ (1,891,338)	\$ (11,703,550)	
\$ -				\$ (69,044)
	\$ 8,666,143	\$ -	\$ 8,666,143	\$ 106,296
	658,625	-	658,625	-
	902,959	-	902,959	-
	338,296	-	338,296	-
	1,221,224	-	1,221,224	7,708
	80,522	-	80,522	5,062
	3,597	-	3,597	-
	156,081	-	156,081	6,451
	(730,869)	730,869	-	
	\$ 11,296,578	\$ 730,869	\$ 12,027,447	\$ 125,517
	\$ 1,484,366	\$ (1,160,469)	\$ 323,897	\$ 56,473
	108,168,035	1,732,567	109,900,602	983,756
	\$ 109,652,401	\$ 572,098	\$ 110,224,499	\$ 1,040,229

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

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**LAKE COUNTY
TWO HARBORS, MINNESOTA**

EXHIBIT 3

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2015**

	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>	<u>Nonmajor Funds</u>	<u>Total</u>
<u>Assets</u>					
Cash and pooled investments	\$ -	\$ 1,478,193	\$ 6,932,162	\$ 1,718,715	\$ 10,129,070
Escheat cash	36,538	-	-	-	36,538
Petty cash and change funds	1,350	1,000	1,000	50	3,400
Undistributed cash in agency funds	560,540	145,872	196,049	37,093	939,554
Taxes receivable - prior	200,945	53,949	81,840	12,415	349,149
Accounts receivable	16,812	10,474	173,645	772,794	973,725
Accrued interest receivable	5,011	-	-	-	5,011
Loans receivable	88,225	-	-	-	88,225
Due from other funds	12,991,696	-	116,316	172,158	13,280,170
Due from other governments	2,875,340	2,547,074	1,099,901	237,412	6,759,727
Due from component unit	-	-	-	196,189	196,189
Prepaid expense	-	-	13,096	-	13,096
Inventories	-	353,901	-	-	353,901
Leases receivable	410,000	-	-	-	410,000
Total Assets	\$ 17,186,457	\$ 4,590,463	\$ 8,614,009	\$ 3,146,826	\$ 33,537,755
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>					
Liabilities					
Accounts payable	\$ 185,136	\$ 64,699	\$ 84,486	\$ 36,641	\$ 370,962
Escheat payable	36,538	-	-	-	36,538
Salaries payable	220,370	65,733	81,618	16,869	384,590
Contracts payable	-	226,640	-	-	226,640
Due to other funds	2,845	-	16,217	278,246	297,308
Due to other governments	27,963	17,366	31,463	132,845	209,637
Unearned revenue	-	78,662	-	-	78,662
Total Liabilities	\$ 472,852	\$ 453,100	\$ 213,784	\$ 464,601	\$ 1,604,337
Deferred Inflows of Resources					
Unavailable revenue - taxes	\$ 143,753	\$ 39,066	\$ 61,837	\$ 8,630	\$ 253,286
Unavailable revenue - grants	74,845	2,150,348	-	-	2,225,193
Unavailable revenue - long-term receivables	438,225	-	-	703,198	1,141,423
Total Deferred Inflows of Resources	\$ 656,823	\$ 2,189,414	\$ 61,837	\$ 711,828	\$ 3,619,902

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

**EXHIBIT 3
(Continued)**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2015**

	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>	<u>Nonmajor Funds</u>	<u>Total</u>
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>					
(Continued)					
Fund Balances					
Nonspendable					
Loans receivables	\$ 60,000	\$ -	\$ -	\$ -	\$ 60,000
Inventories	-	353,901	-	-	353,901
Restricted for					
Law library	32,204	-	-	-	32,204
Recorder's technology equipment	317,430	-	-	-	317,430
Enhanced 911	561,907	-	-	-	561,907
County property recorder's fee	236,757	-	-	-	236,757
Law and prosecutorial equipment	63,077	-	-	-	63,077
Election equipment	13,339	-	-	-	13,339
Sheriff's contingency fund	3,588	-	-	-	3,588
Title III forest	93,461	-	-	-	93,461
Debt service	-	-	-	832,692	832,692
Committed to					
Broadband project	3,500,000	-	-	-	3,500,000
Rescue squad capital expenditures	25,019	-	-	-	25,019
Out-of-home placement costs	-	-	1,000,000	-	1,000,000
Unorganized townships					
Emergency services	-	-	-	183,658	183,658
Assigned to					
Capital assets	59,000	-	-	-	59,000
Highways and streets	-	1,594,048	-	-	1,594,048
Human services	-	-	7,338,388	-	7,338,388
Resource development	-	-	-	1,049,301	1,049,301
Unassigned	11,091,000	-	-	(95,254)	10,995,746
Total Fund Balances	\$ 16,056,782	\$ 1,947,949	\$ 8,338,388	\$ 1,970,397	\$ 28,313,516
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 17,186,457	\$ 4,590,463	\$ 8,614,009	\$ 3,146,826	\$ 33,537,755

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET POSITION--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2015**

Fund balances - total governmental funds (Exhibit 3)		\$ 28,313,516
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		88,788,652
Deferred outflows of resources resulting from pension obligations are not available resources and, therefore, are not reported in governmental funds.		1,100,507
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		3,619,902
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
General obligation bonds	\$ (2,130,000)	
Capital leases payable	(1,004,576)	
Compensated absences	(1,444,934)	
Net pension liability	(6,376,317)	
Other postemployment benefits payable	(395,578)	
Accrued interest payable	(25,376)	
	(11,376,781)	(11,376,781)
Deferred inflows resulting from pension obligations are not due and payable in the current period and, therefore, are not reported in the governmental funds.		(793,395)
Net Position of Governmental Activities (Exhibit 1)		\$ <u>109,652,401</u>

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

EXHIBIT 5

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Revenues					
Taxes	\$ 5,842,832	\$ 1,776,716	\$ 1,875,070	\$ 356,480	\$ 9,851,098
Licenses and permits	15,656	-	-	1,171	16,827
Intergovernmental	6,032,850	5,858,085	4,852,531	542,359	17,285,825
Charges for services	439,660	105,400	308,771	10,731	864,562
Fines and forfeits	2,210	-	-	-	2,210
Investment earnings	80,140	-	-	382	80,522
Miscellaneous	262,078	16,930	89,081	886,103	1,254,192
Total Revenues	\$ 12,675,426	\$ 7,757,131	\$ 7,125,453	\$ 1,797,226	\$ 29,355,236
Expenditures					
Current					
General government	\$ 4,677,051	\$ -	\$ -	\$ 1,947	\$ 4,678,998
Public safety	4,528,517	-	-	131,986	4,660,503
Highways and streets	-	6,290,104	-	-	6,290,104
Sanitation	235,547	-	-	-	235,547
Human services	-	-	3,222,407	-	3,222,407
Health	-	-	2,671,632	-	2,671,632
Culture and recreation	596,682	-	-	170,180	766,862
Conservation of natural resources	164,967	-	-	1,034,778	1,199,745
Economic development	320,774	-	-	-	320,774
Capital outlay					
Conservation of natural resources	-	-	-	61,059	61,059
Debt service					
Principal	-	52,720	-	426,667	479,387
Interest	-	5,682	-	76,301	81,983
Administrative (fiscal) charges	-	-	-	560	560
Total Expenditures	\$ 10,523,538	\$ 6,348,506	\$ 5,894,039	\$ 1,903,478	\$ 24,669,561
Excess of Revenues Over (Under) Expenditures	\$ 2,151,888	\$ 1,408,625	\$ 1,231,414	\$ (106,252)	\$ 4,685,675
Other Financing Sources (Uses)					
Transfers in	\$ 2,246	\$ 32,778	\$ -	\$ 245,291	\$ 280,315
Transfers out	(26,503)	-	-	(984,681)	(1,011,184)
Total Other Financing Sources (Uses)	\$ (24,257)	\$ 32,778	\$ -	\$ (739,390)	\$ (730,869)
Net Change in Fund Balances	\$ 2,127,631	\$ 1,441,403	\$ 1,231,414	\$ (845,642)	\$ 3,954,806
Fund Balances - January 1	13,929,151	452,812	7,106,974	2,816,039	24,304,976
Increase (decrease) in inventories	-	53,734	-	-	53,734
Fund Balances - December 31	\$ 16,056,782	\$ 1,947,949	\$ 8,338,388	\$ 1,970,397	\$ 28,313,516

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

EXHIBIT 6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2015**

Net change in fund balances - total governmental funds (Exhibit 5) \$ 3,954,806

Amounts reported for governmental activities in the statement of activities are different because:

In the funds, under the modified accrual basis, receivables not available for expenditure are deferred. In the statement of activities, those revenues are recognized when earned. The adjustment to revenue between the fund statements and the statement of activities is the increase or decrease in revenue deferred as unavailable.

Deferred revenue - December 31	\$ 3,619,902	
Deferred revenue - January 1	<u>(4,471,875)</u>	(851,973)

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the statement of activities, the gain or loss on the disposal of capital assets is reported; in the governmental funds, proceeds from the sale increase financial resources. The difference is the net book value of assets sold.

Expenditures for general capital assets and infrastructure	\$ 1,306,232	
Current year depreciation	<u>(3,217,120)</u>	(1,910,888)

Debt issuances provide current financial resources to governmental funds, but increase long-term liabilities in the statement of net position. Debt repayment is an expenditure in funds, but a reduction of a liability in the statement of net position.

Principal repayments		
General obligation bonds	280,000	
Capital lease	<u>199,387</u>	479,387

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Change in accrued interest payable	\$ 3,493	
Change in compensated absences	(12,062)	
Change in net pension liability, as restated	(186,368)	
Change in deferred outflows of resources, as restated	786,473	
Change in deferred inflows of resources	(793,395)	
Change in other postemployment benefits	(38,841)	
Change in inventories	<u>53,734</u>	<u>(186,966)</u>

Change in Net Position of Governmental Activities (Exhibit 2) \$ 1,484,366

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PROPRIETARY FUND

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**LAKE COUNTY
TWO HARBORS, MINNESOTA**

EXHIBIT 7

**STATEMENT OF NET POSITION
PROPRIETARY FUND
DECEMBER 31, 2015**

	<u>Broadband</u>
<u>Assets</u>	
Current assets	
Accounts receivable	\$ 179,650
Inventories	891,233
Capital assets	
Non-depreciable capital assets	5,313,226
Depreciable - net of accumulated depreciation	<u>63,571,227</u>
Total Assets	\$ <u>69,955,336</u>
<u>Liabilities</u>	
Current liabilities	
Accounts payable	\$ 388,589
Contracts payable	2,877,357
Retainage payable	2,400,408
Due to other governments	3,196
Due to other funds	12,982,862
Loans payable - current	<u>3,156,080</u>
Total current liabilities	\$ 21,808,492
Noncurrent liabilities	
Loans payable - noncurrent	<u>47,574,746</u>
Total Liabilities	\$ <u>69,383,238</u>
<u>Net Position</u>	
Net investment in capital assets	\$ 18,153,627
Unrestricted	<u>(17,581,529)</u>
Total Net Position	\$ <u><u>572,098</u></u>

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

EXHIBIT 8

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2015**

	Broadband
Operating Revenues	
Charges for services	\$ 933,721
Miscellaneous	724
	\$ 934,445
Operating Expenses	
Contracted services	\$ 828,036
Professional services	7,588
Administration and fiscal services	98,149
Supplies	32,195
Utilities	47,676
Telephone	10,287
Fuel	2,803
Advertising	96,403
Consulting services	1,092,314
Insurance	73,414
Travel	81,222
License and dues	14,041
Postage	10,472
Rent and leased equipment	49,369
Repairs and maintenance	139,122
Video and internet services	137,181
Miscellaneous	8,456
Depreciation	2,392,188
	\$ 5,120,916
Operating Income (Loss)	\$ (4,186,471)
Nonoperating Revenues (Expenses)	
Broadband initiatives program	\$ 3,273,709
Interest expense	(978,576)
	\$ 2,295,133
Income (Loss) Before Transfers	\$ (1,891,338)
Other Financing Sources	
Transfers in	\$ 737,144
Transfers out	(6,275)
	\$ 730,869
Change in Net Position	\$ (1,160,469)
Net Position - January 1	1,732,567
Net Position - December 31	\$ 572,098

The notes to the financial statements are an integral part of this statement.

Page 24

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

EXHIBIT 9

**STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2015**

	Broadband
Cash Flows from Operating Activities	
Cash received from customers	\$ 789,761
Other operating revenues	724
Cash paid to suppliers	(3,312,978)
Net cash provided by (used in) operating activities	\$ (2,522,493)
Cash Flows from Capital and Related Financing Activities	
Acquisition of capital assets	\$ (25,341,055)
Grant proceeds	4,253,954
Proceeds from loan	24,105,737
Advance	2,997,447
Principal paid on loan	(2,523,250)
Interest paid on loan	(970,340)
Net cash provided by (used in) capital and related financing activities	\$ 2,522,493
Net Increase (Decrease) in Cash and Cash Equivalents	\$ -
Cash and Cash Equivalents at January 1	-
Cash and Cash Equivalents at December 31	\$ -
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities	
	\$ (4,186,471)
Adjustments to reconcile net operating income (loss) to net cash provided by (used in) operating activities	
Depreciation	\$ 2,392,188
(Increase) decrease in receivables	(143,960)
(Increase) decrease in inventories	(891,233)
Increase (decrease) in payables	306,983
Total adjustments	\$ 1,663,978
Net Cash Provided by (Used in) Operating Activities	\$ (2,522,493)

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FIDUCIARY FUNDS

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**LAKE COUNTY
TWO HARBORS, MINNESOTA**

EXHIBIT 10

**STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
DECEMBER 31, 2015**

	<u>Agency</u>
<u>Assets</u>	
Cash and pooled investments	<u><u>\$ 1,332,664</u></u>
<u>Liabilities</u>	
Accounts payable	\$ 403,266
Taxes collected in advance	6,539
Due to other governments	835,549
Customer deposits - current	<u>87,310</u>
Total Liabilities	<u><u>\$ 1,332,664</u></u>

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**LAKE COUNTY
TWO HARBORS, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2015

1. Summary of Significant Accounting Policies

The County’s financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2015. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

Lake County was established March 1, 1866, and is an organized county having the powers, duties, and privileges granted counties by Minn. Stat. ch. 373. As required by accounting principles generally accepted in the United States of America, these financial statements present Lake County (primary government) and its component unit for which the County is financially accountable. The County is governed by a five-member Board of Commissioners elected from districts within the County. The Board is organized with a chair and vice chair elected at the annual meeting in January of each year.

Discretely Presented Component Unit

While part of the reporting entity, the discretely presented component unit is presented in a separate column in the government-wide financial statements to emphasize that it is legally separate from the County. The following component unit of Lake County is discretely presented:

<u>Component Unit</u>	<u>Component Unit Included in Reporting Entity Because</u>	<u>Separate Financial Statements</u>
Lake County Housing and Redevelopment Authority	The County appoints members, and the Authority is a potential financial burden.	Lake County Housing and Redevelopment Authority P. O. Box 103 Silver Bay, Minnesota 55614

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity

Discretely Presented Component Unit (Continued)

The Lake County Housing and Redevelopment Authority is governed by a five-member Board appointed by the Lake County Board of Commissioners. The Lake County Housing and Redevelopment Authority has all of the powers and duties of a county housing and redevelopment authority under the provisions of Minn. Stat. §§ 469.001-.047.

Joint Ventures and Jointly-Governed Organizations

The County participates in several joint ventures described in Note 7.D. The County also participates in jointly-governed organizations described in Note 7.E.

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (the statement of net position and the statement of activities) display information about the primary government and its component unit. These statements include the financial activities of the overall County government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. Governmental activities which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external parties.

In the government-wide statement of net position, the governmental and business-type activities column: (a) is presented on a consolidated basis by column; and (b) is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The County's net position is reported in three parts: (1) net investment in capital assets, (2) restricted net position, and (3) unrestricted net position. The County first utilizes restricted resources to finance qualifying activities.

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

The statement of activities demonstrates the degree to which the direct expenses of each function of the County's governmental and business-type activities are offset by program revenue. Direct expenses are those clearly identifiable with a specific function or activity. Program revenues include: (1) fees, fines, and charges paid by the recipients of goods, services, or privileges provided by a given function or activity; and (2) grants and contributions restricted to meeting the operational or capital requirements of a particular function or activity. Revenue not classified as program revenue, including all taxes, are presented as general revenue.

2. Fund Financial Statements

The fund financial statements provide information about the County's funds, including its fiduciary funds. Separate statements for each fund category--governmental, proprietary, and fiduciary--are presented. The emphasis of governmental and proprietary fund financial statements is on major individual governmental and enterprise funds, with each displayed as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor funds.

The County reports the following major governmental funds:

The General Fund is the County's primary operating fund. It accounts for all financial resources of the general government, except those accounted for in another fund.

The Road and Bridge Special Revenue Fund is used to account for property tax and intergovernmental revenues and expenditures of the County Highway Department, which is responsible for the construction and maintenance of roads, bridges, and other projects affecting County roadways.

The Human Services Special Revenue Fund is used to account for property tax and intergovernmental revenues used for economic assistance and community social services programs.

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

The County reports the following major proprietary fund:

The Broadband Enterprise Fund is used to account for the operations of the broadband system. Activities necessary to provide broadband services are accounted for in this fund including the financial resources to be used for the acquisition and construction of the major capital assets relating to the County's broadband system.

Additionally, the County reports the following fund types:

The Debt Service Fund is used to account for the accumulation of resources for and the payment of principal, interest, and related costs of general long-term debt.

Agency funds are custodial in nature and do not present results of operations or have a measurement focus. These funds account for assets that the County holds for others in an agent capacity.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Shared revenues are generally recognized in the period the appropriation goes into effect. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Lake County considers all revenue as available if collected within 90 days after the end of the current period, except for taxes, which have a 60-day accrual period. Property and other taxes,

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

licenses, and interest are all considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or incidental activities.

When both restricted and unrestricted resources are available for use, it is the County's policy to use restricted resources first and then unrestricted resources as needed.

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

1. Cash and Cash Equivalents

The County has defined cash and cash equivalents to include cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Additionally, each fund's equity in the County's investment pool is treated as a cash equivalent because the funds can deposit or effectively withdraw cash at any time without prior notice or penalty. Cash and cash equivalents do not include restricted accounts.

2. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Auditor/Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2015, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2015 were \$80,522 at the governmental fund level.

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

2. Deposits and Investments (Continued)

Lake County invests in an external investment pool, the Minnesota Association of Governments Investing for Counties (MAGIC) Fund, which is created under a joint powers agreement pursuant to Minn. Stat. § 471.59. The investment in the pool is measured at the net asset value per share provided by the pool.

3. Receivables and Payables

Activity between funds representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either “due to/from other funds” (the current portion of interfund loans) or “advances to/from other funds” (the noncurrent portion of interfund loans).

All other outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “internal balances.”

Property taxes are levied as of January 1 on property values assessed as of the same date. The tax levy notice is mailed in March with the first half payment due May 15 and the second half payment due October 15. Unpaid taxes at December 31 become liens on the respective property and are classified in the financial statements as taxes receivable - prior.

No allowance for uncollectible receivables has been provided because such amounts are not expected to be material.

4. Inventories and Prepaid Items

The Road and Bridge Special Revenue Fund inventory is valued at cost using the average cost method and consists of expendable supplies and parts held for consumption and sand and gravel stockpiles. Inventories in governmental funds are recorded as expenditures when purchased rather than when consumed.

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

4. Inventories and Prepaid Items (Continued)

Inventories in proprietary funds and at the government-wide level are recorded as expenses when consumed.

The Broadband Enterprise Fund inventory consists of materials and supplies held for customer installations, system expansion, and repair stock. Inventory is based on lower of cost or market using the first-in, first-out method and are based on an annual physical inventory.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

5. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (for example, roads, bridges, and similar items), are reported in the governmental or business-type activities column in the government-wide and proprietary fund financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

5. Capital Assets (Continued)

Property, plant, and equipment of the primary government are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	5 - 50
Improvements other than buildings	8 - 20
Public domain infrastructure	50 - 75
Furniture, equipment, and vehicles	5 - 20

6. Unearned Revenue

Governmental funds and the government-wide statements report unearned revenue in connection with resources that have been received, but not yet earned.

7. Pension Plan

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA except that PERA's fiscal year-end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Plan investments are reported at fair value. The net pension liability is liquidated through the General Fund and other governmental funds that have personal services.

8. Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

8. Compensated Absences (Continued)

who are expected to become eligible in the future to receive such payments upon termination are included. Compensated absences are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Lake County's employees (except for Highway Department employees) participate in a postretirement health savings plan administered by the Minnesota State Retirement System. At retirement, depending on the employee's years of service, he or she is issued a lump sum payout of either 10 or 20 percent of the vested sick leave as well as two to three years of insurance coverage. The lump sum payouts are paid directly into the postretirement health savings plan. Compensated absences are liquidated by the General Fund, the Road and Bridge Special Revenue Fund, the Human Services Special Revenue Fund, and the Forfeited Tax Special Revenue Fund.

The County determines the current portion, if any, based on anticipated retirements and any activity that occurs within the first few months of the subsequent year. There was no current portion reported at year-end.

9. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expenditure/expense) until then. The County has one item that qualifies for reporting in this category. These outflows arise only under the full accrual basis of accounting and consist of pension plan contributions paid subsequent to the measurement date, differences between projected and actual earnings on pension plan investments, and also pension plan changes in proportionate share and, accordingly, are reported only in the statement of net position.

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

9. Deferred Outflows/Inflows of Resources (Continued)

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The County has two types of deferred inflows. The governmental funds report unavailable revenue from delinquent taxes receivable, grant receivables, and long-term receivables. Unavailable revenue arises only under the modified accrual basis of accounting and, accordingly, is reported only in the governmental funds balance sheet. The unavailable revenue amount is deferred and recognized as an inflow of resources in the period that the amounts become available. The County also has deferred pension inflows. These inflows arise only under the full accrual basis of accounting and consist of differences between expected and actual pension plan economic experience and also pension plan changes in proportionate share and, accordingly, are reported only in the statement of net position.

10. Long-Term Obligations

In the government-wide financial statements and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity
(Continued)

11. Classification of Net Position

Net position in government-wide statements and in the proprietary fund type statements is classified in the following categories:

Net investment in capital assets - the amount of net position representing capital assets, net of accumulated depreciation, and reduced by outstanding debt attributed to the acquisition, construction, or improvement of the assets.

Restricted net position - the amount of net position for which external restrictions have been imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position - the amount of net position that does not meet the definition of restricted or net investment in capital assets.

12. Classification of Fund Balances

Fund balance is divided into five classifications based primarily on the extent to which the County is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable - amounts that cannot be spent because they are not in spendable form, such as fund balance associated with inventories, prepaids, or permanent funds.

Restricted - amounts that are restricted by external parties such as creditors or imposed by grants, law, or legislation.

Committed - amounts that can be used only for the specific purposes determined by a formal action of Lake County's highest level of decision-making authority, which is the Lake County Board of Commissioners. Fund balance commitments are established, modified, or rescinded by County Board action through a Board resolution.

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

12. Classification of Fund Balances (Continued)

Assigned - amounts intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount of fund balance that is not restricted or committed.

Unassigned - the residual classification for the General Fund and includes all spendable amounts not contained in the other fund balance classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted or committed.

The County applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

13. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

E. Change in Accounting Principles

During the year ended December 31, 2015, the County adopted new accounting guidance by implementing the provisions of GASB Statements 68, 71, and 82. GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, requires governments providing defined benefit pensions to

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

1. Summary of Significant Accounting Policies

E. Change in Accounting Principles (Continued)

employees through pension plans administered through trusts to record their proportionate share of the net pension obligation as a liability on their financial statements along with related deferred outflows of resources, deferred inflows of resources, and pension expense. This statement also requires additional note disclosures and schedules in the required supplementary information.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, addresses an issue regarding amounts associated with contributions made to a pension plan after the measurement date of the net pension liability.

GASB Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*, modifies the measure of payroll that is presented in the required supplementary information schedules.

GASB Statements 68 and 71 require the County to report its proportionate share of the PERA total employers' unfunded pension liability. As a result, beginning net position has been restated to record the County's net pension liability and related deferred outflows of resources.

	<u>Governmental Activities</u>
Net Position, January 1, 2015, as previously reported	\$ 114,043,950
Change in accounting principles	<u>(5,875,915)</u>
Net Position, January 1, 2015, as restated	<u>\$ 108,168,035</u>

2. Stewardship, Compliance, and Accountability

A. Deficit Fund Equity

At December 31, 2015, the Forfeited Tax Special Revenue Fund had a deficit fund balance of \$95,254. This deficit will be made up with future tax levies and other revenue sources.

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

2. Stewardship, Compliance, and Accountability (Continued)

B. Excess of Expenditures Over Appropriations

For the year ended December 31, 2015, expenditures exceeded appropriations in the following nonmajor funds:

	Final Budget	Expenditures	Excess
Special Revenue Funds			
Resource Development	\$ 168,484	\$ 730,936	\$ 562,452
Unorganized Townships	116,250	133,933	17,683
Forfeited Tax	612,197	703,833	91,636
Debt Service Fund	334,621	334,776	155

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

The County's total cash and investments are reported as follows:

Primary government	
Cash and pooled investments	\$ 11,108,562
Component unit	
Cash and pooled investments	746,845
Restricted cash with management company for security deposits	16,600
Fiduciary funds	
Cash and pooled investments	1,332,664
Total Cash and Investments	\$ 13,204,671

a. Deposits

The County is authorized by Minn. Stat. §§ 118A.02 and 118A.04 to designate a depository for public funds and to invest in certificates of deposit. The County is required by Minn. Stat. § 118A.03 to protect all County deposits with insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit at the close of the financial institution's banking day, not covered by insurance or bonds.

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated “A” or better and revenue obligations rated “AA” or better; irrevocable standby letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held 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 not owned or controlled by the financial institution furnishing the collateral.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County’s deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk. As of December 31, 2015, the County’s deposits were not exposed to custodial credit risk.

b. Investments

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

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as “high risk” by Minn. Stat. § 118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers' acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. The County minimizes its exposure to interest rate risk by investing in both short-term and long-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of an investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. It is the County's policy to invest only in securities that meet the ratings requirements set by state statute.

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities in the possession of an outside party. The County does not have an investment policy for custodial credit risk. All of Lake County's investments in negotiable certificates of deposit and government securities are held by the counterparty to the transactions. These investments are covered by Securities Investor Protection Corporation (SIPC) insurance or excess SIPC insurance and are, therefore, not subject to custodial credit risk.

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the County's investment in a single issuer. It is the policy of the County to diversify investments to avoid risk and also for cash-flow purposes.

The following table presents the County's deposit and investment balances at December 31, 2015, and information relating to potential investment risks:

Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5% of Portfolio	Maturity Date	
U.S. government agency securities					
Federal National Mortgage Association	N/R	N/A	<5%	02/01/2019	\$ 22,291
Federal Home Loan Bank Bonds	Aaa	Moody's		03/30/2020	\$ 250,052
Federal Home Loan Bank Bonds	Aaa	Moody's		02/25/2021	249,575
Federal Home Loan Bank Bonds	Aaa	Moody's		06/30/2021	148,811
Federal Home Loan Bank Bonds	Aaa	Moody's		04/29/2025	549,037
Total Federal Home Loan Bank Bonds			11.13%		\$ 1,197,475
Federal Home Loan Mortgage Corporation Note	Aaa	Moody's	<5%	06/17/2020	\$ 250,285
Federal Farm Credit Bank	Aaa	Moody's	<5%	02/11/2021	\$ 248,700

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5% of Portfolio	Maturity Date	
Negotiable Certificate of Deposit					
Comenity Bank	N/A	N/A		10/21/2019	\$ 198,902
CIT Bank	N/A	N/A		11/19/2019	247,222
JP Morgan Chase Bank, NA	N/A	N/A		03/25/2020	247,146
Worlds Foremost Bank	N/A	N/A		04/15/2020	98,571
			7.36%		
Total Negotiable Certificate of Deposit					\$ 791,841
Investment pools/mutual funds					
MAGIC Fund	N/R	N/A	76.67%	N/A	\$ 8,249,961
Total investments					\$ 10,760,553
Deposits - primary government					\$ 1,640,735
Deposits - component unit					763,445
Petty cash and change funds					3,400
Escheat cash					36,538
Total Cash and Investments					\$ 13,204,671

N/A - Not Applicable

N/R - Not Rated

<5% - Concentration is less than 5% of investments

2. Receivables

Receivables as of December 31, 2015, for the County's governmental and business-type activities are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	\$ 349,149	\$ -
Due from other governments	6,759,727	-
Accounts	973,725	703,198
Interest	5,011	-
Loans receivable	88,225	78,051
Leases receivable	410,000	360,174
Total Governmental Activities	\$ 8,585,837	\$ 1,141,423

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

2. Receivables (Continued)

Business-Type Activities Accounts	\$ 179,650	\$ -
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Loans Receivable

Loans receivable consist of outstanding loans to individuals for shoreline erosion projects and loans to individuals for economic development.

Leases Receivable

The County entered into lease agreements with the Lake County Ambulance Service to rent the Two Harbors ambulance service building and Silver Bay ambulance service building owned by Lake County. The annual rent of \$40,000 for the buildings is based on the financial stability and profitability of the Ambulance Service.

3. Capital Assets

Capital asset activity for the year ended December 31, 2015, was as follows:

Governmental Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 4,021,386	\$ -	\$ -	\$ 4,021,386
Capital assets depreciated				
Buildings	\$ 16,442,076	\$ 15,232	\$ -	\$ 16,457,308
Improvements other than buildings	711,319	82,812	-	794,131
Machinery, furniture, and equipment	12,303,793	426,315	26,835	12,703,273
Infrastructure	102,822,919	781,873	-	103,604,792
Total capital assets depreciated	\$ 132,280,107	\$ 1,306,232	\$ 26,835	\$ 133,559,504

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets

Governmental Activities (Continued)

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Less: accumulated depreciation for				
Buildings	\$ 7,002,223	\$ 414,945	\$ -	\$ 7,417,168
Improvements other than buildings	468,672	36,986	-	505,658
Machinery, furniture, and equipment	10,194,174	785,197	26,835	10,952,536
Infrastructure	<u>27,936,884</u>	<u>1,979,992</u>	<u>-</u>	<u>29,916,876</u>
Total accumulated depreciation	<u>\$ 45,601,953</u>	<u>\$ 3,217,120</u>	<u>\$ 26,835</u>	<u>\$ 48,792,238</u>
Total capital assets depreciated, net	<u>\$ 86,678,154</u>	<u>\$ (1,910,888)</u>	<u>\$ -</u>	<u>\$ 84,767,266</u>
Governmental Activities Capital Assets, Net	<u>\$ 90,699,540</u>	<u>\$ (1,910,888)</u>	<u>\$ -</u>	<u>\$ 88,788,652</u>

Business-Type Activities

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Transfer/ Reclassification</u>	<u>Ending Balance</u>
Capital assets not depreciated					
Construction in progress	\$ 31,518,771	\$ 4,782,628	\$ -	\$ (30,988,173)	\$ 5,313,226
Capital assets depreciated					
Buildings	\$ 488,503	\$ 260,312	\$ -	\$ -	\$ 748,815
Improvements other than buildings	1,036,698	99,137	-	-	1,135,835
Machinery, furniture, and equipment	2,151,793	534,531	-	112,753	2,799,077
Infrastructure	<u>10,022,495</u>	<u>21,318,472</u>	<u>-</u>	<u>30,875,420</u>	<u>62,216,387</u>
Total capital assets depreciated	<u>\$ 13,699,489</u>	<u>\$ 22,212,452</u>	<u>\$ -</u>	<u>\$ 30,988,173</u>	<u>\$ 66,900,114</u>

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets

Business-Type Activities (Continued)

	Beginning Balance	Increase	Decrease	Transfer/ Reclassification	Ending Balance
Less: accumulated depreciation for					
Buildings	\$ 23,882	\$ 20,030	\$ -	\$ -	\$ 43,912
Improvements other than buildings	61,685	34,042	-	-	95,727
Machinery, furniture, and equipment	346,669	419,958	-	-	766,627
Infrastructure	504,463	1,918,158	-	-	2,422,621
Total accumulated depreciation	\$ 936,699	\$ 2,392,188	\$ -	\$ -	\$ 3,328,887
Total capital assets depreciated, net	\$ 12,762,790	\$ 19,820,264	\$ -	\$ 30,988,173	\$ 63,571,227
Business-Type Activities Capital Assets, Net	\$ 44,281,561	\$ 24,602,892	\$ -	\$ -	\$ 68,884,453

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities	
General government	\$ 229,728
Public safety	453,310
Highways and streets, including depreciation of infrastructure assets	2,222,910
Human services	95,186
Sanitation	12,150
Culture and recreation	175,886
Conservation of natural resources	27,950
Total Depreciation Expense - Governmental Activities	\$ 3,217,120
Business-Type Activities	
Broadband	\$ 2,392,188

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

1. Due To/From Other Funds

The composition of interfund balances as of December 31, 2015, is as follows:

Receivable Fund	Payable Fund	Amount	Purpose
General	Human Services	\$ 16,217	Reimbursement for services
	Other governmental funds	106,088	Temporary loan
	Broadband Enterprise	<u>12,869,391</u>	Deficit cash balance
Total due to General Fund		<u>\$ 12,991,696</u>	
Human Services	Broadband Enterprise	\$ 113,471	Deficit cash balance
	General Fund	<u>2,845</u>	Reimbursement for services
Total due to Human Services Fund		<u>\$ 116,316</u>	
Nonmajor governmental funds	Other governmental funds	<u>\$ 172,158</u>	Reimbursement for services
Total Due To/From Other Funds		<u>\$ 13,280,170</u>	

2. Due To/From Primary Government and Component Units

Receivable Entity	Payable Entity	Amount	Purpose
Primary Government - Debt Service	Component Unit - Lake County Housing and Redevelopment Authority	<u>\$ 196,189</u>	Shortfalls in tax increment collections funded by primary government

3. Interfund Transfers

Interfund transfers for the year ended December 31, 2015, consisted of the following:

Transfer to General Fund from Resource Development Special Revenue Fund	\$ 2,246	Forfeited tax apportionment
Transfers to Road and Bridge Special Revenue Fund from General Fund and Broadband Enterprise Fund	32,778	Reimbursement for services
Transfers to Unorganized Townships Special Revenue Fund from Resource Development Special Revenue Fund	65,043	Reimbursement for services
Transfer to Resource Development Fund from Tax Forfeited Fund	<u>180,248</u>	Land lease payment
Total Transfers to Governmental Funds	<u>\$ 280,315</u>	
Transfer to Broadband Enterprise Fund from the Debt Service Fund	<u>\$ 737,144</u>	Capital asset acquisition

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Payables

Payables at December 31, 2015, were as follows:

	Governmental Activities	Business-Type Activities
Accounts payable	\$ 370,962	\$ 388,589
Escheat property payable	36,538	-
Salaries payable	384,590	-
Contracts payable	226,640	2,877,357
Retainage payable	-	2,400,408
Due to other governments	209,637	3,196
Total Payables	\$ 1,228,367	\$ 5,669,550

2. Long-Term Debt

Governmental Activities

Types of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2015
General Obligation Bonds					
G.O. Capital Improvement Refunding Bonds, Series 2014A	2030	\$60,000 - \$355,000	2.00 - 3.25	\$ 2,410,000	\$ 2,130,000
Other Long-Term Debt					
Capital lease - Land	2021	\$146,667	3.25 - 5.375	\$ 2,200,000	\$ 879,998
Capital lease - Grader	2016	\$4,893 - \$28,719	3.75	134,259	4,893
Capital lease - Chieftain	2020	\$14,302 - \$27,823	3.70	178,065	119,685
Total Other Long-Term Debt				\$ 2,512,324	\$ 1,004,576

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

2. Long-Term Debt (Continued)

Business-Type Activities

Types of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2015
Rural Utilities Service Broadband Loans	2029	\$2,853,378 -\$4,260,807	2.0154 - 3.2870	\$ 54,696,588	\$ 50,730,826

3. Debt Service Requirements

Debt service requirements at December 31, 2015, were as follows:

Governmental Activities

Year Ending December 31	General Obligation Bonds		Other Long-Term Debt	
	Principal	Interest	Principal	Interest
2016	\$ 340,000	\$ 46,625	\$ 176,464	\$ 22,732
2017	340,000	39,825	172,508	18,655
2018	350,000	32,925	173,481	14,566
2019	355,000	25,875	174,490	10,440
2020	60,000	21,725	160,970	6,387
2021 - 2025	315,000	82,450	146,663	3,117
2026 - 2030	370,000	30,525	-	-
Total	\$ 2,130,000	\$ 279,950	\$ 1,004,576	\$ 75,897

Business-Type Activities

Year Ending December 31	RUS Broadband Loan	
	Principal	Interest
2016	\$ 3,156,080	\$ 1,235,535
2017	3,235,970	1,155,645
2018	3,317,792	1,073,823
2019	3,401,713	989,902
2020	3,487,671	903,944
2021 - 2025	18,809,261	3,148,814
2026 - 2029	15,322,339	733,657
Total	\$ 50,730,826	\$ 9,241,320

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

4. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2015, was as follows:

Governmental Activities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
General obligation improvement refunding bonds	\$ 2,410,000	\$ -	\$ 280,000	\$ 2,130,000	\$ 340,000
Capital lease payable	1,203,963	-	199,387	1,004,576	176,464
Compensated absences	1,432,872	662,479	650,417	1,444,934	-
Governmental Activities Long-Term Liabilities	<u>\$ 5,046,835</u>	<u>\$ 662,479</u>	<u>\$ 1,129,804</u>	<u>\$ 4,579,510</u>	<u>\$ 516,464</u>

Business-Type Activities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Broadband loans	<u>\$ 34,703,063</u>	<u>\$ 18,551,013</u>	<u>\$ 2,523,250</u>	<u>\$ 50,730,826</u>	<u>\$ 3,156,080</u>

4. Pension Plans

A. Defined Benefit Pension Plans

1. Plan Description

All full-time and certain part-time employees of Lake County are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Local Government Correctional Service Retirement Fund (the Public Employees Correctional Fund), which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with Minn. Stat. chs. 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

4. Pension Plans

A. Defined Benefit Pension Plans

1. Plan Description (Continued)

General Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan, for which benefits vest after five years of credited service.

Police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Fund. For members first hired after June 30, 2010, but before July 1, 2014, benefits vest on a graduated schedule starting with 50 percent after 5 years and increasing 10 percent for each year of service until fully vested after 10 years. Benefits for members first hired after June 30, 2014, vest on a prorated basis from 50 percent after 10 years and increasing 5 percent for each year of service until fully vested after 20 years.

Local government employees of a county-administered facility who are responsible for the direct security, custody, and control of the county correctional facility and its inmates are covered by the Public Employees Correctional Fund. For members hired after June 30, 2010, benefits vest on a graduated schedule starting with 50 percent after 5 years and increasing 10 percent for each year of service until fully vested after 10 years.

2. Benefits Provided

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefit provisions are established by state statute and can be modified only by the state legislature. Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Benefit recipients receive a future annual 1.0 percent post-retirement benefit increase. If the funding ratio reaches 90 percent for two consecutive years, the benefit increase will revert to 2.5 percent. If, after reverting to a 2.5 percent benefit increase, the funding ratio declines to less than 80 percent for one year or less than 85 percent for two consecutive years, the benefit increase will decrease to 1.0 percent.

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

4. Pension Plans

A. Defined Benefit Pension Plans

2. Benefits Provided (Continued)

The benefit provisions stated in the following paragraph of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not yet receiving them are bound by the provisions in effect at the time they last terminated their public service.

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 General Employees Retirement Fund Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years of service and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For Public Employees Police and Fire Fund members, the annuity accrual rate is 3.0 percent of average salary for each year of service. For Public Employees Correctional Fund members, the annuity accrual rate is 1.9 percent of average salary for each year of service.

For General Employees Retirement Fund 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. For Public Employees Police and Fire Fund and Public Employees Correctional Fund members who were hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90, and normal retirement age is 55. Disability benefits are available for vested members and are based on years of service and average high-five salary.

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

4. Pension Plans

A. Defined Benefit Pension Plans (Continued)

3. Contributions

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the state legislature. General Employees Retirement Fund Basic Plan members and Coordinated Plan members were required to contribute 9.10 percent and 6.50 percent, respectively, of their annual covered salary in 2015. Public Employees Police and Fire Fund members were required to contribute 10.80 percent of their annual covered salary in 2015. Public Employees Correctional Fund members were required to contribute 5.83 percent of their annual covered salary in 2015.

In 2015, the County was required to contribute the following percentages of annual covered salary:

General Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	7.50
Public Employees Police and Fire Fund	16.20
Public Employees Correctional Fund	8.75

The General Employees Retirement Fund Coordinated Plan member and employer contribution rates each reflect a 0.25 percent increase from 2014. The Public Employees Police and Fire Fund member and employer contribution rates increased 0.60 percent and 0.90 percent, respectively, from 2014.

The County's contributions for the year ended December 31, 2015, to the pension plans were:

General Employees Retirement Fund	\$	406,332
Public Employees Police and Fire Fund		194,705
Public Employees Correctional Fund		50,912

The contributions are equal to the contractually required contributions as set by state statute.

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

4. Pension Plans

A. Defined Benefit Pension Plans (Continued)

4. Pension Costs

General Employees Retirement Fund

At December 31, 2015, the County reported a liability of \$4,830,108 for its proportionate share of the General Employees Retirement Fund's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the County's proportion was 0.0932 percent. It was 0.1014 percent measured as of June 30, 2014. The County recognized pension expense of \$546,017 for its proportionate share of the General Employees Retirement Fund's pension expense.

The County reported its proportionate share of the General Employees Retirement Fund's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ -	\$ 243,519
Difference between projected and actual investment earnings	457,244	-
Changes in proportion		288,896
Contributions paid to PERA subsequent to the measurement date	<u>201,564</u>	<u>-</u>
Total	<u>\$ 658,808</u>	<u>\$ 532,415</u>

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

4. Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs

General Employees Retirement Fund (Continued)

A total of \$201,564 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	Pension Expense Amount
2016	\$ (63,161)
2017	(63,161)
2018	(63,161)
2019	114,312

Public Employees Police and Fire Fund

At December 31, 2015, the County reported a liability of \$1,499,829 for its proportionate share of the Public Employees Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the County's proportion was 0.132 percent. It was 0.130 percent measured as of June 30, 2014. The County recognized pension expense of \$261,401 for its proportionate share of the Public Employees Police and Fire Fund's pension expense.

The County also recognized \$11,880 as revenue, which results in a reduction of the net pension liability, for its proportionate share of the State of Minnesota's on-behalf contribution to the Public Employees Police and Fire Fund. Legislation requires the State of Minnesota to contribute \$9 million to the Public Employees Police and Fire Fund each year, starting in fiscal year 2014, until the plan is 90 percent funded.

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

4. Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs

Public Employees Police and Fire Fund (Continued)

The County reported its proportionate share of the Public Employees Police and Fire Fund's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 243,223
Difference between projected and actual investment earnings	261,320	-
Changes in proportion	18,001	-
Contributions paid to PERA subsequent to the measurement date	98,799	-
Total	\$ 378,120	\$ 243,223

A total of \$98,799 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	Pension Expense Amount
2016	\$ 20,286
2017	20,286
2018	20,286
2019	20,286
2020	(45,046)

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

4. Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs (Continued)

Public Employees Correctional Fund

At December 31, 2015, the County reported a liability of \$46,380 for its proportionate share of the Public Employees Correctional Fund's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the County's proportion was 0.30 percent. It was 0.30 percent measured as of June 30, 2014. The County recognized pension expense of \$49,701 for its proportionate share of the Public Employees Correctional Fund's pension expense.

The County reported its proportionate share of the Public Employees Correctional Fund's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ -	\$ 17,757
Difference between projected and actual investment earnings	38,661	-
Contributions paid to PERA subsequent to the measurement date	<u>24,918</u>	<u>-</u>
Total	<u>\$ 63,579</u>	<u>\$ 17,757</u>

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

4. Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs

Public Employees Correctional Fund (Continued)

A total of \$24,918 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended December 31</u>	<u>Pension Expense Amount</u>
2016	\$ 3,746
2017	3,746
2018	3,746
2019	9,666

Total Pension Expense

The total pension expense for all plans recognized by the County for the year ended December 31, 2015, was \$857,119.

5. Actuarial Assumptions

The total pension liability in the June 30, 2015, actuarial valuation was determined using the individual entry age normal actuarial cost method and the following additional actuarial assumptions:

Inflation	2.75 percent per year
Active member payroll growth	3.50 percent per year
Investment rate of return	7.90 percent

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

4. Pension Plans

A. Defined Benefit Pension Plans

5. Actuarial Assumptions (Continued)

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on RP-2000 tables for males or females, as appropriate, with slight adjustments. For the General Employees Retirement Fund and the Public Employees Police and Fire Fund, cost of living benefit increases for retirees are assumed to be 1.0 percent effective every January 1 through 2035 and 2037, respectively, and 2.5 percent thereafter. Cost of living benefit increases for retirees are assumed to be 2.5 percent for all years for the Public Employees Correctional Fund.

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of actuarial experience studies. The experience study in the General Employees Retirement Fund was for the period July 1, 2004, through June 30, 2008, with an update of economic assumptions in 2014. The experience study for the Public Employees Police and Fire Fund was for the period July 1, 2004, through June 30, 2009. The experience study for the Public Employees Correctional Fund was for the period July 1, 2006, through June 30, 2011.

In 2015, an updated experience study was done for PERA's General Employees Retirement Fund for the six-year period ending June 30, 2014, which would result in a larger pension liability. However, PERA will not implement the changes in assumptions until its June 30, 2016, estimate of pension liability.

The long-term expected rate of return on pension plan investments is 7.9 percent. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

4. Pension Plans

A. Defined Benefit Pension Plans

5. Actuarial Assumptions (Continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic stocks	45%	5.50%
International stocks	15	6.00
Bonds	18	1.45
Alternative assets	20	6.40
Cash	2	0.50

6. Discount Rate

The discount rate used to measure the total pension liability was 7.9 percent. The discount rate did not change since the prior measurement date. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

7. Pension Liability Sensitivity

The following presents the County's proportionate share of the net pension liability calculated using the discount rate disclosed in the preceding paragraph, as well as what the County's proportionate share of the net pension liability would be if it were calculated using a discount rate 1.0 percentage point lower or 1.0 percentage point higher than the current discount rate:

	<u>1% Decrease in Discount Rate (6.9%)</u>	<u>Discount Rate (7.9%)</u>	<u>1% Increase in Discount Rate (8.9%)</u>
Proportionate share of the General Employees Retirement Fund net pension liability	\$ 7,594,646	\$ 4,830,108	\$ 2,547,024
Public Employees Police and Fire Fund net pension liability	2,923,182	1,499,829	323,891
Public Employees Correctional Fund net pension liability	322,998	46,380	(175,026)

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

4. Pension Plans

A. Defined Benefit Pension Plans (Continued)

8. Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in a separately issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the internet at www.mnpera.org; by writing to PERA at 60 Empire Drive, Suite 200, St. Paul, Minnesota 55103-2088; or by calling (651) 296-7460 or 1-800-652-9026.

B. Defined Contribution Plan

Three County Commissioners of Lake County are covered by the Public Employees Defined Contribution Plan, a multiple-employer, deferred compensation plan administered by PERA. The plan is established and administered in accordance with Minn. Stat. ch. 353D, which may be amended by the state legislature. The plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code, and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. For those qualified personnel who elect to participate, Minn. Stat. § 353D.03 specifies plan provisions, including the employee and employer contribution rates. An eligible elected official who decides to participate contributes 5.00 percent of salary, which is matched by the employer. Employee and employer contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2.00 percent of employer contributions and 0.25 percent of the assets in each member account annually.

Total contributions by dollar amount and percentage of covered payroll made by the County during the year ended December 31, 2015, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 4,957	\$ 4,957
Percentage of covered payroll	5%	5%

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

5. Other Postemployment Benefits (OPEB)

A. Plan Description and Funding Policy

Lake County explicitly subsidizes the cost of retiree health insurance coverage for certain retired employees through a sick leave reserve program under a single employer self-insured plan. Highway Department employees with at least 10 years of service who are eligible to receive a retirement benefit from PERA are eligible for up to 2 years of health insurance premiums paid by the County at the single rate. Highway Department employees with 20 or more years of service are eligible for up to 3 years of health insurance premiums. At retirement, each eligible employee's sick leave hours are converted to a dollar amount using the employee's hourly pay rate at retirement. The period of time for which the employee may receive the paid health insurance benefit is limited to the dollar value of the employee's accumulated sick leave at retirement. As of December 31, 2015, there was no retirees using their sick leave balances for insurance premiums.

Active employees who retire from the County when eligible to receive a retirement benefit from PERA, who do not qualify for the aforementioned benefits and do not participate in any other health benefits program providing similar coverage, will be eligible to continue coverage with respect to both themselves and their eligible dependents under the County's health benefits program. These retirees are required to pay 100 percent of the total premium cost. Since the premium is a blended rate determined on the entire active and retiree population, the retirees are receiving an implicit rate subsidy. As of December 31, 2015, four retirees were receiving health benefits from the County's health plan. The authority to provide these benefits is established in Minn. Stat. § 471.61, subd. 2a.

The cost of other postemployment benefits is funded on a "pay-as-you-go" method.

B. Annual OPEB Cost and Net OPEB Obligation

The County's annual other postemployment benefits (OPEB) cost is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial accrued liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the County's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the County's net OPEB obligation:

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

5. Other Postemployment Benefits (OPEB)

B. Annual OPEB Cost and Net OPEB Obligation (Continued)

ARC	\$	83,523
Interest on net OPEB obligation		16,053
Adjustment to ARC		<u>(22,256)</u>
Annual OPEB cost	\$	77,320
Contributions during the year		<u>(38,479)</u>
Increase in net OPEB obligation	\$	38,841
Net OPEB - Beginning of Year		<u>356,737</u>
Net OPEB - End of Year	\$	<u><u>395,578</u></u>

The County's annual OPEB cost; the percentage of annual OPEB cost contributed to the plan; and the net OPEB obligation for 2015, 2014, and 2013 were as follows:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Percentage of annual OPEB cost contributed	49.8%	41.2%	33.2%
Annual OPEB cost	\$ 77,320	\$ 78,119	\$ 94,556
Employer contributions	<u>(38,479)</u>	<u>(32,161)</u>	<u>(31,480)</u>
Net Increase in Net OPEB Obligation	<u>\$ 38,841</u>	<u>\$ 45,958</u>	<u>\$ 63,076</u>

C. Funded Status and Funding Progress

The actuarial accrued liability for benefits at January 1, 2014, the most recent actuarial date, is \$546,471. The County currently has no assets that have been irrevocably deposited in a trust for future health benefits; thus, the entire amount is unfunded. The covered payroll (annual payroll of active employees covered by the plan) is \$6,594,400. The ratio of the unfunded actuarially accrued liabilities (UAAL) to covered payroll is 8.3 percent.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and health care cost trends. Amounts determined regarding the funded status of the plan and the annual required

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

5. Other Postemployment Benefits (OPEB)

C. Funded Status and Funding Progress (Continued)

contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress - Other Postemployment Benefits, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques designed to reduce the effect of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations.

In the January 1, 2014, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.5 percent discount rate, which is based on the estimated long-term investment yield on the general assets of the County. The annual health care cost trend rate is 7.5 percent initially, reduced incrementally to an ultimate rate of 5.0 percent after 10 years. The unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis over 30 years.

The other postemployment benefits liability is generally liquidated by the General Fund, Road and Bridge Special Revenue Fund, Human Services Special Revenue Fund, and Forfeited Tax Special Revenue Fund.

6. Postemployment Health Care Plans

A. MSRS Health Care Savings Plan

All Lake County employees (except for Highway Department employees) are eligible to participate in a Health Care Savings Plan (HCSP) administered by the Minnesota State Retirement System (MSRS). The plan is authorized under Minn. Stat. § 352.98 and through an Internal Revenue Service (IRS) private letter ruling establishing the

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

6. Postemployment Health Care Plans

A. MSRS Health Care Savings Plan (Continued)

HCSP as a tax-exempt benefit as of July 29, 2002. The plan is open to any active public employees in Minnesota if they are covered under certain public service retirement plans.

Under the terms of the HCSP, employees are allowed to save money, tax-free, to use upon termination of employment to pay for eligible health care expenses. The IRS private letter ruling requires mandatory participation of all employees in each bargaining unit in order to gain tax-free benefits. Allowable amounts deposited into individual accounts must be negotiated by each individual bargaining unit and the employer. The plan must be written into the collective bargaining agreement or a Memo of Understanding. For those employees not covered by a bargaining unit, amounts to be deposited into individual accounts must be agreed to by the employer and included in a written personnel policy.

Under Lake County's plan, both unionized and non-represented employees are required to contribute, at retirement, a lump sum of 10 or 20 percent of their eligible unused sick time plus the value of 24 or 36 months of health insurance premiums into their HCSP account, depending on the years of service.

B. VEBA Plan

The Lake County Board of Commissioners approved a Voluntary Employees' Beneficiary Association (VEBA) plan for funding employee health benefits as authorized under Sections 501(c)(9) and 213(d) of the IRS code for members of the Sheriff's Deputy Union, Sheriff's Dispatchers/Corrections Union, Courthouse, Human Services, and for non-represented employees. The VEBA plan is a health reimbursement plan providing for individual employer-funded accounts that can be used to help pay eligible medical expenses incurred by participating employees. The plan is used in combination with a high deductible health care plan. Funding is provided through pre-tax contributions from Lake County on employee health care elections.

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

6. Postemployment Health Care Plans

B. VEBA Plan (Continued)

In 2015, the maximum County contribution for active employees is \$1,690 for employees with single coverage and \$3,250 for employees with family coverage. Any balance remaining in an employee's account at year-end rolls over into the subsequent year. Upon retirement, any balance remaining in the VEBA account may be used to pay medical expenses.

Eligibility requirements include:

- be an active employee or retiree of a public entity,
- active employees must have a high deductible health care plan, and
- be a member of a bargaining unit that has approved the VEBA plan.

7. Summary of Significant Contingencies and Other Items

A. Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. To manage its workers' compensation and property and casualty risks, the County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Intergovernmental Trust (MCIT). The County is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. The County self-insures for employee dental coverage and participates in a health insurance pool for employee health coverage. For other risks, the County carries commercial insurance. The County retains risk for the deductible portions of the insurance policies. The amounts of these deductibles are considered immaterial to the financial statements. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

A. Risk Management (Continued)

with coverage at \$490,000 in 2015 and \$500,000 in 2016. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

The Property and Casualty Division of MCIT is self-sustaining, and the County pays an annual premium to cover current and future losses. MCIT carries reinsurance for its property lines to protect against catastrophic losses. Should the MCIT Property and Casualty Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

The North East Service Cooperative (NESC) is a joint powers entity which sponsors a plan to provide group employee health benefits to its participating members. All members pool premiums and losses; however, a particular member may receive increases or decreases depending on a good or bad year of claims experience. Premiums are determined annually by the NESC and are based partially on the experience of the County and partially on the experience of the group. The NESC solicits proposals from carriers and negotiates the contracts.

The County retains the risk of loss from claims related to employee dental. The County has contracted with Delta Dental to administer the County's dental claims. The County provides dental coverage to permanent full-time employees based on negotiated union contracts to cover a portion of the dental claims. Claims are recognized as they are paid. The amount of claims incurred at the balance sheet date which have not been accrued in the financial statements is immaterial.

	Year Ended December 31	
	2015	2014
Unpaid claims, beginning of fiscal year	\$ -	\$ -
Incurred claims (including incurred but not reported)	106,721	98,782
Claims payments	(106,721)	(98,782)
Unpaid Claims, End of Fiscal Year	\$ -	\$ -

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

7. Summary of Significant Contingencies and Other Items (Continued)

B. Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of the expenditures that may be disallowed by the grantor cannot be determined at this time, although the County expects such amounts, if any, to be immaterial.

The County is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the County Attorney, the resolution of these matters will not have a material adverse effect on the financial condition of the government.

C. Other Commitments

Lake County has entered into a joint powers agreement with the Town of Silver Creek to assist the Town in financing a wastewater collection, treatment, and disposal system in the Castle Danger area. The County has agreed to contribute \$65,586 per year through the year 2017 to help finance this project. The total amount to be contributed is \$1,035,000, of which \$943,790 has been paid through December 31, 2015. The outstanding commitment at December 31, 2015, is \$91,210. The agreement may be terminated by the mutual agreement of the two parties. This amount has not been recorded as a liability in Lake County's financial statements.

D. Joint Ventures

Arrowhead Regional Corrections

The County, in a joint powers agreement pursuant to Minn. Stat. § 471.59, participates with Carlton, Cook, Koochiching, and St. Louis Counties in the Arrowhead Regional Corrections Board, which was established pursuant to the Community Corrections Act, Minn. Stat. §§ 401.01-.16.

The Arrowhead Regional Corrections Board comprises three major divisions: juvenile institutional services, adult institutional services, and court and field services. These divisions are composed of the five participating counties' probation departments, the Arrowhead Juvenile Detention Center, and the Northeast Regional Corrections Center.

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Arrowhead Regional Corrections (Corrections)

Arrowhead Regional Corrections is governed by an eight-member Board, composed of one member appointed from each of the participating counties' Boards of Commissioners, except for St. Louis County, which has three members appointed by its Board. In addition, the right to have an additional member is annually rotated among Carlton, Cook, Koochiching, and Lake Counties.

Arrowhead Regional Corrections is financed through state grants and contributions from the participating counties. Lake County provided \$384,260 in funding during 2015.

Separate financial information can be obtained from:

Arrowhead Regional Corrections
211 West Second Street, Suite 450
Duluth, Minnesota 55802

Carlton, Cook, Lake, and St. Louis Community Health Board

Carlton, Cook, Lake, and St. Louis Counties entered into a joint powers agreement creating and operating the Carlton, Cook, Lake, and St. Louis County Community Health Board. This agreement was entered into January 1, 1977, and is established pursuant to Minn. Stat. § 471.59.

The Community Health Board is composed of nine members. The Carlton, Cook, and Lake County Boards of Commissioners each appoint two members; the St. Louis County Board of Commissioners appoints three members. Financing is obtained through federal and state grants. Lake County provided no funding to this organization in 2015.

Separate financial information can be obtained from:

Carlton, Cook, Lake, and St. Louis Counties
Community Health Board
404 West Superior Street, Suite 220
Duluth, Minnesota 55802

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

D. Joint Ventures (Continued)

Northeast Minnesota Office of Job Training

Aitkin, Carlton, Cook, Itasca, Koochiching, Lake, and St. Louis Counties (excluding the City of Duluth) entered into a joint powers agreement, pursuant to Minn. Stat. § 471.59 for the purpose of developing and implementing a private and public job training program. The United States Congress, through the Job Training Partnership Act of 1982, authorized states to establish “service delivery areas” to provide programs to achieve full employment through the use of grants. The counties identified above are defined as such a “service delivery area,” and the Northeast Minnesota Office of Job Training is designated as the grant recipient and administrator for such service delivery area. Lake County is not a funding mechanism for this organization.

The governing body is composed of seven members, one from the Board of Commissioners of each of the participating counties.

Separate financial information can be obtained from:

Northeast Minnesota Office of Job Training
820 North Ninth Street, Suite 210
Virginia, Minnesota 55792

Minnesota Counties Information Systems (MCIS)

Aitkin, Carlton, Cass, Chippewa, Cook, Crow Wing, Dodge, Itasca, Koochiching, Lac qui Parle, Lake, Sherburne, and St. Louis Counties entered into a joint powers agreement, pursuant to Minn. Stat. § 471.59, for the purpose of operating and maintaining data processing facilities and management information systems for the benefit of members.

MCIS is governed by a 13-member board, composed of a member appointed by each of the participating county’s Board of Commissioners. Financing is obtained through user charges to the members. Cass County is the fiscal agent for MCIS.

Each county’s share of the assets and liabilities cannot be accurately determined since it will depend on the number of counties that are members when the agreement is dissolved.

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Minnesota Counties Information Systems (MCIS) (Continued)

Separate financial information can be obtained from:

Minnesota Counties Information Systems
413 Southeast 7th Avenue
Grand Rapids, Minnesota 55744

Northern Counties Land Use Coordinating Board

The Northern Counties Land Use Coordinating Board was established through a joint powers agreement, pursuant to Minn. Stat. § 471.59, for the purpose of helping to formulate land use plans for the protection, sustainable use, and development of lands and natural resources.

The joint powers are Aitkin, Cook, Koochiching, Lake, Lake of the Woods, Pennington, Roseau, and St. Louis Counties. Three elected County Commissioners from St. Louis County and two from each of the other counties comprise the membership of the Board. St. Louis County handles all of the financial transactions for this organization through its Northern Counties Land Use Board Agency Fund.

Lake County provided no funding to this organization during 2015.

Separate financial information can be obtained from:

Northern Counties Land Use Coordinating Board
St. Louis County Courthouse
100 N. 5th Avenue West, #214
Duluth, Minnesota 55802

North Shore Collaborative

The North Shore Collaborative was established in 1995 pursuant to Minn. Stat. § 124D.23. The Collaborative includes Lake County, Cook County, Independent School District 381, Independent School District 166, and the Grand Portage Reservation. The purpose of the Collaborative is to form a coalition of agencies, schools, and communities along the North Shore that will systematically address the

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

D. Joint Ventures

North Shore Collaborative (Continued)

mental health and other needs of the whole person for all children and youth; ensure their graduation from high school; and assist them in becoming healthy, happy, productive citizens.

Control of the North Shore Collaborative is vested in a Board of Directors. Financing is provided by state and federal grants, appropriations from Collaborative members, and miscellaneous revenues. Lake County is the fiscal agent for the Collaborative and handles all of the financial transactions for the organization. Financial information for the Collaborative for the fiscal year ended December 31, 2015, is as follows:

Total Assets	\$	152,245
Total Liabilities		152,245

Separate financial information can be obtained from:

Lake County
601 - 3rd Avenue
Two Harbors, Minnesota 55616

Arrowhead Health Alliance

Carlton, Cook, Koochiching, St. Louis, and Lake Counties entered into a joint powers agreement, pursuant to Minn. Stat. §§ 471.59 and 256B.692, for the purpose of organizing, governing, planning, and administering a county-based purchasing entity to participate in prepaid health care programs through the Minnesota Department of Human Services and the federal Centers for Medicare and Medicaid Services. In 2012, St. Louis County joined the Arrowhead Health Alliance.

Control of the Arrowhead Health Alliance is vested in a Board of Directors composed of one representative from each of the member counties. Lake County is the fiscal agent for the Alliance.

Lake County contributed \$78,697 in start-up funds to the Arrowhead Health Alliance in 2007. Lake County provided no further funding in 2015.

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

D. Joint Ventures (Continued)

Northeast Minnesota Regional Radio Board

The Northeast Minnesota Regional Radio Board was established through a joint powers agreement, pursuant to Minn. Stat. §§ 471.59 and 403.39, to provide for regional administration of enhancements to the Statewide Public Safety Radio and Communication System (ARMER) and to enhance and improve interoperable public safety communications.

The joint powers are the Counties of Aitkin, Carlton, Cass, Cook, Crow Wing, Itasca, Kanabec, Koochiching, Lake, Pine, and St. Louis and the Cities of Duluth, Hibbing, International Falls, and Virginia. Control of the Northeast Minnesota Regional Radio Board is vested in a Board of Directors composed of one County Commissioner from each of the member counties and one City Council member from each of the member cities. In addition, there is one member from the Northeast Minnesota Regional Advisory Committee, one member from the Northeast Minnesota Regional Radio System User Committee, and one member from the Northeast Minnesota Owners and Operators Committee who are also voting members of the Board.

Itasca County is the fiscal agent for the Northeast Minnesota Regional Radio Board. Funding is provided by grants and contributions from participating members. Lake County provided no funding in 2015.

Separate financial information can be obtained from:

Itasca County
123 N.E. 4th Street
Grand Rapids, Minnesota 55744-2847

Lake Superior Drug and Violent Crime Task Force

The Lake Superior Drug and Violent Crime Task Force was established under the authority of the Joint Powers Act, pursuant to Minn. Stat. § 471.59, and includes St. Louis and Lake Counties and the Cities of Duluth, Superior, and Hermantown. This Task Force partnership targets drug traffickers, gang elements, and firearms within the Twin Ports community.

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Lake Superior Drug and Violent Crime Task Force (Continued)

Control of the Task Force is vested in a Board of Directors. The Board of Directors consists of the Chiefs of Police and Sheriff, or his or her designee, from each party, along with the St. Louis County Attorney or designee.

Fiscal agent responsibilities for the Task Force are with St. Louis County. Lake County provided no funding to this organization in 2015.

E. Jointly-Governed Organizations

Lake County, in conjunction with other local governments, has formed joint powers boards to provide a variety of services. The County appoints at least one member to the following organizations:

North Shore Management Board

The North Shore Management Board provides Lake Superior Shoreline planning for Cook, Lake, and St. Louis Counties; the Cities of Beaver Bay, Grand Marais, Silver Bay, and Two Harbors; and the Towns of Duluth and Lakewood. The County contributed \$5,000 to the Board in 2015.

St. Louis and Lake Counties Regional Railroad Authority

The St. Louis and Lake Counties Regional Railroad Authority was established under the Regional Railroad Authorities Act, Minn. Stat. § 398A.03. The Authority is governed by a Board composed of three members from the St. Louis County Board of Commissioners and two members from the Lake County Board of Commissioners. St. Louis County is the fiscal agent for the Railroad Authority, and all of its financial transactions are recorded in the Regional Railroad Authority Agency Fund. Financing is obtained through a tax levy, and federal, state, and local grants or participation. The County did not contribute to the Authority during 2015.

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

E. Jointly-Governed Organizations

St. Louis and Lake Counties Regional Railroad Authority (Continued)

Separate financial information can be obtained from:

St. Louis and Lake Counties Regional Railroad Authority
111 Station 44 Road
Eveleth, Minnesota 55734

F. Related-Party Transactions - Lake County Housing and Redevelopment Authority

The Lake County Housing and Redevelopment Authority is a discretely presented component unit of Lake County. The following is a related-party transaction:

Tax Increment Shortfalls

The Authority's tax increment revenues have not been sufficient to cover bond payments on the Cove Point and Superior Shores tax increment bonds. Lake County has made the bond payments on these bond issues; however, the Lake County Housing and Redevelopment Authority remains obligated to Lake County for these shortfalls. A receivable has been set up on the County's financial statements in the amount of \$196,189.

G. Tax-Forfeited Land

The County manages approximately 150,000 acres of state-owned, tax-forfeited land. This land generates revenues primarily from recreational land leases and land and timber sales. Land management costs, including forestry costs such as site preparation, seedlings, tree planting, and logging roads, are accounted for as current operating expenditures.

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

8. Component Unit Disclosures

A. Summary of Significant Accounting Policies

In addition to those significant accounting policies identified in Note 1, the County's discretely presented component unit, the Lake County Housing and Redevelopment Authority, has the following significant accounting policies.

Reporting Entity

The Lake County Housing and Redevelopment Authority was established June 13, 1984, and became active in 1986, having all the powers and duties of a county housing and redevelopment authority under the provisions of Minn. Stat. §§ 469.001-.047. The Authority is governed by a five-member Board appointed by the Lake County Board of Commissioners. The Board is organized with a chair, vice chair, secretary, and treasurer, elected annually.

Basis of Presentation

The Lake County Housing and Redevelopment Authority prepares separate financial statements.

The Authority reports a major governmental fund, the General Fund, and a major enterprise fund, the Silverpointe Enterprise Fund.

Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

8. Component Unit Disclosures

A. Summary of Significant Accounting Policies

Measurement Focus and Basis of Accounting (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. The Lake County Housing and Redevelopment Authority considers all revenues as available if collected within 90 days after the end of the current period, except for taxes, which have a 60-day accrual period. Property and other taxes, licenses, and interest are all considered to be susceptible to accrual.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or incidental activities.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first and then unrestricted resources as needed.

Cash and Cash Equivalents

The Authority's cash and cash equivalents consist of savings and checking accounts, cash on hand, and certificates of deposit. Restricted cash is shown separately from cash and cash equivalents.

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

8. Component Unit Disclosures

A. Summary of Significant Accounting Policies (Continued)

Receivables and Payables

All outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

Property taxes, including property taxes captured as tax increment, are levied as of January 1 on property values assessed as of the same date. The tax levy notice is mailed in March with the first half payment due May 15 and the second half payment due October 15. The Authority approved an annual levy for operating purposes. Property taxes, including tax increment, are collected by Lake County. Unpaid taxes at December 31 become liens on the respective property and are classified in the financial statements as taxes receivable.

Restricted Assets

Certain funds of the Authority are classified as restricted assets on the statement of net position because the restriction is either imposed by law through constitutional provisions or enabling legislation or imposed externally by creditors, grantors, contributors, or laws or regulations of other governments. Therefore, their use is limited by applicable laws and regulations.

Capital Assets

Capital assets, which include land, buildings and structures, and equipment, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and have an expected life of at least five years. Such assets are recorded at historical cost.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets’ lives are not capitalized.

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

8. Component Unit Disclosures

A. Summary of Significant Accounting Policies

Capital Assets (Continued)

Buildings and structures and equipment of the Authority are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings and structures	25 - 40
Equipment	7

Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position.

B. Detailed Notes on All Funds

1. Assets

Deposits

The Authority's total deposits are reported as follows:

Government-wide statement of net position	
Cash and pooled investments	\$ 662,764
Cash with management company for operations	84,081
Restricted cash with management company for security deposits	16,600
Total Cash	\$ 763,445

The Authority is authorized by Minn. Stat. §§ 118A.02 and 118A.04 to designate a depository for public funds and to invest in certificates of deposit. The Authority is required by Minn. Stat. § 118A.03 to protect Authority deposits with insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit at the close of the financial institution's banking day, not covered by insurance or bonds.

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

8. Component Unit Disclosures

B. Detailed Notes on All Funds

1. Assets

Deposits (Continued)

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated “A” or better and revenue obligations rated “AA” or better; irrevocable standby letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held 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 not owned or controlled by the financial institution furnishing the collateral.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the Authority’s deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk other than complying with the requirements of Minnesota statutes. As of December 31, 2015, the Authority’s deposits were not exposed to custodial credit risk.

Capital Assets

Capital asset activity for the year ended December 31, 2015, was as follows:

Governmental Activities

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets depreciated Equipment	\$ 1,866	\$ -	\$ -	\$ 1,866
Less: accumulated depreciation for Equipment	<u>1,602</u>	<u>264</u>	<u>-</u>	<u>1,866</u>
Governmental Activities Capital Assets, Net	<u>\$ 264</u>	<u>\$ (264)</u>	<u>\$ -</u>	<u>\$ -</u>

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

8. Component Unit Disclosures

B. Detailed Notes on All Funds

1. Assets

Capital Assets (Continued)

Business-Type Activities

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets depreciated				
Buildings and structures	\$ 1,886,572	\$ -	\$ -	\$ 1,886,572
Equipment	19,931	12,261	-	32,192
	<u>\$ 1,906,503</u>	<u>\$ 12,261</u>	<u>\$ -</u>	<u>\$ 1,918,764</u>
Total capital assets depreciated				
Less: accumulated depreciation for				
Buildings and structures	\$ 827,511	\$ 48,469	\$ -	\$ 875,980
Equipment	6,436	4,040	-	10,476
	<u>\$ 833,947</u>	<u>\$ 52,509</u>	<u>\$ -</u>	<u>\$ 886,456</u>
Total accumulated depreciation				
Business-Type Activities Capital Assets, Net	<u>\$ 1,072,556</u>	<u>\$ (40,248)</u>	<u>\$ -</u>	<u>\$ 1,032,308</u>

Depreciation expense was charged to functions/programs of the Authority as follows:

Governmental Activities	
Urban and economic development	<u>\$ 264</u>
Business-Type Activities	
Senior housing	<u>\$ 52,509</u>

2. Liabilities

Long-Term Debt

Business-Type Activities

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2015</u>
2012 General Obligation Senior Housing Bonds	2028	Varies	1.0 - 3.5	<u>\$ 860,000</u>	<u>\$ 680,000</u>

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

8. Component Unit Disclosures

B. Detailed Notes on All Funds

2. Liabilities (Continued)

Debt Service Requirements

Debt service requirements at December 31, 2015, were as follows:

Business-Type Activities

<u>Year Ending December 31</u>	<u>Revenue Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2016	\$ 55,000	\$ 18,788
2017	55,000	17,863
2018	55,000	16,763
2019	55,000	15,594
2020	55,000	14,356
2021 - 2025	305,000	49,675
2026 - 2028	100,000	7,531
Totals	<u>\$ 680,000</u>	<u>\$ 140,570</u>

Changes in Long-Term Liabilities

Business-Type Activities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds payable					
2012 General Obligation Senior Housing Bonds	\$ 730,000	\$ -	\$ 50,000	\$ 680,000	\$ 55,000
Less: unamortized discount	(9,631)	-	(803)	(8,828)	-
Total Bonds Payable	<u>\$ 720,369</u>	<u>\$ -</u>	<u>\$ 49,197</u>	<u>\$ 671,172</u>	<u>\$ 55,000</u>

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

8. Component Unit Disclosures (Continued)

C. Summary of Significant Contingencies and Other Items

Tax Increment Financing District

The Authority administers the following tax increment financing district established pursuant to Minn. Stat. §§ 469.174-.1791.

District Number 2

Blue Water/Superior Shores Project

The bonds for District Number 2 were general obligation bonds issued by Lake County and paid off in 2009. The tax increment financing district was decertified in 2013. The County collected and paid the debt service payments pursuant to the amended Tax Increment Pledge Agreement, and the Authority recognizes the tax increment revenue and tax increment distributions to Lake County in its financial statements.

Tax increment revenues were not sufficient to cover bond payments on the Cove Point and Superior Shores tax increment bonds. The Lake County Housing and Redevelopment Authority remains obligated to Lake County for these shortfalls. A liability has been set up on the Authority's financial statements in the amount of \$196,189.

Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; or natural disasters. To manage these risks, the Authority has joined the Minnesota Counties Intergovernmental Trust (MCIT). The Authority retains risk for the deductible portions of the insurance policies. The amounts of these deductibles are considered immaterial to the financial statements. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

Related-Party Transactions

The Lake County Housing and Redevelopment Authority related-party transaction is described in detail in Note 7.F.

REQUIRED SUPPLEMENTARY INFORMATION

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**LAKE COUNTY
TWO HARBORS, MINNESOTA**

EXHIBIT A-1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2015**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 6,327,486	\$ 6,327,486	\$ 5,842,832	\$ (484,654)
Licenses and permits	7,500	7,500	15,656	8,156
Intergovernmental	4,436,744	4,436,744	6,032,850	1,596,106
Charges for services	405,121	405,121	439,660	34,539
Fines and forfeits	1,500	1,500	2,210	710
Investment earnings	60,764	60,764	80,140	19,376
Miscellaneous	75,237	75,237	262,078	186,841
Total Revenues	\$ 11,314,352	\$ 11,314,352	\$ 12,675,426	\$ 1,361,074
Expenditures				
Current				
General government				
Commissioners	\$ 390,757	\$ 390,757	\$ 408,148	\$ (17,391)
Courts	39,500	39,500	66,608	(27,108)
Law library	10,000	10,000	5,970	4,030
County administration	276,834	276,834	258,146	18,688
County auditor	495,163	514,073	512,118	1,955
County assessor	458,001	458,001	471,217	(13,216)
Elections	6,235	6,235	14,013	(7,778)
Accounting and auditing	70,600	70,600	87,054	(16,454)
Data processing	984,946	984,946	659,316	325,630
Personnel	206,197	206,197	176,786	29,411
Attorney	389,011	389,011	382,606	6,405
Recorder	286,254	286,254	278,954	7,300
Planning and zoning	456,642	456,642	479,902	(23,260)
Buildings and plant	812,256	812,256	733,231	79,025
Veterans service officer	76,198	76,198	78,468	(2,270)
Motor pool	74,108	74,108	64,514	9,594
Total general government	\$ 5,032,702	\$ 5,051,612	\$ 4,677,051	\$ 374,561
Public safety				
Sheriff	\$ 2,369,493	\$ 2,369,493	\$ 2,296,394	\$ 73,099
Ambulance	137,958	137,958	163,955	(25,997)
Emergency services	164,378	164,378	67,052	97,326
Coroner	30,000	30,000	54,326	(24,326)
County jail	1,028,479	1,028,479	974,715	53,764
Community corrections	387,285	387,285	385,765	1,520
Sentence to serve	89,789	89,789	83,672	6,117
Emergency management	90,113	90,113	340,723	(250,610)
Other public safety	124,219	124,219	161,915	(37,696)
Total public safety	\$ 4,421,714	\$ 4,421,714	\$ 4,528,517	\$ (106,803)

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

*EXHIBIT A-1
(Continued)*

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Sanitation				
Solid waste	\$ 216,630	\$ 216,630	\$ 123,785	\$ 92,845
Recycling	181,643	181,643	103,127	78,516
Hazardous waste	23,400	23,400	8,635	14,765
Total sanitation	\$ 421,673	\$ 421,673	\$ 235,547	\$ 186,126
Culture and recreation				
Historical society	\$ 35,000	\$ 35,000	\$ 35,000	\$ -
Arenas	143,020	143,020	125,424	17,596
Humane Society	3,500	3,500	3,500	-
Memorial Day observance	3,000	3,000	3,000	-
Recreation board	153,685	153,685	147,685	6,000
Trails	-	-	159,773	(159,773)
County/regional library	122,300	122,300	122,300	-
Total culture and recreation	\$ 460,505	\$ 460,505	\$ 596,682	\$ (136,177)
Conservation of natural resources				
County extension	\$ 61,572	\$ 61,572	\$ 59,172	\$ 2,400
Soil and water conservation	57,379	57,379	57,363	16
Agricultural society/County fair	21,374	21,374	24,125	(2,751)
Water planning	4,571	4,571	4,571	-
CWP project	14,488	14,488	14,736	(248)
Wetland challenge	5,000	5,000	5,000	-
Total conservation of natural resources	\$ 164,384	\$ 164,384	\$ 164,967	\$ (583)
Economic development				
Information centers	\$ 13,000	\$ 13,000	\$ 13,000	\$ -
Airports	8,000	8,000	8,000	-
Housing and Redevelopment Authority	-	-	276,073	(276,073)
Other economic development	-	-	23,701	(23,701)
Total economic development	\$ 21,000	\$ 21,000	\$ 320,774	\$ (299,774)
Total Expenditures	\$ 10,521,978	\$ 10,540,888	\$ 10,523,538	\$ 17,350

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

*EXHIBIT A-1
(Continued)*

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Excess of Revenues Over (Under) Expenditures	\$ 792,374	\$ 773,464	\$ 2,151,888	\$ 1,378,424
Other Financing Sources (Uses)				
Transfers in	\$ -	\$ -	\$ 2,246	\$ 2,246
Transfers out	54,000	54,000	(26,503)	(80,503)
Total Other Financing Sources (Uses)	\$ 54,000	\$ 54,000	\$ (24,257)	\$ (78,257)
Net Change in Fund Balance	\$ 846,374	\$ 827,464	\$ 2,127,631	\$ 1,300,167
Fund Balance - January 1	13,929,151	13,929,151	13,929,151	-
Fund Balance - December 31	\$ 14,775,525	\$ 14,756,615	\$ 16,056,782	\$ 1,300,167

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

EXHIBIT A-2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 1,888,373	\$ 1,888,373	\$ 1,776,716	\$ (111,657)
Intergovernmental	5,882,430	5,882,430	5,858,085	(24,345)
Charges for services	-	-	105,400	105,400
Miscellaneous	5,000	5,000	16,930	11,930
Total Revenues	<u>\$ 7,775,803</u>	<u>\$ 7,775,803</u>	<u>\$ 7,757,131</u>	<u>\$ (18,672)</u>
Expenditures				
Current				
Highways and streets				
Administration	\$ 348,776	\$ 348,776	\$ 366,253	\$ (17,477)
Maintenance	2,250,435	2,250,435	1,831,094	419,341
Construction	3,857,196	3,857,196	3,353,209	503,987
Equipment maintenance and shop	1,051,766	1,051,766	739,548	312,218
Total highways and streets	<u>\$ 7,508,173</u>	<u>\$ 7,508,173</u>	<u>\$ 6,290,104</u>	<u>\$ 1,218,069</u>
Debt service				
Principal	\$ 73,815	\$ 73,815	\$ 52,720	\$ 21,095
Interest	-	-	5,682	(5,682)
Total debt service	<u>\$ 73,815</u>	<u>\$ 73,815</u>	<u>\$ 58,402</u>	<u>\$ 15,413</u>
Total Expenditures	<u>\$ 7,581,988</u>	<u>\$ 7,581,988</u>	<u>\$ 6,348,506</u>	<u>\$ 1,233,482</u>
Excess of Revenues Over (Under) Expenditures	<u>\$ 193,815</u>	<u>\$ 193,815</u>	<u>\$ 1,408,625</u>	<u>\$ 1,214,810</u>
Other Financing Sources (Uses)				
Transfers in	-	-	32,778	32,778
Net Change in Fund Balance	<u>\$ 193,815</u>	<u>\$ 193,815</u>	<u>\$ 1,441,403</u>	<u>\$ 1,247,588</u>
Fund Balance - January 1	452,812	452,812	452,812	-
Increase (decrease) in inventories	-	-	53,734	53,734
Fund Balance - December 31	<u>\$ 646,627</u>	<u>\$ 646,627</u>	<u>\$ 1,947,949</u>	<u>\$ 1,301,322</u>

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

EXHIBIT A-3

**BUDGETARY COMPARISON SCHEDULE
HUMAN SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 2,007,265	\$ 2,007,265	\$ 1,875,070	\$ (132,195)
Intergovernmental	3,815,943	3,815,943	4,852,531	1,036,588
Charges for services	297,581	297,581	308,771	11,190
Miscellaneous	43,240	43,240	89,081	45,841
Total Revenues	<u>\$ 6,164,029</u>	<u>\$ 6,164,029</u>	<u>\$ 7,125,453</u>	<u>\$ 961,424</u>
Expenditures				
Current				
Human services				
Income maintenance	\$ 913,509	\$ 913,509	\$ 849,694	\$ 63,815
Social services	2,517,582	2,517,582	2,372,713	144,869
Total human services	<u>\$ 3,431,091</u>	<u>\$ 3,431,091</u>	<u>\$ 3,222,407</u>	<u>\$ 208,684</u>
Health				
Nursing service	\$ 99,641	\$ 99,641	\$ 76,756	\$ 22,885
Transportation	100,682	100,682	96,934	3,748
Environmental health	100,475	100,475	105,824	(5,349)
Mental health	2,155,637	2,155,637	2,175,214	(19,577)
Health education	332,961	332,961	216,904	116,057
Total health	<u>\$ 2,789,396</u>	<u>\$ 2,789,396</u>	<u>\$ 2,671,632</u>	<u>\$ 117,764</u>
Total Expenditures	<u>\$ 6,220,487</u>	<u>\$ 6,220,487</u>	<u>\$ 5,894,039</u>	<u>\$ 326,448</u>
Net Change in Fund Balance	<u>\$ (56,458)</u>	<u>\$ (56,458)</u>	<u>\$ 1,231,414</u>	<u>\$ 1,287,872</u>
Fund Balance - January 1	<u>7,106,974</u>	<u>7,106,974</u>	<u>7,106,974</u>	<u>-</u>
Fund Balance - December 31	<u><u>\$ 7,050,516</u></u>	<u><u>\$ 7,050,516</u></u>	<u><u>\$ 8,338,388</u></u>	<u><u>\$ 1,287,872</u></u>

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

EXHIBIT A-4

**SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2015**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
January 1, 2008	\$ -	\$ 618,083	\$ 618,083	0.00%	\$ 5,722,969	10.8%
January 1, 2011	-	638,272	638,272	0.00	6,162,682	10.4
January 1, 2014	-	546,471	546,471	0.00	6,594,400	8.3

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

EXHIBIT A-5

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA GENERAL EMPLOYEES RETIREMENT FUND
DECEMBER 31, 2015**

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	Covered Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.0932%	\$ 4,830,108	\$ 5,478,295	88.17%	78.19%

This schedule is intended to show information for ten years. Additional years will be displayed as they become available. The measurement date for each year is June 30.

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

EXHIBIT A-6

**SCHEDULE OF CONTRIBUTIONS
PERA GENERAL EMPLOYEES RETIREMENT FUND
DECEMBER 31, 2015**

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b-a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
2015	\$ 406,332	\$ 406,332	-	\$ 5,417,760	7.50%

This schedule is intended to show information for ten years. Additional years will be displayed as they become available. Lake County's year-end is December 31.

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

EXHIBIT A-7

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA PUBLIC EMPLOYEES POLICE AND FIRE FUND
DECEMBER 31, 2015**

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	Covered Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.132%	\$ 1,499,829	\$ 1,205,980	124.37%	86.61%

This schedule is intended to show information for ten years. Additional years will be displayed as they become available. The measurement date for each year is June 30.

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

EXHIBIT A-8

**SCHEDULE OF CONTRIBUTIONS
PERA PUBLIC EMPLOYEES POLICE AND FIRE FUND
DECEMBER 31, 2015**

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b-a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
2015	\$ 194,705	\$ 194,705	-	\$ 1,201,883	16.20%

This schedule is intended to show information for ten years. Additional years will be displayed as they become available. Lake County's year-end is December 31.

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

EXHIBIT A-9

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA PUBLIC EMPLOYEES CORRECTIONAL FUND
DECEMBER 31, 2015**

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	Covered Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.30%	\$ 46,380	\$ 535,509	8.66%	96.95%

This schedule is intended to show information for ten years. Additional years will be displayed as they become available. The measurement date for each year is June 30.

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

EXHIBIT A-10

**SCHEDULE OF CONTRIBUTIONS
PERA PUBLIC EMPLOYEES CORRECTIONAL FUND
DECEMBER 31, 2015**

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b-a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
2015	\$ 50,912	\$ 50,912	\$ -	\$ 581,851	8.75%

This schedule is intended to show information for ten years. Additional years will be displayed as they become available. Lake County's year-end is December 31.

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**LAKE COUNTY
TWO HARBORS, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2015**

1. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year-end.

In July of each year, all departments and agencies submit requests for appropriations to the County Auditor/Treasurer so that a budget can be prepared. Before September 15, the proposed budget is presented to the County Board for review. A final budget is adopted by the Board and certified to the Auditor/Treasurer by December 30.

The appropriated budget is prepared by fund, function, and department. The County's department heads may make transfers of appropriations within a department with County Board approval. Transfers of appropriations between departments also require approval of the County Board. The legal level of budgetary control (the level at which expenditures may not legally exceed appropriations) is the departmental level.

Encumbrance accounting is employed in governmental funds.

2. Excess of Expenditures Over Appropriations

The following funds and departments had expenditures exceeding appropriations for the year ended December 31, 2015:

	Expenditures	Budget	Excess
Major governmental funds			
General Fund			
Current			
General government			
Commissioners	\$ 408,148	\$ 390,757	\$ 17,391
Courts	66,608	39,500	27,108
County assessor	471,217	458,001	13,216
Elections	14,013	6,235	7,778
Accounting and auditing	87,054	70,600	16,454
Planning and zoning	479,902	456,642	23,260
Veterans service officer	78,468	76,198	2,270
Public safety			
Ambulance	163,955	137,958	25,997
Coroner	54,326	30,000	24,326
Emergency management	340,723	90,113	250,610
Other public safety	161,915	124,219	37,696

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

2. Excess of Expenditures Over Appropriations

	Expenditures	Budget	Excess
Major governmental funds			
General Fund			
Current (Continued)			
Culture and recreation			
Trails	159,773	--	159,773
Conservation of natural resources			
Agricultural society/County fair	24,125	21,374	2,751
CWP project	14,736	14,488	248
Economic development			
Housing and Redevelopment Authority	276,073	--	276,073
Other economic development	23,701	--	23,701
Road and Bridge Special Revenue Fund			
Current			
Highways and streets			
Administration	366,253	348,776	17,477
Debt service			
Interest	5,682	--	5,682
Human Services Special Revenue Fund			
Current			
Health			
Environmental health	105,824	100,475	5,349
Mental health	2,175,214	2,155,637	19,577

3. Schedule of Funding Progress - Other Postemployment Benefits

Beginning in 2008, Lake County implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Since the County has not irrevocably deposited funds in a trust for future health benefits, the actuarial value of the assets is zero.

See Note 5 in the notes to the financial statements for additional information regarding the County's other postemployment benefits.

SUPPLEMENTARY INFORMATION

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**LAKE COUNTY
TWO HARBORS, MINNESOTA**

NONMAJOR GOVERNMENTAL FUNDS

The Resource Development Special Revenue Fund is used to account for intergovernmental revenue used for resource development, forest management, game and fish habitat improvement, and recreational development and maintenance of County-administered natural resources land.

The Unorganized Townships Special Revenue Fund is used to account for the activities of Unorganized Townships 1 and 2 related to fire protection and election services. Activities related to road maintenance in the unorganized townships are accounted for in the County's Road and Bridge Special Revenue Fund.

The Forfeited Tax Special Revenue Fund is used to account for revenues from the sale or lease of lands forfeited to the State of Minnesota and for revenues dedicated for use in memorial forests and various land and timber projects.

The Debt Service Fund is used to account for the accumulation of resources for and the payment of principal, interest, and related costs of general long-term debt.

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**LAKE COUNTY
TWO HARBORS, MINNESOTA**

EXHIBIT B-1

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2015**

	<u>Special Revenue</u>			<u>Debt Service</u>	<u>Total</u>
	<u>Resource Development</u>	<u>Unorganized Townships</u>	<u>Forfeited Tax</u>		
<u>Assets</u>					
Cash and pooled investments	\$ 693,577	\$ 286,665	\$ 23,823	\$ 714,650	\$ 1,718,715
Petty cash and change funds	-	-	50	-	50
Undistributed cash in agency funds	-	11,739	-	25,354	37,093
Taxes receivable					
Prior	-	1,982	-	10,433	12,415
Accounts receivable	-	-	772,794	-	772,794
Due from other funds	169,016	3,142	-	-	172,158
Due from other governments	237,412	-	-	-	237,412
Due from component unit	-	-	-	196,189	196,189
Total Assets	\$ 1,100,005	\$ 303,528	\$ 796,667	\$ 946,626	\$ 3,146,826
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>					
Liabilities					
Accounts payable	\$ 33,803	\$ -	\$ 2,838	\$ -	\$ 36,641
Salaries payable	-	-	16,869	-	16,869
Due to other funds	3,142	-	169,016	106,088	278,246
Due to other governments	13,759	119,086	-	-	132,845
Total Liabilities	\$ 50,704	\$ 119,086	\$ 188,723	\$ 106,088	\$ 464,601
Deferred Inflows of Resources					
Unavailable revenue - taxes	\$ -	\$ 784	\$ -	\$ 7,846	\$ 8,630
Unavailable revenue - long-term receivables	-	-	703,198	-	703,198
Total Deferred Inflows of Resources	\$ -	\$ 784	\$ 703,198	\$ 7,846	\$ 711,828
Fund Balances					
Restricted for debt service	\$ -	\$ -	\$ -	\$ 832,692	\$ 832,692
Committed to unorganized townships emergency services	-	183,658	-	-	183,658
Assigned to resource development	1,049,301	-	-	-	1,049,301
Unassigned	-	-	(95,254)	-	(95,254)
Total Fund Balances	\$ 1,049,301	\$ 183,658	\$ (95,254)	\$ 832,692	\$ 1,970,397
Total Liabilities, Deferred Inflows Resources, and Fund Balances	\$ 1,100,005	\$ 303,528	\$ 796,667	\$ 946,626	\$ 3,146,826

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

EXHIBIT B-2

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Special Revenue</u>				<u>Total</u>
	<u>Resource Development</u>	<u>Unorganized Townships</u>	<u>Forfeited Tax</u>	<u>Debt Service</u>	
Revenues					
Taxes	\$ -	\$ 113,596	\$ -	\$ 242,884	\$ 356,480
Licenses and permits	-	105	1,066	-	1,171
Intergovernmental	454,415	31,034	36,311	20,599	542,359
Charges for services	-	-	10,731	-	10,731
Investment earnings	-	-	-	382	382
Miscellaneous	165,000	-	650,642	70,461	886,103
Total Revenues	\$ 619,415	\$ 144,735	\$ 698,750	\$ 334,326	\$ 1,797,226
Expenditures					
Current					
General government	\$ -	\$ 1,947	\$ -	\$ -	\$ 1,947
Public safety	-	131,986	-	-	131,986
Culture and recreation	170,180	-	-	-	170,180
Conservation of natural resources	392,004	-	642,774	-	1,034,778
Capital outlay					
Conservation of natural resources	-	-	61,059	-	61,059
Debt service					
Principal	146,667	-	-	280,000	426,667
Interest	22,085	-	-	54,216	76,301
Administrative (fiscal) charges	-	-	-	560	560
Total Expenditures	\$ 730,936	\$ 133,933	\$ 703,833	\$ 334,776	\$ 1,903,478
Excess of Revenues Over (Under) Expenditures	\$ (111,521)	\$ 10,802	\$ (5,083)	\$ (450)	\$ (106,252)
Other Financing Sources (Uses)					
Transfers in	\$ 180,248	\$ 65,043	\$ -	\$ -	\$ 245,291
Transfers out	(67,289)	-	(180,248)	(737,144)	(984,681)
Total Other Financing Sources (Uses)	\$ 112,959	\$ 65,043	\$ (180,248)	\$ (737,144)	\$ (739,390)
Net Change in Fund Balance	\$ 1,438	\$ 75,845	\$ (185,331)	\$ (737,594)	\$ (845,642)
Fund Balance - January 1	1,047,863	107,813	90,077	1,570,286	2,816,039
Fund Balance - December 31	\$ 1,049,301	\$ 183,658	\$ (95,254)	\$ 832,692	\$ 1,970,397

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

EXHIBIT B-3

**BUDGETARY COMPARISON SCHEDULE
RESOURCE DEVELOPMENT SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$ 96,000	\$ 96,000	\$ 454,415	\$ 358,415
Miscellaneous	-	-	165,000	165,000
Total Revenues	\$ 96,000	\$ 96,000	\$ 619,415	\$ 523,415
Expenditures				
Current				
Culture and recreation				
Trails	\$ -	\$ -	\$ 170,180	\$ (170,180)
Conservation of natural resources				
Other conservation	\$ -	\$ -	\$ 392,004	\$ (392,004)
Debt service				
Principal	\$ 146,667	\$ 146,667	\$ 146,667	\$ -
Interest	21,817	21,817	22,085	(268)
Total debt service	\$ 168,484	\$ 168,484	\$ 168,752	\$ (268)
Total Expenditures	\$ 168,484	\$ 168,484	\$ 730,936	\$ (562,452)
Excess of Revenues Over (Under) Expenditures	\$ (72,484)	\$ (72,484)	\$ (111,521)	\$ (39,037)
Other Financing Sources (Uses)				
Transfers in	-	-	180,248	180,248
Transfers out	-	-	(67,289)	(67,289)
Total Other Financing Sources (Uses)	\$ -	\$ -	\$ 112,959	\$ 112,959
Net Change in Fund Balance	\$ (72,484)	\$ (72,484)	\$ 1,438	\$ 73,922
Fund Balance - January 1	1,047,863	1,047,863	1,047,863	-
Fund Balance - December 31	\$ 975,379	\$ 975,379	\$ 1,049,301	\$ 73,922

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

EXHIBIT B-4

**BUDGETARY COMPARISON SCHEDULE
UNORGANIZED TOWNSHIPS SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 120,620	\$ 120,620	\$ 113,596	\$ (7,024)
Licenses and permits	100	100	105	5
Intergovernmental	15,000	15,000	31,034	16,034
Total Revenues	\$ 135,720	\$ 135,720	\$ 144,735	\$ 9,015
Expenditures				
Current				
General government				
Elections	\$ -	\$ -	\$ 1,947	\$ (1,947)
Public safety				
Emergency services	116,250	116,250	131,986	(15,736)
Total Expenditures	\$ 116,250	\$ 116,250	\$ 133,933	\$ (17,683)
Excess of Revenues Over (Under) Expenditures	\$ 19,470	\$ 19,470	\$ 10,802	\$ (8,668)
Other Financing Sources (Uses)				
Transfers in	-	-	65,043	65,043
Net Change in Fund Balance	\$ 19,470	\$ 19,470	\$ 75,845	\$ 56,375
Fund Balance - January 1	107,813	107,813	107,813	-
Fund Balance - December 31	\$ 127,283	\$ 127,283	\$ 183,658	\$ 56,375

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

EXHIBIT B-5

**BUDGETARY COMPARISON SCHEDULE
FORFEITED TAX SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Licenses and permits	\$ 1,016	\$ 1,016	\$ 1,066	\$ 50
Intergovernmental	26,241	26,241	36,311	10,070
Charges for services	15,000	15,000	10,731	(4,269)
Miscellaneous	588,990	588,990	650,642	61,652
Total Revenues	\$ 631,247	\$ 631,247	\$ 698,750	\$ 67,503
Expenditures				
Current				
Conservation of natural resources				
Land use	\$ 558,097	\$ 558,097	\$ 642,774	\$ (84,677)
Capital outlay				
Conservation of natural resources	54,100	54,100	61,059	(6,959)
Total Expenditures	\$ 612,197	\$ 612,197	\$ 703,833	\$ (91,636)
Excess of Revenues Over (Under) Expenditures	\$ 19,050	\$ 19,050	\$ (5,083)	\$ (24,133)
Other Financing Sources (Uses)				
Transfers out	-	-	(180,248)	(180,248)
Net Change in Fund Balance	\$ 19,050	\$ 19,050	\$ (185,331)	\$ (204,381)
Fund Balance - January 1	90,077	90,077	90,077	-
Fund Balance - December 31	\$ 109,127	\$ 109,127	\$ (95,254)	\$ (204,381)

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

EXHIBIT B-6

**BUDGETARY COMPARISON SCHEDULE
DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 261,080	\$ 261,080	\$ 242,884	\$ (18,196)
Intergovernmental	-	-	20,599	20,599
Investment earnings	145	145	382	237
Miscellaneous	70,337	70,337	70,461	124
	<u>70,337</u>	<u>70,337</u>	<u>70,461</u>	<u>124</u>
Total Revenues	\$ 331,562	\$ 331,562	\$ 334,326	\$ 2,764
Expenditures				
Debt service				
Principal	\$ 280,000	\$ 280,000	\$ 280,000	\$ -
Interest	54,216	54,216	54,216	-
Administrative (fiscal) charges	405	405	560	(155)
	<u>405</u>	<u>405</u>	<u>560</u>	<u>(155)</u>
Total Expenditures	\$ 334,621	\$ 334,621	\$ 334,776	\$ (155)
Excess of Revenues Over (Under) Expenditures	\$ (3,059)	\$ (3,059)	\$ (450)	\$ 2,609
Other Financing Sources (Uses)				
Transfers out	-	-	(737,144)	(737,144)
	<u>-</u>	<u>-</u>	<u>(737,144)</u>	<u>(737,144)</u>
Net Change in Fund Balance	\$ (3,059)	\$ (3,059)	\$ (737,594)	\$ (734,535)
Fund Balance - January 1	<u>1,570,286</u>	<u>1,570,286</u>	<u>1,570,286</u>	<u>-</u>
Fund Balance - December 31	<u><u>1,567,227</u></u>	<u><u>1,567,227</u></u>	<u><u>832,692</u></u>	<u><u>(734,535)</u></u>

FIDUCIARY FUNDS

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**LAKE COUNTY
TWO HARBORS, MINNESOTA**

EXHIBIT C-1

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

	Balance January 1	Additions	Deductions	Balance December 31
<u>CITIES, TOWNS, AND OTHER GOVERNMENTS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ <u>3,534</u>	\$ <u>14,097,528</u>	\$ <u>14,092,443</u>	\$ <u>8,619</u>
<u>Liabilities</u>				
Due to other governments	\$ <u>3,534</u>	\$ <u>14,097,528</u>	\$ <u>14,092,443</u>	\$ <u>8,619</u>
 <u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ <u>977,827</u>	\$ <u>21,141,268</u>	\$ <u>21,321,844</u>	\$ <u>797,251</u>
<u>Liabilities</u>				
Taxes collected in advance	\$ 10,432	\$ 6,539	\$ 10,432	\$ 6,539
Due to other governments	<u>967,395</u>	<u>21,134,729</u>	<u>21,311,412</u>	<u>790,712</u>
Total Liabilities	\$ <u>977,827</u>	\$ <u>21,141,268</u>	\$ <u>21,321,844</u>	\$ <u>797,251</u>
 <u>STATE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ <u>65,823</u>	\$ <u>230,777</u>	\$ <u>260,382</u>	\$ <u>36,218</u>
<u>Liabilities</u>				
Due to other governments	\$ <u>65,823</u>	\$ <u>230,777</u>	\$ <u>260,382</u>	\$ <u>36,218</u>

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

*EXHIBIT C-1
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<u>SEWER SYSTEM DEPOSITS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ <u>56,710</u>	\$ <u>54,585</u>	\$ <u>23,985</u>	\$ <u>87,310</u>
<u>Liabilities</u>				
Customer deposits - current	\$ <u>56,710</u>	\$ <u>54,585</u>	\$ <u>23,985</u>	\$ <u>87,310</u>
 <u>NORTH SHORE COLLABORATIVE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ <u>163,160</u>	\$ <u>42,791</u>	\$ <u>53,706</u>	\$ <u>152,245</u>
<u>Liabilities</u>				
Accounts payable	\$ <u>163,160</u>	\$ <u>42,791</u>	\$ <u>53,706</u>	\$ <u>152,245</u>
 <u>ARROWHEAD HEALTH ALLIANCE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ <u>197,036</u>	\$ <u>254,733</u>	\$ <u>200,748</u>	\$ <u>251,021</u>
<u>Liabilities</u>				
Accounts payable	\$ <u>197,036</u>	\$ <u>254,733</u>	\$ <u>200,748</u>	\$ <u>251,021</u>

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

*EXHIBIT C-1
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

	Balance January 1	Additions	Deductions	Balance December 31
<u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	<u>\$ 1,464,090</u>	<u>\$ 35,821,682</u>	<u>\$ 35,953,108</u>	<u>\$ 1,332,664</u>
<u>Liabilities</u>				
Accounts payable	\$ 360,196	\$ 297,524	\$ 254,454	\$ 403,266
Taxes collected in advance	10,432	6,539	10,432	6,539
Due to other governments	1,036,752	35,463,034	35,664,237	835,549
Customer deposits - current	<u>56,710</u>	<u>54,585</u>	<u>23,985</u>	<u>87,310</u>
Total Liabilities	<u>\$ 1,464,090</u>	<u>\$ 35,821,682</u>	<u>\$ 35,953,108</u>	<u>\$ 1,332,664</u>

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OTHER SCHEDULES

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**LAKE COUNTY
TWO HARBORS, MINNESOTA**

EXHIBIT D-1

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

Appropriations and Shared Revenue

State

Highway users tax	\$ 4,882,088
County program aid	441,602
PERA rate reimbursement	24,329
Disparity reduction aid	158,977
Aquatic invasive species aid	155,653
Police aid	135,585
Taconite credit	580,433
Enhanced 911	82,317
Market value credit	4,003
	4,003

Total appropriations and shared revenue **\$ 6,464,987**

Reimbursement for Services

State

Minnesota Department of Human Services	\$ 179,685
	179,685

Payments

State

Payments in lieu of taxes	\$ 902,959
---------------------------	------------

Local **237,412**

Total payments **\$ 1,140,371**

Grants

State

Minnesota Department of	
Public Safety	\$ 63,647
Health	55,196
Natural Resources	564,188
Human Services	3,490,315
Veterans Affairs	35
Board of Water and Soil Resources	84,283
Office of Environmental Assistance	69,692
	69,692

Total state **\$ 4,327,356**

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

***EXHIBIT D-1
(Continued)***

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

Grants (Continued)

Federal

Department of	
Agriculture	\$ 2,848,153
Housing and Urban Development	542,736
Interior	260,613
Transportation	547,665
Environmental Protection Agency	4,224
Education	2,492
Health and Human Services	830,306
Homeland Security	137,237

Total federal **\$ 5,173,426**

Total state and federal grants **\$ 9,500,782**

Total Intergovernmental Revenue **\$ 17,285,825**

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

EXHIBIT D-2

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

Federal Grantor Pass-Through Agency Program or Cluster Title	Federal CFDA Number	Contract Number/ Pass-Through Grant Numbers	Expenditures	Passed Through to Subrecipients
U.S. Department of Agriculture				
Direct				
U.S. Forest Service Cooperative Agreement	Unavailable	11-LE-11090903-022	\$ 13,500	\$ -
Broadband Initiatives Program Cluster				
Broadband Initiatives Program Grant - ARRA	10.787		3,273,709	-
Broadband Initiatives Program Loan - ARRA	10.787		18,551,013	-
(Total Broadband Initiatives Program 10.787 \$21,824,722)				
Passed Through Carlton, Cook, Lake, and St. Louis Community Health Board Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	16162MN004W1003	42,798	-
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	15152MN10152514	102,994	-
Passed Through Minnesota Management and Budget Schools and Roads - Grants to States	10.665	P.L. 114-10	2,611,603	-
Passed Through Minnesota Department of Natural Resources Cooperative Forestry Assistance	10.664	14-DG-11420004-252	30,027	-
Forest Products Lab: Technology Marketing Unit (TMU)	10.674	12-DG-11420004-213	35,025	-
Total U.S. Department of Agriculture			\$ 24,660,669	\$ -
U.S. Department of Housing and Urban Development				
Passed Through Minnesota Department of Employment and Economic Development Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	FY13	\$ 542,736	\$ 542,736
U.S. Department of the Interior				
Direct				
Payments in Lieu of Taxes	15.226		\$ 260,613	\$ -
U.S. Department of Transportation				
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	00038	\$ 436,037	\$ -
U.S. Environmental Protection Agency				
Passed Through Minnesota Department of Natural Resources Great Lakes Program	66.469	00E01283	\$ 4,224	\$ -

The notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

Page 108

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

**EXHIBIT D-2
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

Federal Grantor Pass-Through Agency Program or Cluster Title	Federal CFDA Number	Contract Number/ Pass-Through Grant Numbers	Expenditures	Passed Through to Subrecipients
U.S. Department of Education				
Passed Through Carlton, Cook, Lake, and St. Louis Community Health Board				
Special Education - Grants for Infants and Families	84.181	H18A150029	\$ 2,492	\$ -
U.S. Department of Health and Human Services				
Passed Through Carlton, Cook, Lake, and St. Louis Community Health Board				
Public Health Emergency Preparedness	93.069	U90TP000529	\$ 10,140	-
Temporary Assistance for Needy Families (Total Temporary Assistance for Needy Families 93.558 \$58,650)	93.558	2015G996115	10,843	-
Maternal and Child Health Services Block Grant to the States	93.994	B04MC28107	15,873	-
Passed Through Minnesota Department of Human Services				
Promoting Safe and Stable Families	93.556	1401MNFPS	3,891	-
Temporary Assistance for Needy Families (Total Temporary Assistance for Needy Families 93.558 \$58,650)	93.558	1502MNTANF	47,807	-
Child Support Enforcement	93.563	1504MN4005	183,497	-
Child Care and Development Block Grant	93.575	G1501MNCCDF	2,022	-
Refugee and Entrant Assistance - State-Administered Program	93.566	1501MNRCA	172	-
Community-Based Child Abuse Prevention Grants	93.590	1302MNFPRG	31,728	-
Stephanie Tubbs Jones Child Welfare Services Program	93.645	1401MNCWSS	2,564	-
Foster Care - Title IV-E	93.658	1501MNFOST	31,655	-
Social Services Block Grant	93.667	1501MNSOSR	85,483	-
Chafee Foster Care Independence Program	93.674	1401MN1420	1,497	-
Children's Health Insurance Program	93.767	1405MN5021	48	-
Medical Assistance Program	93.778	1505MN5ADM	388,163	-
Passed Through Koochiching County				
Rural Health Care Services Outreach, Rural Health Network Development and Small Health Care Provider Improvement Program	93.912	D04RH23568	14,923	-
Total U.S. Department of Health and Human Services			\$ 830,306	\$ -

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

**EXHIBIT D-2
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

Federal Grantor Pass-Through Agency Program or Cluster Title	Federal CFDA Number	Contract Number/ Pass-Through Grant Numbers	Expenditures	Passed Through to Subrecipients
U.S. Department of Homeland Security				
Passed Through Minnesota Department of Natural Resources				
Boating Safety Financial Assistance	97.012	R29G4CGSFY15	\$ 12,617	-
Passed Through Minnesota Department of Public Safety				
Hazard Mitigation Grant	97.039	FEMA-1982-DR-MN	126,015	-
Hazard Mitigation Grant	97.039	A-HMGP-DR4113- LAKECO*-0011	14,844	-
Hazard Mitigation Grant	97.039	A-HMGP-DR4131- LAKECO*-0018	377	-
(Total Hazard Mitigation Grant 97.039 \$141,236)				
Emergency Management Performance Grants	97.042	A-EMPG-2015-L LAKECOEM-00039	16,399	-
Homeland Security Grant Program	97.067	A-OPSG-2015- LAKESO-004	40,564	-
			<u>210,816</u>	<u>-</u>
Total U.S. Department of Homeland Security			\$ 210,816	\$ -
Total Federal Awards			\$ 26,947,893	\$ 542,736

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**LAKE COUNTY
TWO HARBORS, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by Lake County. The County's reporting entity is defined in Note 1 to the financial statements.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Lake County under programs of the federal government for the year ended December 31, 2015. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of Lake County, it is not intended to and does not present the financial position, changes in net position, or cash flows of Lake County.

3. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the modified basis of accounting used by the individual funds of Lake County. Such expenditures are recognized following, as applicable, either the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Lake County has not elected to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

4. Balance of Federal Loan

Lake County was the recipient of the U.S. Department of Agriculture's Broadband Initiatives Program Loan, CFDA No. 10.787. In 2015, the County incurred federal loan program expenditures of \$18,551,013. As of December 31, 2015, Lake County reported a balance outstanding of \$50,730,826.

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

5. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 5,173,426
Grants received more than 90 days after year-end, deferred in 2015	
Cooperative Forestry Assistance	1,266
Highway Planning and Construction	39,896
Hazard Mitigation Grant	73,579
Deferred in 2014, recognized as revenue in 2015	
Highway Planning and Construction	(151,524)
Cooperative Forestry Assistance	(13,472)
Capital grants received in enterprise funds	
Broadband Initiatives Program Grant - ARRA	3,273,709
Broadband Initiatives Program Loan - ARRA	<u>18,551,013</u>
Expenditures Per Schedule of Expenditures of Federal Awards	<u>\$ 26,947,893</u>

6. American Recovery and Reinvestment Act

The American Recovery and Reinvestment Act of 2009 (ARRA) requires recipients to clearly distinguish ARRA funds from non-ARRA funding. In the schedule, ARRA funds are denoted by the addition of ARRA to the program name.

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**LAKE COUNTY
TWO HARBORS, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2015**

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued on whether the financial statements audited were prepared in accordance with generally accepted accounting principles: **Unmodified**

Internal control over financial reporting:

- Material weaknesses identified? **Yes**
- Significant deficiencies identified? **Yes**

Noncompliance material to the financial statements noted? **No**

Federal Awards

Internal control over major programs:

- Material weaknesses identified? **Yes**
- Significant deficiencies identified? **None Reported**

Type of auditor's report issued on compliance for major federal programs: **Unmodified for all major programs, except for Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii, which is qualified.**

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? **Yes**

The major federal programs are:

Broadband Initiatives Program Cluster	
Broadband Initiatives Program Grant - ARRA	CFDA No. 10.787
Broadband Initiatives Program Loan - ARRA	CFDA No. 10.787
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	CFDA No. 14.228

The threshold for distinguishing between Types A and B programs was \$750,000.

Lake County qualified as a low-risk auditee? **No**

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding 1996-011

Segregation of Duties

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

Condition: At Lake County, some individuals who collect and receipt cash can also post receipts to the general ledger system and make bank deposits. In addition, an individual who maintains the general ledger, makes journal entries, and reconciles bank accounts also does some cash receipting. The same person who processes cash disbursements has the ability to print and sign checks. At the department level, many of these functions are also not segregated.

Context: Due to the limited number of office personnel within the County, segregation of the accounting functions necessary to ensure adequate internal accounting control is not possible. This is not unusual in operations the size of Lake County; however, the County's management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an accounting point of view.

Effect: Inadequate segregation of duties could adversely affect the County's ability to detect misstatements in amounts that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned functions.

Cause: The County informed us that it does not have the economic resources needed to hire additional qualified accounting staff in order to segregate duties in every department.

Recommendation: We recommend the County's elected officials and management be aware of the lack of segregation of duties of the accounting functions and, where possible, implement oversight procedures to ensure that the internal control policies and procedures are being implemented by staff to the extent possible.

Client's Response:

The County's management is aware of this condition. Limited staff prohibits the extensive segregation of duties that is desired. Occasional re-assignment of duties will be attempted in order to increase the segregation. Cross training of all positions will also help this situation.

Finding 2003-002

Capital Assets

Criteria: A capital assets policy should be adopted which defines the County's accounting policies over capital assets, such as capitalization thresholds, useful lives, and depreciation methods. A physical inventory should be taken of capital assets at least every five years.

Condition: The County Board adopted a capital asset policy in 2015; however, there has not been a physical inventory of capital assets since the records were first established in 2003.

Context: The County maintains its capital asset records on a capital asset software system. Additions and deletions are entered into this system, and depreciation is calculated by the system. A capital asset policy was formally approved by the County Board during 2015.

Effect: Without a physical inventory of capital assets, it is possible that items that were disposed of will not be properly deleted from inventory.

Cause: No one has been assigned the responsibility of setting up a system to do a physical inventory of capital assets.

Recommendation: We recommend a physical inventory of capital assets be performed at least once every five years. This physical inventory can be rotated so that a portion of the capital assets is inventoried each year.

Client's Response:

The County intends to develop policies and procedures for capital assets and determine a process of doing a physical inventory as time permits.

Finding 2006-003

Audit Adjustments

Criteria: A deficiency in internal control over financial reporting 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 of the financial statements on a timely basis. Auditing standards define a material weakness as a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected, on a timely basis.

Condition: During our audit, we identified material adjustments that resulted in significant changes to the County's financial statements.

Context: The inability to make all necessary accrual adjustments or to detect material misstatements in the financial statements increases the likelihood that the financial statements would not be fairly presented.

Effect: The following audit adjustments were reviewed and approved by the County and are reflected in the Broadband Enterprise Fund and business-type statements:

- Assets increased and expenses decreased by \$891,233 to record inventory.
- Liabilities and expenses increased by \$1,755,189 to record additional contracts and retainage payables.
- Revenues and expenses decreased by \$4,982,936 to eliminate intrafund activity.

Cause: County management has a contract with a management company to oversee this Broadband Enterprise Fund. The management company tracks the financial information for the Broadband Enterprise Fund in a financial system separate from the County's general ledger. The County Auditor/Treasurer also tracks the financial information for the Broadband Enterprise Fund in its general ledger. The County Auditor/Treasurer does not reconcile the financial information in the County's general ledger to the management company's financial records for the Broadband Enterprise Fund.

Recommendation: We recommend the County establish internal controls necessary to ensure the County's annual financial statements are fairly presented in accordance with generally accepted accounting principles.

Client's Response:

For 2015, the Financial Coordinator and the County Auditor/Treasurer are reviewing trial balance and journal entries. The County Auditor/Treasurer is signing off on journal entries.

The County Board has instructed the Broadband Chief Financial Officer and the County Auditor's staff to work together in order to reconcile the Broadband accounting system to the County's accounting system. Meetings for this have begun and will continue until reconciliation can be accomplished.

ITEM ARISING THIS YEAR

Finding 2015-001

Broadband Inventory

Criteria: A policy over inventory related to the Broadband Enterprise Fund should be adopted which defines the County's accounting policies and procedures as to how items are added and removed from inventory, how inventory is priced and tracked, and how and when inventory counts are completed and reconciled to the inventory records. Inventory should also have physical controls to prevent unauthorized access, which includes limiting access to inventory to certain staff and maintaining inventory in a secure area.

Condition: The County Board has not adopted a formal inventory policy over Broadband inventory.

Context: The management company that oversees inventory maintains inventory records in Excel. When items are added to or removed from inventory, the Excel records are manually updated, but inventory was not documented in the management company's general ledger at year-end. A physical count of inventory was not completed at year-end; instead, an inventory count was completed in March 2016. Physical access to inventory is not controlled. Inventory is stored in an unlocked room, and all Broadband employees have access to this room.

Effect: Without the proper controls over inventory, inventory records are more susceptible to errors or manipulation. Additionally, without the proper physical controls, inventory is subject to unintentional loss or theft.

Cause: The County Board has not established or approved a Broadband inventory policy.

Recommendation: We recommend that the County Board establish an inventory policy that defines the County's accounting policies and procedures over Broadband inventory. This policy should address how inventory is tracked and maintained. The policy should also address the physical controls over inventory, such as who has access to inventory and how inventory is secured.

Client's Response:

The Lake County Board of Commissioners will work with the broadband management company to establish and approve a Broadband Inventory Policy that will be included as part of the County's Accounting Policies and Procedures Manual.

PREVIOUSLY REPORTED ITEMS RESOLVED

Budgeting (2006-002)

Lake County's budget policy did not address how budgets will be monitored to provide for accountability over spending.

Resolution

The County Board approved an updated budget policy to address how budgets will be monitored to provide for accountability over spending.

Accounting Policies and Procedures Manual (2006-004)

Lake County did not have a current and comprehensive accounting policies and procedures manual.

Resolution

The County established a comprehensive accounting policies and procedures manual, which was approved by the County Board in 2015.

New Vendors (2006-006)

Lake County did not have any formal procedures for reviewing new vendors that have been added to the accounts payable system or for determining if they are legitimate vendors.

Resolution

The County Board approved an accounting policies and procedures manual which included procedures for determining the legitimacy of new vendors before payment.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

ITEM ARISING THIS YEAR

Finding 2015-002

Subrecipient Monitoring

Program: U.S. Department of Housing and Urban Development's Community Development Block Grant/State's Program and Non-Entitlement Grants in Hawaii (CFDA No. 14.228), Award #CDAP-12-0077-0-FY13, 2013

Pass-Through Agency: Minnesota Department of Employment and Economic Development

Criteria: Title 2 U.S. *Code of Federal Regulations* § 200.303 states that the auditee must establish and maintain effective internal control over the federal award that provides reasonable assurance that the auditee is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award. In addition, Lake County was required to comply with the provisions for Subrecipient Monitoring in Part 3 of the 2015 U.S. Office of Management and Budget (OMB) *Compliance Supplement*, including monitoring the activities to provide reasonable assurance that the subrecipient administers the federal award in compliance with federal requirements.

Condition: The County properly approved a contract with the subrecipient that included the specific duties and responsibilities required under the grant, but the County did not perform any subrecipient monitoring procedures.

Questioned Costs: None

Context: During the spring of 2016, the County evaluated and determined the contractor was, in fact, a subrecipient during 2015.

Effect: The County is not meeting federal requirements pertaining to subrecipient monitoring. Also, without performing monitoring procedures, the County cannot be assured that its subrecipient is in compliance with federal regulations over the federal award.

Cause: Until the time an evaluation was completed, the County considered its subrecipient to be a contractor, where subrecipient monitoring requirements would not apply.

Recommendation: We recommend the County evaluate all new contractors to determine if the County shall consider them a contractor or a subrecipient. Also, we recommend the County develop subrecipient monitoring procedures that are in compliance with OMB Circular A-133 for grants awarded before December 26, 2014, or with Title 2 U.S. *Code of Federal Regulations* §§ 200.303 and 200.331 for grants awarded after December 26, 2014.

Corrective Action Plan:

Name of Contract Person Responsible for Corrective Action:

Matthew Huddleston, County Administrator

Corrective Action Planned:

Lake County will evaluate all new contractors to determine if the County shall consider them a contractor or a subrecipient. Lake County will develop subrecipient monitoring procedures that are in compliance with OMB Circular A-133 for grants awarded before December 26, 2014, or with Title 2 U.S. Code of Federal Regulations §§ 200.303 and 200.331 for grants awarded after December 26, 2014.

Anticipated Completion Date:

December 31, 2016



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STATE AUDITOR

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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*

Independent Auditor's Report

Board of County Commissioners
Lake County
Two Harbors, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Lake County, Minnesota, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 15, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Lake County's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness and other items that we consider to be significant deficiencies.

A deficiency in internal control over financial reporting 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 combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2006-003 be a material weakness.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 1996-011, 2003-002, and 2015-001 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lake County's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Minnesota Legal Compliance

The *Minnesota Legal Compliance Audit Guide for Counties*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven categories of compliance to be tested in connection with the audit of the County's financial statements: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for tax increment financing because the County administers no tax increment financing districts.

In connection with our audit, nothing came to our attention that caused us to believe that Lake County failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Counties*. 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 County's noncompliance with the above referenced provisions.

Lake County's Response to Findings

Lake County's responses to the internal control findings identified in our audit have been included in the Schedule of Findings and Questioned Costs. The County's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of This Report

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 15, 2016

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REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Independent Auditor's Report

Board of County Commissioners
Lake County
Two Harbors, Minnesota

Report on Compliance for Each Major Federal Program

We have audited Lake County's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of the County's major federal programs for the year ended December 31, 2015. Lake County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Lake County's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Lake County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the County's compliance with those requirements.

Basis for Qualified Opinion on Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii (CFDA No. 14.228)

As described in the accompanying Schedule of Findings and Questioned Costs, Lake County did not comply with requirements regarding CFDA No. 14.228, Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii as described in finding number 2015-002 for Subrecipient Monitoring. Compliance with such requirements is necessary, in our opinion, for the County to comply with the requirements applicable to that program.

Qualified Opinion on Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii (CFDA No. 14.228)

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, Lake County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii for the year ended December 31, 2015.

Unmodified Opinion on the Other Major Federal Program

In our opinion, Lake County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its other major federal program identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs for the year ended December 31, 2015.

Lake County's response to the noncompliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs as a Corrective Action Plan. Lake County's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of Lake County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2015-002 to be a material weakness.

Lake County's response to the internal control over a compliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs as a Corrective Action Plan. Lake County's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Purpose of This Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 15, 2016