

# STATE OF MINNESOTA

## Office of the State Auditor



**Rebecca Otto**  
**State Auditor**

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**LAKE COUNTY**  
**TWO HARBORS, MINNESOTA**

**YEAR ENDED DECEMBER 31, 2017**

## **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 650 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, 2017**



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

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**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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TWO HARBORS, MINNESOTA**

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TWO HARBORS, MINNESOTA**

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**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

ORGANIZATION  
DECEMBER 31, 2017

			<u>Term Expires</u>
<b>Elected</b>			
Commissioner	Peter Walsh	District 1	January 2019
Commissioner	Derrick Goutermont	District 2	January 2021
Commissioner	Richard Hogenson	District 3	January 2021
Commissioner	Jeremy Hurd	District 4	January 2019
Commissioner	Rich Sve	District 5	January 2021
Attorney	Russell H Conrow		January 2019
Auditor/Treasurer	Linda Libal		January 2019
Recorder	Lori Ekstrom		January 2019
Sheriff	Carey Johnson		January 2019
<b>Appointed</b>			
Assessor	Gregg Swartwoudt		December 2020
Examiner of Titles	David Adams (St. Louis County)		Indefinite
Health Officer	Harold B. Leppink, M.D.		Indefinite
Highway Engineer	Krysten Foster		May 2022
Veterans Service Officer	Nazareth V. Sando		January 2019
Clerk of the Board	Laurel Buchanan		Indefinite
County Administrator	Matthew Huddleston		Indefinite

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA

## OFFICE OF THE STATE AUDITOR

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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, 2017, 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, 2017, 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.

### ***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 Governmental Accounting Standards Board, 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 our report dated September 19, 2018, 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, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Lake County's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering 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 the 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*

REBECCA OTTO  
STATE AUDITOR

September 19, 2018

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

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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, 2017  
(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, 2017. 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 \$115,107,400, of which \$85,786,571 is the net investment in capital assets and \$5,196,844 is restricted to specific purposes.
- Business-type activities have a total net position of (\$7,627,848). Net investment in capital assets represents \$19,883,242 of the total.
- Lake County's governmental activities net position increased by \$6,680,984 for the year ended December 31, 2017. 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 \$39,239.
- The net cost of governmental activities was \$8,142,048 for the current fiscal year. The net cost was funded by general revenues totaling \$14,823,032.
- Governmental funds' fund balances increased by \$5,173,293.

**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 Schedules of Proportionate Share of Net Pension Liability, and the Schedules 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, deferred outflows of resources, liabilities, and deferred inflows of resources using the full 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	
	2017	2016	2017	2016	2017	2016
<b>Assets</b>						
Current and other assets	\$ 40,900	\$ 36,205	\$ (18,233)	\$ (16,495)	\$ 22,667	\$ 19,710
Capital assets	87,892	85,825	69,136	67,132	157,028	152,957
<b>Total Assets</b>	<b>\$ 128,792</b>	<b>\$ 122,030</b>	<b>\$ 50,903</b>	<b>\$ 50,637</b>	<b>\$ 179,695</b>	<b>\$ 172,667</b>
Deferred Outflows of Resources	\$ 4,265	\$ 7,419	\$ -	\$ -	\$ 4,265	\$ 7,419
<b>Liabilities</b>						
Long-term liabilities outstanding	\$ 11,183	\$ 17,155	\$ 48,922	\$ 46,915	\$ 60,105	\$ 64,070
Other liabilities	2,023	2,205	9,609	6,941	11,632	9,146
<b>Total Liabilities</b>	<b>\$ 13,206</b>	<b>\$ 19,360</b>	<b>\$ 58,531</b>	<b>\$ 53,856</b>	<b>\$ 71,737</b>	<b>\$ 73,216</b>
Deferred Inflows of Resources	\$ 4,744	\$ 1,663	\$ -	\$ -	\$ 4,744	\$ 1,663
<b>Net Position</b>						
Net investment in capital assets	\$ 85,786	\$ 83,207	\$ 19,883	\$ 18,541	\$ 105,669	\$ 101,748
Restricted	5,197	5,604	-	-	5,197	5,604
Unrestricted	24,124	19,615	(27,511)	(21,760)	(3,387)	(2,145)
<b>Total Net Position</b>	<b>\$ 115,107</b>	<b>\$ 108,426</b>	<b>\$ (7,628)</b>	<b>\$ (3,219)</b>	<b>\$ 107,479</b>	<b>\$ 105,207</b>



**Table 2**  
**Changes in Net Position**  
**(in Thousands)**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
<b>Revenues</b>						
<b>Program revenues</b>						
Fees, fines, charges, and other	\$ 1,668	\$ 2,480	\$ 3,622	\$ 2,766	\$ 5,290	\$ 5,246
Operating grants and contributions	14,062	12,932	-	-	14,062	12,932
Capital grants and contributions	1,268	363	-	-	1,268	363
<b>General revenues</b>						
Property taxes	8,995	8,453	595	600	9,590	9,053
Other taxes	2,335	1,893	-	-	2,335	1,893
Unrestricted grants and contributions	1,165	1,250	-	-	1,165	1,250
Investment earnings	98	57	-	-	98	57
Gain on sale of capital assets	-	47	-	-	-	47
Miscellaneous	2,230	-	-	-	2,230	-
Transfers	-	3	-	(3)	-	-
<b>Total Revenues</b>	<b>\$ 31,821</b>	<b>\$ 27,478</b>	<b>\$ 4,217</b>	<b>\$ 3,363</b>	<b>\$ 36,038</b>	<b>\$ 30,841</b>
<b>Expenses</b>						
General government	\$ 4,696	\$ 4,651	\$ -	\$ -	\$ 4,696	\$ 4,651
Public safety	5,900	6,332	-	-	5,900	6,332
Highways and streets	5,117	8,188	-	-	5,117	8,188
Sanitation	366	417	-	-	366	417
Human services	3,821	3,599	-	-	3,821	3,599
Health	3,140	2,987	-	-	3,140	2,987
Culture and recreation	1,043	1,007	-	-	1,043	1,007
Conservation of natural resources	864	961	-	-	864	961
Economic development	136	495	-	-	136	495
Interest	57	67	-	-	57	67
Broadband	-	-	8,626	7,154	8,626	7,154
<b>Total Expenses</b>	<b>\$ 25,140</b>	<b>\$ 28,704</b>	<b>\$ 8,626</b>	<b>\$ 7,154</b>	<b>\$ 33,766</b>	<b>\$ 35,858</b>
<b>Increase (Decrease) in Net Position</b>	<b>\$ 6,681</b>	<b>\$ (1,226)</b>	<b>\$ (4,409)</b>	<b>\$ (3,791)</b>	<b>\$ 2,272</b>	<b>\$ (5,017)</b>
<b>Net Position, January 1</b>	<b>108,426</b>	<b>109,652</b>	<b>(3,219)</b>	<b>572</b>	<b>105,207</b>	<b>110,224</b>
<b>Net Position, December 31</b>	<b>\$ 115,107</b>	<b>\$ 108,426</b>	<b>\$ (7,628)</b>	<b>\$ (3,219)</b>	<b>\$ 107,479</b>	<b>\$ 105,207</b>

Lake County's business-type activities is the broadband project that started in 2012. This is primarily funded by capital grants and contributions that included a Broadband Initiatives Program Grant and a Broadband Initiatives Program Loan. The loan balance at December 31, 2017, is \$49,252,930.

## Governmental Activities

The cost of all governmental activities this year was \$25,139,453. 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 \$14,823,032, because some of the cost was paid by those who directly benefited from the programs (\$1,667,381) or by other governments and organizations that subsidized certain programs with grants and contributions (\$15,330,024). 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 (Revenue) of Services	
	2017	2016	2017	2016
General government	\$ 4,696	\$ 4,651	\$ 1,043	\$ 1,047
Public safety	5,900	6,332	4,919	5,509
Highways and streets	5,117	8,188	(1,272)	3,215
Human services	3,821	3,599	2,087	2,036
Health	3,140	2,987	192	(208)
All others	2,466	2,947	1,173	1,330
<b>Total</b>	<b>\$ 25,140</b>	<b>\$ 28,704</b>	<b>\$ 8,142</b>	<b>\$ 12,929</b>

## 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 \$34,574,211 in 2017, compared with \$29,400,918 in 2016, an increase of \$5,173,293. 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 nonspendable and restricted fund balance for 2017 of \$2,574,491, or 7.46 percent, of total fund balance. Nonspendable fund balance was \$204,792, and restricted fund balance was \$2,369,699. Unrestricted fund balance was \$31,999,720, or 92.54 percent, of total fund balance. Unrestricted fund balance was \$1,229,635 committed, \$13,748,620 assigned, and \$17,021,465 unassigned. Committed fund balances are approved by the County Board. 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, 2017, unrestricted fund balance for the General Fund was \$17,155,789, compared to \$15,562,074 in 2016. 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 134.04 percent of the General Fund's operating revenues and 153.30 percent of operating expenditures.

The Road and Bridge Special Revenue Fund's unrestricted fund balance increased to \$4,966,235 in 2017, compared to unrestricted fund balance of \$1,503,424 in 2016. In 2017, 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 43.71 percent of the fund's operating revenues and 65.21 percent of operating expenditures.

The Human Services Special Revenue Fund's unrestricted fund balance was \$8,579,536 in 2017, compared to \$8,790,987 in 2016. The decrease in the fund balance of the Human Services Special Revenue Fund is attributed to higher expenditures than what was budgeted. Unrestricted fund balance at the end of the year represented 127.97 percent of the fund's operating revenues and 124.82 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 Enterprise Fund's net position was (\$7,627,848) in 2017, compared to (\$3,218,626) in 2016. Net position decreased due to an increase in operating expense that was not in proportion to operating revenue. In 2014, the County's Broadband Enterprise Fund began operations, collecting operating revenues and incurring operating expenditures. The Broadband Enterprise 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 no budget amendments in the General Fund budget in 2017.

In the General Fund, the actual expenditures exceeded the final budgeted amounts by \$166,000. Unbudgeted expenditures included \$299,999 of unbudgeted trail expenditures, \$115,437 of unbudgeted small cities development program expenditures, and \$376,550 of underbudgeted 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 \$1,308,188. This was primarily due to greater than expected collections in intergovernmental revenues.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At the end of 2017, the County had \$157,028,347 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	
	2017	2016	2017	2016	2017	2016
Land	\$ 3,968	\$ 4,021	\$ -	\$ -	\$ 3,968	\$ 4,021
Construction in progress	-	-	-	5,330	-	5,330
Buildings and improvements	8,550	8,905	1,649	1,704	10,199	10,609
Machinery, vehicles, furniture, and equipment	1,488	1,391	1,345	1,701	2,833	3,092
Infrastructure	73,886	71,508	66,142	58,396	140,028	129,904
Totals	<u>\$ 87,892</u>	<u>\$ 85,825</u>	<u>\$ 69,136</u>	<u>\$ 67,131</u>	<u>\$ 157,028</u>	<u>\$ 152,956</u>

The County’s fiscal year 2018 capital budget calls for it to spend another \$185,000 for miscellaneous improvements at various buildings, \$205,000 on vehicles for various departments, \$715,550 on equipment for various departments, and \$4,584,765 for road construction. The road construction will be funded by state-aid construction funds.

## Debt

At year-end, the County had \$1,450,000 in bonds and notes outstanding versus \$1,790,000 last year--a decrease of 18.50 percent--as shown in Table 5. Capital leases payable decreased by \$172,508. The Rural Utilities Service Broadband Loan on the business-type activities portion has a balance of \$49,252,930.

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

	Governmental Activities		Business-Type Activities		Totals	
	2017	2016	2017	2016	2017	2016
General obligation bonds	\$ 1,450	\$ 1,790	\$ -	\$ -	\$ 1,450	\$ 1,790
Capital leases	656	828	-	-	656	828
Loans payable	-	-	49,253	48,591	49,253	48,591
Compensated absences	1,334	1,464	-	-	1,334	1,464
Net pension liability	7,823	13,165	-	-	7,823	13,165
Net other postemployment benefits	444	420	-	-	444	420
Total	<u>\$ 11,707</u>	<u>\$ 17,667</u>	<u>\$ 49,253</u>	<u>\$ 48,591</u>	<u>\$ 60,960</u>	<u>\$ 66,258</u>

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 2018 budget and tax rates.

- County General Fund expenditures for 2018 are budgeted to increase 2.37 percent over 2017.
- Property tax levies increased 4.47 percent for 2018.

On June 13, 2017, the Lake County Board of Commissioners adopted a resolution declaring the intent to sell the network and all of its assets of the Broadband Enterprise Fund.

In April of 2018, Lake County closed on a bond, General Obligation Judgment Bond Series 2018A, in the amount of \$7,235,000 to cover the costs of two court matters related to the Broadband Enterprise Fund.

In July of 2018, Lake County closed on a bond, General Obligation Capital Improvement Plan Bond Series 2018B, in the amount of \$2,765,000 to cover the costs of building a new highway garage. The highway garage was lost in a fire in December of 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.

## **BASIC FINANCIAL STATEMENTS**

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**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

**EXHIBIT 1**

**STATEMENT OF NET POSITION  
DECEMBER 31, 2017**

	<b>Primary Government</b>			<b>Discretely Presented Component Unit</b>
	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>	
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 13,006,466	\$ -	\$ 13,006,466	\$ 878,642
Receivables	8,962,495	58,790	9,021,285	10,760
Internal balances	18,763,063	(18,763,063)	-	-
Inventories	154,792	471,071	625,863	-
Prepaid items	13,096	-	13,096	-
Restricted assets for security deposits	-	-	-	17,258
Capital assets				
Non-depreciable capital assets	3,968,383	-	3,968,383	-
Depreciable capital assets - net of accumulated depreciation	83,923,792	69,136,172	153,059,964	935,468
<b>Total Assets</b>	<b>\$ 128,792,087</b>	<b>\$ 50,902,970</b>	<b>\$ 179,695,057</b>	<b>\$ 1,842,128</b>
<b><u>Deferred Outflows of Resources</u></b>				
Deferred pension outflows	<b>\$ 4,264,564</b>	<b>\$ -</b>	<b>\$ 4,264,564</b>	<b>\$ -</b>
<b><u>Liabilities</u></b>				
Accounts payable and other current liabilities	\$ 1,481,432	\$ 7,959,706	\$ 9,441,138	\$ 44,009
Accrued interest payable	18,414	-	18,414	-
Unearned revenue	-	1,318,182	1,318,182	1,277
Payable from restricted assets				
Security deposits payable	-	-	-	17,258
Long-term liabilities				
Due within one year	523,481	331,364	854,845	55,000
Due in more than one year	2,915,678	48,921,566	51,837,244	507,778
Net pension liability	7,823,138	-	7,823,138	-
Other postemployment benefits	443,564	-	443,564	-
<b>Total Liabilities</b>	<b>\$ 13,205,707</b>	<b>\$ 58,530,818</b>	<b>\$ 71,736,525</b>	<b>\$ 625,322</b>
<b><u>Deferred Inflows of Resources</u></b>				
Prepaid property taxes	\$ 268,411	\$ -	\$ 268,411	\$ -
Deferred pension inflows	4,475,133	-	4,475,133	-
<b>Total Deferred Inflows of Resources</b>	<b>\$ 4,743,544</b>	<b>\$ -</b>	<b>\$ 4,743,544</b>	<b>\$ -</b>

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

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**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

***EXHIBIT 1  
(Continued)***

**STATEMENT OF NET POSITION  
DECEMBER 31, 2017**

	<b>Primary Government</b>			<b>Discretely Presented Component Unit</b>
	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>	
<b><u>Net Position</u></b>				
Net investment in capital assets	\$ 85,786,571	\$ 19,883,242	\$ 105,669,813	\$ 372,690
Restricted for				
General government	704,715	-	704,715	-
Public safety	630,087	-	630,087	-
Highways and streets	3,119,295	-	3,119,295	-
Conservation of natural resources	55,566	-	55,566	-
Debt service	644,998	-	644,998	-
Human services	42,183	-	42,183	-
Unrestricted	24,123,985	(27,511,090)	(3,387,105)	844,116
<b>Total Net Position</b>	<b>\$ 115,107,400</b>	<b>\$ (7,627,848)</b>	<b>\$ 107,479,552</b>	<b>\$ 1,216,806</b>

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>Expenses</u>	<u>Fees, Charges, Fines, and Other</u>	<u>Program Revenues Operating Grants and Contributions</u>
<b><u>Functions/Programs</u></b>			
<b>Primary government</b>			
<b>Governmental activities</b>			
General government	\$ 4,695,772	\$ 578,040	\$ 3,075,036
Public safety	5,899,558	166,602	814,009
Highways and streets	5,116,642	155,570	5,021,519
Sanitation	365,899	20,925	69,911
Human services	3,820,855	107,967	1,625,694
Health	3,139,838	240,822	2,706,997
Culture and recreation	1,043,456	-	800
Conservation of natural resources	863,808	397,455	652,495
Economic development	136,437	-	95,637
Interest	57,188	-	-
<b>Total governmental activities</b>	<b>\$ 25,139,453</b>	<b>\$ 1,667,381</b>	<b>\$ 14,062,098</b>
<b>Business-type activities</b>			
Broadband	8,626,126	3,622,261	-
<b>Total Primary Government</b>	<b>\$ 33,765,579</b>	<b>\$ 5,289,642</b>	<b>\$ 14,062,098</b>
<b>Component unit</b>			
Housing and Redevelopment Authority	\$ 328,092	\$ 237,027	\$ -

**General Revenues**

Property taxes  
Mortgage registry and deed tax  
Transportation sales tax  
Payments in lieu of tax  
Taxes - other  
Grants and contributions not restricted to specific programs  
Unrestricted investment earnings  
Miscellaneous

**Total general revenues**

**Change in net position**

**Net Position - Beginning**

**Net Position - Ending**

*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	
\$ -	\$ (1,042,696)	\$ -	\$ (1,042,696)	
-	(4,918,947)	-	(4,918,947)	
1,211,673	1,272,120	-	1,272,120	
-	(275,063)	-	(275,063)	
-	(2,087,194)	-	(2,087,194)	
-	(192,019)	-	(192,019)	
56,253	(986,403)	-	(986,403)	
-	186,142	-	186,142	
-	(40,800)	-	(40,800)	
-	(57,188)	-	(57,188)	
<b>\$ 1,267,926</b>	<b>\$ (8,142,048)</b>	<b>\$ -</b>	<b>\$ (8,142,048)</b>	
-	-	(5,003,865)	(5,003,865)	
<b>\$ 1,267,926</b>	<b>\$ (8,142,048)</b>	<b>\$ (5,003,865)</b>	<b>\$ (13,145,913)</b>	
<b>\$ -</b>				<b>\$ (91,065)</b>
	\$ 8,995,132	\$ 594,643	\$ 9,589,775	\$ 112,004
	651,577	-	651,577	-
	506,225	-	506,225	-
	839,321	-	839,321	-
	338,296	-	338,296	-
	1,164,482	-	1,164,482	7,289
	97,563	-	97,563	4,807
	2,230,436	-	2,230,436	6,204
	<b>\$ 14,823,032</b>	<b>\$ 594,643</b>	<b>\$ 15,417,675</b>	<b>\$ 130,304</b>
	<b>\$ 6,680,984</b>	<b>\$ (4,409,222)</b>	<b>\$ 2,271,762</b>	<b>\$ 39,239</b>
	<b>108,426,416</b>	<b>(3,218,626)</b>	<b>105,207,790</b>	<b>1,177,567</b>
	<b>\$ 115,107,400</b>	<b>\$ (7,627,848)</b>	<b>\$ 107,479,552</b>	<b>\$ 1,216,806</b>

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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, 2017**

	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>	<u>Nonmajor Funds</u>	<u>Total</u>
<b><u>Assets</u></b>					
Cash and pooled investments	\$ -	\$ 4,540,093	\$ 5,304,876	\$ 2,147,485	\$ 11,992,454
Escheat cash	36,538	-	-	-	36,538
Petty cash and change funds	1,050	1,000	1,000	50	3,100
Undistributed cash in agency funds	607,515	152,275	187,626	26,958	974,374
Taxes receivable - delinquent	142,265	29,306	47,259	6,363	225,193
Accounts receivable	20,177	906,416	-	638,746	1,565,339
Accrued interest receivable	15,011	-	-	-	15,011
Loans receivable	57,775	-	-	-	57,775
Due from other funds	15,779,124	3,134	3,163,246	-	18,945,504
Due from other governments	2,649,495	3,140,791	411,629	147,262	6,349,177
Prepaid expense	-	-	13,096	-	13,096
Inventories	-	154,792	-	-	154,792
Leases receivable	750,000	-	-	-	750,000
<b>Total Assets</b>	<b><u>\$ 20,058,950</u></b>	<b><u>\$ 8,927,807</u></b>	<b><u>\$ 9,128,732</u></b>	<b><u>\$ 2,966,864</u></b>	<b><u>\$ 41,082,353</u></b>
<b><u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u></b>					
<b>Liabilities</b>					
Accounts payable	\$ 134,734	\$ 59,436	\$ 198,203	\$ 19,816	\$ 412,189
Escheat payable	36,538	-	-	-	36,538
Salaries payable	230,016	89,181	82,467	17,264	418,928
Contracts payable	-	273,401	-	-	273,401
Due to other funds	8,110	290	17,251	156,790	182,441
Due to other governments	34,564	59,473	122,244	124,095	340,376
<b>Total Liabilities</b>	<b><u>\$ 443,962</u></b>	<b><u>\$ 481,781</u></b>	<b><u>\$ 420,165</u></b>	<b><u>\$ 317,965</u></b>	<b><u>\$ 1,663,873</u></b>
<b>Deferred Inflows of Resources</b>					
Unavailable revenue - taxes	\$ 98,337	\$ 18,295	\$ 33,692	\$ 4,521	\$ 154,845
Unavailable revenue - grants	605	2,971,413	-	147,262	3,119,280
Unavailable revenue - long-term receivables	747,775	-	-	553,958	1,301,733
Prepaid property taxes	172,114	43,141	53,156	-	268,411
<b>Total Deferred Inflows of Resources</b>	<b><u>\$ 1,018,831</u></b>	<b><u>\$ 3,032,849</u></b>	<b><u>\$ 86,848</u></b>	<b><u>\$ 705,741</u></b>	<b><u>\$ 4,844,269</u></b>

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

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**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

**EXHIBIT 3  
(Continued)**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2017**

	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>	<u>Nonmajor Funds</u>	<u>Total</u>
<b><u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u></b>					
<b>(Continued)</b>					
<b>Fund Balances</b>					
Nonspendable					
Loans receivables	\$ 50,000	\$ -	\$ -	\$ -	\$ 50,000
Inventories	-	154,792	-	-	154,792
Restricted for					
Law library	50,276	-	-	-	50,276
Recorder's technology equipment	341,730	-	-	-	341,730
Enhanced 911	566,639	-	-	-	566,639
County property recorder's fee	305,154	-	-	-	305,154
Law and prosecutorial equipment	58,937	-	-	-	58,937
County roads	-	292,150	-	-	292,150
Election equipment	7,555	-	-	-	7,555
Sheriff's contingency fund	4,511	-	-	-	4,511
Title III forest	55,566	-	-	-	55,566
Debt service	-	-	-	644,998	644,998
Child protection	-	-	42,183	-	42,183
Committed to					
Rescue squad capital expenditures	25,019	-	-	-	25,019
Out-of-home placement costs	-	-	1,000,000	-	1,000,000
Forestry road grant	-	-	-	690	690
Unorganized townships					
Emergency services	-	-	-	203,926	203,926
Assigned to					
Capital assets	15,568	-	-	-	15,568
General revenue	478	-	-	-	478
Highways and streets	-	4,966,235	-	-	4,966,235
Human services	-	-	7,579,536	-	7,579,536
Resource development	-	-	-	1,186,803	1,186,803
Unassigned	17,114,724	-	-	(93,259)	17,021,465
<b>Total Fund Balances</b>	<b>\$ 18,596,157</b>	<b>\$ 5,413,177</b>	<b>\$ 8,621,719</b>	<b>\$ 1,943,158</b>	<b>\$ 34,574,211</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<b>\$ 20,058,950</b>	<b>\$ 8,927,807</b>	<b>\$ 9,128,732</b>	<b>\$ 2,966,864</b>	<b>\$ 41,082,353</b>

**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, 2017**

<b>Fund balances - total governmental funds (Exhibit 3)</b>		<b>\$ 34,574,211</b>
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.		87,892,175
Deferred outflows of resources resulting from pension obligations are not available resources and, therefore, are not reported in governmental funds.		4,264,564
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		4,575,858
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	\$ (1,450,000)	
Capital leases payable	(655,604)	
Compensated absences	(1,333,555)	
Net pension liability	(7,823,138)	
Net other postemployment benefits payable	(443,564)	
Accrued interest payable	<u>(18,414)</u>	<u>(11,724,275)</u>
Deferred inflows of resources resulting from pension obligations are not due and payable in the current period and, therefore, are not reported in the governmental funds.		(4,475,133)
<b>Net Position of Governmental Activities (Exhibit 1)</b>		<b><u>\$ 115,107,400</u></b>

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

**EXHIBIT 5**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>	<u>Nonmajor Funds</u>	<u>Total</u>
<b>Revenues</b>					
Taxes	\$ 6,139,828	\$ 2,296,171	\$ 1,779,210	\$ 356,948	\$ 10,572,157
Licenses and permits	16,630	-	-	1,112	17,742
Intergovernmental	5,816,376	7,257,179	4,576,316	255,061	17,904,932
Charges for services	480,659	54,619	294,115	23,393	852,786
Fines and forfeits	6,499	-	-	-	6,499
Investment earnings	93,576	-	-	3,987	97,563
Gifts and contributions	-	-	-	800	800
Miscellaneous	244,939	1,753,738	54,674	882,093	2,935,444
<b>Total Revenues</b>	<b>\$ 12,798,507</b>	<b>\$ 11,361,707</b>	<b>\$ 6,704,315</b>	<b>\$ 1,523,394</b>	<b>\$ 32,387,923</b>
<b>Expenditures</b>					
<b>Current</b>					
General government	\$ 4,442,580	\$ -	\$ -	\$ -	\$ 4,442,580
Public safety	5,227,937	-	-	137,231	5,365,168
Highways and streets	-	7,586,600	-	-	7,586,600
Sanitation	388,635	-	-	-	388,635
Human services	-	-	3,736,820	-	3,736,820
Health	-	-	3,136,763	-	3,136,763
Culture and recreation	801,825	-	-	151,653	953,478
Conservation of natural resources	193,906	-	-	646,120	840,026
Economic development	136,437	-	-	-	136,437
<b>Capital outlay</b>					
Conservation of natural resources	-	-	-	12,517	12,517
<b>Debt service</b>					
Principal	-	25,841	-	486,667	512,508
Interest	-	3,072	-	56,697	59,769
Administrative (fiscal) charges	-	-	-	900	900
<b>Total Expenditures</b>	<b>\$ 11,191,320</b>	<b>\$ 7,615,513</b>	<b>\$ 6,873,583</b>	<b>\$ 1,491,785</b>	<b>\$ 27,172,201</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 1,607,187</b>	<b>\$ 3,746,194</b>	<b>\$ (169,268)</b>	<b>\$ 31,609</b>	<b>\$ 5,215,722</b>
<b>Other Financing Sources (Uses)</b>					
Transfers in	\$ -	\$ 8,767	\$ -	\$ 208,980	\$ 217,747
Transfers out	(8,767)	-	-	(208,980)	(217,747)
<b>Total Other Financing Sources (Uses)</b>	<b>\$ (8,767)</b>	<b>\$ 8,767</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Net Change in Fund Balances</b>	<b>\$ 1,598,420</b>	<b>\$ 3,754,961</b>	<b>\$ (169,268)</b>	<b>\$ 31,609</b>	<b>\$ 5,215,722</b>
<b>Fund Balances - January 1</b>	<b>16,997,737</b>	<b>1,700,645</b>	<b>8,790,987</b>	<b>1,911,549</b>	<b>29,400,918</b>
<b>Increase (decrease) in inventories</b>	<b>-</b>	<b>(42,429)</b>	<b>-</b>	<b>-</b>	<b>(42,429)</b>
<b>Fund Balances - December 31</b>	<b>\$ 18,596,157</b>	<b>\$ 5,413,177</b>	<b>\$ 8,621,719</b>	<b>\$ 1,943,158</b>	<b>\$ 34,574,211</b>

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

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**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, 2017**

**Net change in fund balances - total governmental funds (Exhibit 5) \$ 5,215,722**

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.

Unavailable revenue - December 31	\$ 4,575,858	
Unavailable revenue - January 1	<u>(5,133,077)</u>	(557,219)

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	\$ 5,390,565	
Net book value of assets sold	(76,487)	
Current year depreciation	<u>(3,247,154)</u>	2,066,924

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	\$ 340,000	
Capital lease	<u>172,508</u>	512,508

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	\$ 3,481	
Change in compensated absences	130,450	
Change in net pension liability	5,341,532	
Change in deferred pension outflows	(3,154,100)	
Change in deferred pension inflows	(2,812,700)	
Change in other postemployment benefits	(23,185)	
Change in inventories	<u>(42,429)</u>	<u>(556,951)</u>

**Change in Net Position of Governmental Activities (Exhibit 2) \$ 6,680,984**

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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, 2017**

	<u><b>Broadband</b></u>
<u><b>Assets</b></u>	
<b>Current assets</b>	
Taxes receivable	\$ 10,193
Accounts receivable	48,597
Due from other funds	9,535
Inventories	471,071
<b>Capital assets</b>	
Depreciable - net of accumulated depreciation	<u>69,136,172</u>
<b>Total Assets</b>	<b><u>\$ 69,675,568</u></b>
<u><b>Liabilities</b></u>	
<b>Current liabilities</b>	
Accounts payable	\$ 663,866
Contracts payable	5,340,621
Retainage payable	1,947,213
Due to other governments	8,006
Due to other funds	18,772,598
Unearned revenue	1,318,182
Loans payable - current	<u>331,364</u>
<b>Total current liabilities</b>	<b><u>\$ 28,381,850</u></b>
<b>Noncurrent liabilities</b>	
Loans payable - noncurrent	<u>48,921,566</u>
<b>Total Liabilities</b>	<b><u>\$ 77,303,416</u></b>
<u><b>Net Position</b></u>	
Net investment in capital assets	\$ 19,883,242
Unrestricted	<u>(27,511,090)</u>
<b>Total Net Position</b>	<b><u><u>\$ (7,627,848)</u></u></b>

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

**EXHIBIT 8**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
PROPRIETARY FUND  
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<b>Broadband</b>
<b>Operating Revenues</b>	
Charges for services	\$ 3,597,514
Miscellaneous	24,747
	<b>\$ 3,622,261</b>
<b>Operating Expenses</b>	
Contracted services	\$ 702,773
Professional services	1,092,371
Administration and fiscal services	237,499
Supplies	14,847
Snowplowing	1,385
Utilities	64,194
Telephone	9,312
Fuel	39,860
Advertising	19,578
Consulting services	318,965
Insurance	45,097
Travel	18,295
Training	2,029
License and dues	17,336
Postage	23,588
Rent and leased equipment	59,957
Repairs and maintenance	851,364
Video and internet services	972,882
Miscellaneous	33,325
Other services and charges	790,927
Waste management	4,949
Depreciation	2,815,125
	<b>\$ 8,135,658</b>
<b>Operating Income (Loss)</b>	<b>\$ (4,513,397)</b>
<b>Nonoperating Revenues (Expenses)</b>	
Taxes	\$ 549,589
Disparity aid	9,795
Taconite homestead credit	35,071
Market value credit	188
Interest expense	(490,468)
	<b>\$ 104,175</b>
<b>Change in Net Position</b>	<b>\$ (4,409,222)</b>
<b>Net Position - January 1</b>	<b>(3,218,626)</b>
<b>Net Position - December 31</b>	<b>\$ (7,627,848)</b>

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

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**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

**EXHIBIT 9**

**STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<b>Broadband</b>
<b>Cash Flows from Operating Activities</b>	
Cash received from customers	\$ 4,010,282
Other operating revenues	24,747
Cash paid to suppliers	(4,767,857)
<b>Net cash provided by (used in) operating activities</b>	<b>\$ (732,828)</b>
<b>Cash Flows from Noncapital Financing Activities</b>	
Market value credit	\$ 188
Taconite homestead credit	35,071
Taxes	559,384
<b>Net cash provided by (used in) noncapital financing activities</b>	<b>\$ 594,643</b>
<b>Cash Flows from Capital and Related Financing Activities</b>	
Acquisition of capital assets	\$ (1,358,498)
Intergovernmental receipts	994,390
Advance	1,082,819
Principal paid on loan	(89,976)
Interest paid on loan	(490,550)
<b>Net cash provided by (used in) capital and related financing activities</b>	<b>\$ 138,185</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>\$ -</b>
<b>Cash and Cash Equivalents at January 1</b>	<b>-</b>
<b>Cash and Cash Equivalents at December 31</b>	<b>\$ -</b>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities</b>	
<b>Operating income (loss)</b>	<b>\$ (4,513,397)</b>
<b>Adjustments to reconcile net operating income (loss) to net cash provided by (used in) operating activities</b>	
Depreciation	\$ 2,815,125
(Increase) decrease in receivables	412,768
(Increase) decrease in inventories	247,127
Increase (decrease) in payables	305,549
<b>Total adjustments</b>	<b>\$ 3,780,569</b>
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b>\$ (732,828)</b>

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

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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, 2017**

	<u>Agency</u>
<b><u>Assets</u></b>	
Cash and pooled investments	\$ <u><u>1,659,426</u></u>
<b><u>Liabilities</u></b>	
Accounts payable	\$ 461,295
Due to other governments	1,149,956
Customer deposits - current	<u>48,175</u>
<b>Total Liabilities</b>	<b>\$ <u><u>1,659,426</u></u></b>

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**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017

1. Summary of Significant Accounting Policies

The County’s financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as of and for the year ended December 31, 2017. 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

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 the powers and duties of a county housing and redevelopment authority under the provisions of Minn. Stat. §§ 469.001-.047.

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

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.

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.

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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1. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

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.

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.

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

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 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 full 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 and for the Schools and Roads - Grants to States grant, which has a 120-day accrual period. Property and other taxes, 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 long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

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. Investments are reported at their fair value at December 31, 2017. A market approach is used to value all investments other than external investment pools, which are measured at fair value per share. 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 2017 were \$97,563 at the governmental fund level.

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.

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

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 - delinquent.

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.

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.



**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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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)

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 acquisition value.

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.

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

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

6. Unearned Revenue

Proprietary funds, 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, the Road and Bridge Special Revenue Fund, the Human Services Special Revenue Fund and the Forfeited Tax Special Revenue Fund.

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 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  
TWO HARBORS, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

8. Compensated Absences (Continued)

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 expected and actual pension plan economic experience, changes in actuarial assumptions, 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.

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 three types of deferred inflows. Prepaid property

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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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)

taxes represents the County's share of tax collections collected prior to year-end that were not due until the following year. Since the property taxes were levied for use in a future year, the revenue is deferred and recognized in the period for which the amount is levied. These amounts arise under both the modified accrual and the full accrual basis of accounting and is reported in both the governmental fund balance sheet and the statement of net position. 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, changes in actuarial assumptions, 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.

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 applicable 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**

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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, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash (noncurrent loans, inventories, and prepaid items).

Restricted - amounts of fund balance subject to external constraints imposed by creditors (such as through debt covenants), grantors, contributors, laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation.

Committed - amounts that can be used only for the specific purposes determined by a formal action (resolution) of Lake County’s highest level of decision-making authority, which is the Lake County Board of Commissioners.

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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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)

Those committed amounts cannot be used for other purposes unless the Board of Commissioners removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts.

Assigned - amounts the County intends to be used by the government for specific purposes that 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. In the General Fund, assigned amounts represent intended uses as determined by the County Board or the Auditor/Treasurer.

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 certain estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources; 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.

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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2. Stewardship, Compliance, and Accountability

A. Deficit Fund Equity

At December 31, 2017, the Forfeited Tax Special Revenue Fund had a deficit fund balance of \$93,259. This deficit will be made up with future tax levies and other revenue sources.

B. Excess of Expenditures Over Appropriations

For the year ended December 31, 2017, expenditures exceeded appropriations in the following nonmajor funds:

	Final Budget	Expenditures	Excess
Special Revenue Funds			
Resource Development	\$ 185,267	\$ 323,706	\$ 138,439
Unorganized Townships	116,250	137,231	20,981
Forfeited Tax	530,871	650,123	119,252

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	\$ 13,006,466
Component unit	
Cash and pooled investments	878,642
Restricted cash for security deposits	17,258
Fiduciary funds	
Cash and pooled investments	1,659,426
Total Cash and Investments	\$ 15,561,792

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

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

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.

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, 2017, 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**

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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**

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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 cash and pooled investment balances at December 31, 2017, 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	\$ 4,867
Federal Home Loan Mortgage Corporation Note	Aaa	Moody's	<5%	06/30/2021	\$ 540,205

**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 Certificates of Deposit					
Comenity Bank	N/A	N/A		10/21/2019	\$ 199,280
Bank United National Association	N/A	N/A		02/20/2018	245,007
Worlds Foremost Bank	N/A	N/A		04/15/2020	99,323
			7.36%		
Total Negotiable Certificates of Deposit					\$ 543,610
Investment pools/mutual funds					
MAGIC Fund	N/R	N/A	76.67%	N/A	\$ 12,271,318
Total investments					\$ 13,360,000
Deposits - primary government					\$ 1,266,254
Deposits - component unit					895,900
Petty cash and change funds					3,100
Escheat cash					36,538
Total Cash and Investments					\$ 15,561,792

N/A - Not Applicable

N/R - Not Rated

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

Lake County measures and records its investments using fair value measurement guidelines established by accounting principles generally accepted in the United States of America. These guidelines recognize a three-tiered fair value hierarchy, as follows:

- *Level 1:* Quoted prices for identical investments in active markets;
- *Level 2:* Observable inputs other than quoted market prices; and
- *Level 3:* Unobservable inputs.

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

At December 31, 2017, Lake County had the following recurring fair value measurements.

	December 31, 2017	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level				
Debt securities				
U.S. agencies	\$ 545,072	\$ -	\$ 545,072	\$ -
Negotiable certificates of deposit	<u>543,610</u>	<u>-</u>	<u>543,610</u>	<u>-</u>
 Total Investments Included in the Fair Value Hierarchy	 \$ 1,088,682	 <u><u>\$ -</u></u>	 <u><u>\$ 1,088,682</u></u>	 <u><u>\$ -</u></u>
 Investments measured at the net asset value (NAV)				
MAGIC Portfolio	<u>12,271,318</u>			
 Total investments	 <u><u>\$ 13,360,000</u></u>			

All Level 2 debt securities are valued using a matrix pricing technique based on the securities' relationship to benchmark quoted prices.

MAGIC is a local government investment pool which is quoted at a net asset value (NAV). The County invests in this pool for the purpose of the joint investment of the County's money with those of other counties to enhance the investment earnings accruing to each member.

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

MAGIC Portfolio is valued using amortized cost. Shares of the MAGIC Portfolio are available to be redeemed upon proper notice without restrictions under normal operating conditions. There are no limits to the number of redemptions that can be made as long as the County has a sufficient number of shares to meet their redemption request. The Fund's Board of Trustees can suspend the right of withdrawal or postpone the date of payment if the Trustees determine that there is an emergency that makes the sale of a Portfolio's securities or determination of its net asset value not reasonably practical.

2. Receivables

Receivables as of December 31, 2017, 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	\$ 225,193	\$ -
Due from other governments	6,349,177	-
Accounts	1,565,339	-
Interest	15,011	-
Loans receivable	57,775	50,000
Leases receivable	750,000	750,000
Total Governmental Activities	\$ 8,962,495	\$ 800,000
Business-Type Activities		
Taxes	\$ 10,193	\$ -
Accounts	48,597	-
Total Business-Type Activities	\$ 58,790	\$

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

2. Receivables (Continued)

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, 2017, was as follows:

Governmental Activities

	Beginning Balance	Increase	Decrease	Transfer/ Reclassification	Ending Balance
Capital assets not depreciated					
Land	\$ 4,021,386	\$ -	\$ 53,003	\$ -	\$ 3,968,383
Capital assets depreciated					
Buildings	\$ 16,457,308	\$ 20,207	\$ 250,315	\$ (8,211)	\$ 16,218,989
Improvements other than buildings	822,935	12,030	25,575	19,425	828,815
Machinery, furniture, and equipment	12,710,022	916,405	920,149	(11,214)	12,695,064
Infrastructure	103,282,836	4,441,923	-	-	107,724,759
Total capital assets depreciated	\$ 133,273,101	\$ 5,390,565	\$ 1,196,039	\$ -	\$ 137,467,627

**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>Transfer/ Reclassification</u>	<u>Ending Balance</u>
Less: accumulated depreciation for					
Buildings	\$ 7,832,112	\$ 345,955	\$ 250,315	\$ (11,854)	\$ 7,915,898
Improvements other than buildings	543,460	38,390	11,854	11,854	581,850
Machinery, furniture, and equipment	11,318,716	798,527	910,386	-	11,206,857
Infrastructure	<u>31,774,948</u>	<u>2,064,282</u>	<u>-</u>	<u>-</u>	<u>33,839,230</u>
Total accumulated depreciation	<u>\$ 51,469,236</u>	<u>\$ 3,247,154</u>	<u>\$ 1,172,555</u>	<u>\$ -</u>	<u>\$ 53,543,835</u>
Total capital assets depreciated, net	<u>\$ 81,803,865</u>	<u>\$ 2,143,411</u>	<u>\$ 23,484</u>	<u>\$ -</u>	<u>\$ 83,923,792</u>
Governmental Activities Capital Assets, Net	<u>\$ 85,825,251</u>	<u>\$ 2,143,411</u>	<u>\$ 76,487</u>	<u>\$ -</u>	<u>\$ 87,892,175</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	\$ 5,330,424	\$ -	\$ -	\$ (5,330,424)	\$ -
Capital assets depreciated					
Buildings	\$ 761,879	\$ -	\$ -	\$ -	\$ 761,879
Improvements other than buildings	1,135,835	-	-	-	1,135,835
Machinery, furniture, and equipment	2,902,627	63,113	-	17,445	2,983,185
Infrastructure	<u>62,768,399</u>	<u>4,756,591</u>	<u>-</u>	<u>5,312,979</u>	<u>72,837,969</u>
Total capital assets depreciated	<u>\$ 67,568,740</u>	<u>\$ 4,819,704</u>	<u>\$ -</u>	<u>\$ 5,330,424</u>	<u>\$ 77,718,868</u>

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets

Business-Type Activities (Continued)

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Transfer/ Reclassification</u>	<u>Ending Balance</u>
Less: accumulated depreciation for					
Buildings	\$ 64,269	\$ 20,357	\$ -	\$ -	\$ 84,626
Improvements other than buildings	129,769	34,042	-	-	163,811
Machinery, furniture, and equipment	1,201,341	437,341	-	-	1,638,682
Infrastructure	<u>4,372,192</u>	<u>2,323,385</u>	<u>-</u>	<u>-</u>	<u>6,695,577</u>
Total accumulated depreciation	<u>\$ 5,767,571</u>	<u>\$ 2,815,125</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,582,696</u>
Total capital assets depreciated, net	<u>\$ 61,801,169</u>	<u>\$ 2,004,579</u>	<u>\$ -</u>	<u>\$ 5,330,424</u>	<u>\$ 69,136,172</u>
Business-Type Activities Capital Assets, Net	<u>\$ 67,131,593</u>	<u>\$ 2,004,579</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 69,136,172</u>

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

Governmental Activities	
General government	\$ 296,460
Public safety	387,454
Highways and streets, including depreciation of infrastructure assets	2,406,587
Human services	4,139
Sanitation	13,093
Culture and recreation	110,012
Conservation of natural resources	<u>29,409</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 3,247,154</u>
Business-Type Activities	
Broadband	<u>\$ 2,815,125</u>



**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, 2017, is as follows:

Receivable Fund	Payable Fund	Amount	Purpose
General	Human Services	\$ 14,733	Reimbursement for services
	Forfeited Tax	156,214	Deficit cash balance
	Broadband Enterprise	<u>15,608,177</u>	Deficit cash balance
		<u>\$ 15,779,124</u>	
Road and Bridge	Broadband Enterprise	<u>\$ 3,134</u>	Reimbursement for services
Human Services	General	\$ 1,959	Reimbursement for services
	Broadband Enterprise	<u>3,161,287</u>	Deficit cash balance
		<u>\$ 3,163,246</u>	
Broadband Enterprise	General	\$ 6,151	Reimbursement for services
	Road and Bridge	290	Reimbursement for services
	Human Services	2,518	Reimbursement for services
	Forfeited Tax	<u>576</u>	Reimbursement for services
		<u>\$ 9,535</u>	
Total Due To/From Other Funds		<u><u>\$ 18,955,039</u></u>	

2. Interfund Transfers

Interfund transfers for the year ended December 31, 2017, consisted of the following:

Transfer to Road and Bridge Special Revenue Fund from General Fund	\$ 8,767	Reimbursement for services
Transfer to Resource Development Fund from Tax Forfeited Fund	<u>208,980</u>	Tax Forfeit apportionment
Total Transfers to Governmental Funds	<u><u>\$ 217,747</u></u>	

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Payables

Payables at December 31, 2017, were as follows:

	Governmental Activities	Business-Type Activities
Accounts payable	\$ 412,189	\$ 663,866
Escheat payable	36,538	-
Salaries payable	418,928	-
Contracts payable	273,401	5,340,621
Retainage payable	-	1,947,213
Due to other governments	340,376	8,006
Total Payables	\$ 1,481,432	\$ 7,959,706

2. Long-Term Debt

Governmental Activities

Types of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2017
General Obligation Bonds					
G.O. Capital Improvement Refunding Bonds, Series 2014A	2030	\$60,000 - \$355,000	2.00 - 3.25	\$ 2,410,000	\$ 1,450,000
Other Long-Term Debt					
Capital lease - Land	2021	\$146,667	3.25 - 5.375	\$ 2,200,000	\$ 586,664
Capital lease - Chieftain	2020	\$14,302 - \$27,823	3.70	178,065	68,940
Total Other Long-Term Debt				\$ 2,378,065	\$ 655,604

**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, 2017
Rural Utilities Service Broadband Loans	2029	\$2,853,378 -\$4,260,807	2.0154 - 3.2870	\$ 54,696,588	\$ 49,252,930

3. Debt Service Requirements

Debt service requirements at December 31, 2017, were as follows:

Governmental Activities

Year Ending December 31	General Obligation Bonds		Other Long-Term Debt	
	Principal	Interest	Principal	Interest
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	60,000	20,225	146,663	3,117
2022	60,000	18,425	-	-
2023 - 2027	335,000	62,950	-	-
2028 - 2030	230,000	11,375	-	-
Total	\$ 1,450,000	\$ 193,500	\$ 655,604	\$ 34,510

Business-Type Activities

Year Ending December 31	RUS Broadband Loan	
	Principal	Interest
2018	\$ 331,364	\$ 102,834
2019	4,030,642	1,179,725
2020	4,132,628	1,077,739
2021	4,237,232	973,135
2022	4,344,521	865,846
2023 - 2027	23,430,948	2,620,887
2028 - 2029	8,745,595	198,979
Total	\$ 49,252,930	\$ 7,019,145

**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, 2017, 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	\$ 1,790,000	\$ -	\$ 340,000	\$ 1,450,000	\$ 350,000
Capital lease payable	828,112	-	172,508	655,604	173,481
Compensated absences	1,464,005	662,479	792,929	1,333,555	-
Governmental Activities Long-Term Liabilities	<u>\$ 4,082,117</u>	<u>\$ 662,479</u>	<u>\$ 1,305,437</u>	<u>\$ 3,439,159</u>	<u>\$ 523,481</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>\$ 48,590,670</u>	<u>\$ 752,236</u>	<u>\$ 89,976</u>	<u>\$ 49,252,930</u>	<u>\$ 331,364</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 Plan, the Public Employees Police and Fire Plan, and the Local Government Correctional Service Retirement Plan (the Public Employees Correctional Plan), 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**

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4. Pension Plans

A. Defined Benefit Pension Plans

1. Plan Description (Continued)

The General Employees Retirement Plan (accounted for in the General Employees Fund) has multiple benefit structures with members belonging to the Coordinated Plan, the Basic Plan, or the Minneapolis Employees Retirement Fund. Coordinated Plan members are covered by Social Security and Basic Plan and Minneapolis Employees Retirement Fund members are not. The Basic Plan was closed to new members in 1967. The Minneapolis Employees Retirement Fund was closed to new members during 1978 and merged into the General Employees Retirement Plan in 2015. 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 Plan (accounted for in the Police and Fire Fund). For members first hired after June 30, 2010, but before July 1, 2014, benefits vest on a prorated 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 Plan (accounted for in the 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. General Employees Retirement Plan and Public Employees Police and Fire Plan benefit recipients receive a future annual 1.0 percent

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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4. Pension Plans

A. Defined Benefit Pension Plans

2. Benefits Provided (Continued)

for the post-retirement benefit increase, while Public Employees Correctional Plan benefit recipients receive 2.5 percent. For the General Employees Retirement Plan and the Public Employees Police and Fire Plan, 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.

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 Plan Coordinated Plan and Basic Plan members. Members hired prior to July 1, 1989, receive 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. Only Method 2 is used for members hired after June 30, 1989. Minneapolis Employees Retirement Fund members have an annuity accrual rate of 2.0 percent of average salary for each of the first ten years of service and 2.5 percent for each remaining year. For Public Employees Police and Fire Plan members, the annuity accrual rate is 3.0 percent of average salary for each year of service. For Public Employees Correctional Plan members, the annuity accrual rate is 1.9 percent of average salary for each year of service.

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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4. Pension Plans

A. Defined Benefit Pension Plans

2. Benefits Provided (Continued)

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

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 Plan Basic Plan members, Coordinated Plan members, and Minneapolis Employees Retirement Fund members were required to contribute 9.10 percent, 6.50 percent, and 9.75 percent respectively, of their annual covered salary in 2017. Public Employees Police and Fire Plan members were required to contribute 10.80 percent of their annual covered salary in 2017. Public Employees Correctional Plan members were required to contribute 5.83 percent of their annual covered salary in 2017.

In 2017, 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
Minneapolis Employees Retirement Fund members	9.75
Public Employees Police and Fire Fund	16.20
Public Employees Correctional Fund	8.75

The employee and employer contribution rates did not change from the previous year.

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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4. Pension Plans

A. Defined Benefit Pension Plans

3. Contributions (Continued)

The County's contributions for the year ended December 31, 2017, to the pension plans were:

General Employees Retirement Plan	\$	409,868
Public Employees Police and Fire Plan		195,698
Public Employees Correctional Plan		48,374

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

4. Pension Costs

General Employees Retirement Plan

At December 31, 2017, the County reported a liability of \$5,445,496 for its proportionate share of the General Employees Retirement Plan's net pension liability. The net pension liability was measured as of June 30, 2017, 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, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the County's proportion was 0.0853 percent. It was 0.0878 percent measured as of June 30, 2016. The County recognized pension expense of \$621,708 for its proportionate share of the General Employees Retirement Plan's pension expense.

The County also recognized \$1,978 as revenue, which results in a reduction of the net pension liability, for its proportionate share of the State of Minnesota's contribution to the General Employees Retirement Plan, which qualifies as a special funding situation. Legislation requires the State of Minnesota to contribute \$6 million to the General Employees Retirement Plan for the fiscal year ended June 30, 2017.



**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

4. Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs

General Employees Retirement Plan (Continued)

The County's proportionate share of the net pension liability	\$ 5,445,496
State of Minnesota's proportionate share of the net pension liability associated with the County	<u>68,493</u>
Total	<u>\$ 5,513,989</u>

The County reported its proportionate share of the General Employees Retirement Plan'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	\$ 179,467	\$ 365,292
Changes in actuarial assumptions	930,567	545,911
Difference between projected and actual investment earnings	76,547	-
Changes in proportion	-	388,467
Contributions paid to PERA subsequent to the measurement date	<u>205,816</u>	<u>-</u>
Total	<u>\$ 1,392,397</u>	<u>\$ 1,299,670</u>

The \$205,816 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, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

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TWO HARBORS, MINNESOTA**

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4. Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs

General Employees Retirement Plan (Continued)

Year Ended December 31	Pension Expense Amount
2018	\$ 43,561
2019	221,035
2020	(146,535)
2021	(231,150)

Public Employees Police and Fire Plan

At December 31, 2017, the County reported a liability of \$1,579,639 for its proportionate share of the Public Employees Police and Fire Plan's net pension liability. The net pension liability was measured as of June 30, 2017, 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, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the County's proportion was 0.117 percent. It was 0.124 percent measured as of June 30, 2016. The County recognized pension expense of \$368,955 for its proportionate share of the Public Employees Police and Fire Plan's pension expense.

The County also recognized \$10,530 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 Plan. Legislation requires the State of Minnesota to contribute \$9 million to the Public Employees Police and Fire Plan each year, starting in fiscal year 2014, until the plan is 90 percent funded.

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

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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4. Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs

Public Employees Police and Fire Plan (Continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 36,360	\$ 456,408
Changes in actuarial assumptions	2,190,956	2,242,696
Difference between projected and actual investment earnings	60,901	-
Changes in proportion	10,801	294,701
Contributions paid to PERA subsequent to the measurement date	97,494	-
Total	\$ 2,396,512	\$ 2,993,805

The \$97,494 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, 2018. 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
2018	\$ 5,685
2019	5,685
2020	(59,643)
2021	(158,425)
2022	(488,089)

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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4. Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs (Continued)

Public Employees Correctional Plan

At December 31, 2017, the County reported a liability of \$798,003 for its proportionate share of the Public Employees Correctional Plan's net pension liability. The net pension liability was measured as of June 30, 2017, 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, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the County's proportion was 0.28 percent. It was 0.29 percent measured as of June 30, 2016. The County recognized pension expense of \$301,050 for its proportionate share of the Public Employees Correctional Plan's pension expense.

The County reported its proportionate share of the Public Employees Correctional Plan'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	\$ 552	\$ 13,303
Changes in actuarial assumptions	449,981	138,908
Difference between projected and actual investment earnings	-	1,275
Changes in proportion	-	28,172
Contributions paid to PERA subsequent to the measurement date	25,122	-
Total	\$ 475,655	\$ 181,658

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4. Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs

Public Employees Correctional Fund (Continued)

The \$25,122 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, 2018. 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
2018	\$ 171,266
2019	177,187
2020	(57,362)
2021	(22,216)

Total Pension Expense

The total pension expense for all plans recognized by the County for the year ended December 31, 2017, was \$1,291,713.

5. Actuarial Assumptions

The total pension liability in the June 30, 2017, actuarial valuation was determined using the individual entry-age normal actuarial cost method and the following additional actuarial assumptions:

Inflation	2.50 percent per year
Active member payroll growth	3.25 percent per year
Investment rate of return	7.50 percent

**LAKE COUNTY  
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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 for all plans were based on RP-2014 tables for males or females, as appropriate, with slight adjustments. For the General Employees Retirement Plan and the Public Employees Police and Fire Plan, cost of living benefit increases for retirees are assumed to be 1.0 percent through 2044 and 2064, respectively, and 2.5 percent thereafter. Cost of living benefit increases for retirees are assumed to be 2.5 percent for the Public Employees Correctional Plan.

Actuarial assumptions used in the June 30, 2017, valuation were based on the results of actuarial experience studies. The experience study in the General Employees Retirement Plan was dated June 30, 2015. The experience study for the Public Employees Police and Fire Plan was dated August 30, 2016. The experience study for the Public Employees Correctional Plan was dated February 2012.

The long-term expected rate of return on pension plan investments is 7.50 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 rate 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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic stocks	39%	5.10%
International stocks	19	5.30
Bonds	20	0.75
Alternative assets	20	5.90
Cash	2	0.00

**LAKE COUNTY  
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4. Pension Plans

A. Defined Benefit Pension Plans (Continued)

6. Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent in 2017, which remained consistent with 2016. 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, the fiduciary net position of the General Employees Retirement Plan and the Public Employees Police and Fire Plan were 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.

In the Public Employees Correctional Plan, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members through June 30, 2061. Beginning in fiscal years ended June 30, 2062, when projected benefit payments exceed the Plan's projected fiduciary net position, benefit payment were discounted at the municipal bond rate of 3.56 percent based on an index of 20-year general obligation bonds with an average AA credit rating at the measurement date. An equivalent single discount rate of 5.96 percent for the Public Employees Correctional Plan was determined that produced approximately the same present value of projected benefits when applied to all years of projected benefits as the present value of projected benefits using 7.50 percent applied to all years of projected benefits to the point of asset depletion and 3.56 percent thereafter.

7. Changes in Actuarial Assumptions

The following changes in actuarial assumption occurred in 2017:

General Employees Retirement Plan

- The Combined Service Annuity (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and non-vested deferred members (30 percent for deferred Minneapolis Employees Retirement fund members). The revised CSA loads are now 0.0 percent for active member liability, 15 percent for vested deferred member liability, and 3.0 percent for non-vested deferred member liability.

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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4. Pension Plans

A. Defined Benefit Pension Plans

7. Changes in Actuarial Assumptions

General Employees Retirement Plan (Continued)

- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044 and 2.5 percent per year thereafter.
- Minneapolis Employees Retirement Fund plan provisions change the employer supplemental contributions to \$21,000,000 in calendar years 2017 and 2018 and returns to \$31,000,000 through calendar year 2031. The state's required contribution is \$16,000,000 in PERA's fiscal years 2018 and 2019 and returns to \$6,000,000 annually through calendar year 2031.

Public Employees Police and Fire Plan

- The assumed salary increases were changed as recommended in the June 30, 2016, experience study. The net effect is proposed rates that average 0.34 percent lower than in previous rates.
- The assumed rates of retirement were changed, resulting in fewer retirements.
- The CSA load was 30 percent for vested and non-vested, deferred members. The CSA has been changed to 33 percent for vested members and 2.0 percent for non-vested members.
- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the mortality table assumed for healthy retirees.
- The assumed termination rates were decreased to 3.0 percent for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall.



**LAKE COUNTY  
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4. Pension Plans

A. Defined Benefit Pension Plans

7. Changes in Actuarial Assumptions

Public Employees Police and Fire Plan (Continued)

- The assumed percentage of married female members was decreased from 65 percent to 60 percent.
- The assumed age difference was changed from separate assumptions for male members (wives assumed to be three years younger) and female members (husbands assumed to be four years older) to the assumption that males are two years older than females.
- The assumed percentage of female members electing joint and survivor annuities was increased.
- The assumed post-retirement benefit increase was changed from 1.0 percent for all years to 1.0 percent per year through 2064 and 2.5 percent thereafter.
- The single discount rate was changed from 5.60 percent annum to 7.50 percent per annum.
- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016 and is applied to healthy and disabled members. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the RP-2014 disabled annuitant mortality table (with future mortality improvement according to Scale MP-2016).
- The CSA load was 30 percent for vested and non-vested, deferred members. The CSA has been changed to 35 percent for vested members and 1.0 percent for non-vested members.
- The single discount rate was changed from 5.31 percent per annum to 5.96 percent per annum.

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

4. Pension Plans

A. Defined Benefit Pension Plans (Continued)

8. Pension Liability Sensitivity

The following presents the County's proportionate share of the net pension liability calculated using the discount rate disclosed, 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:

	General Employees Retirement Plan		Proportionate Share of the Public Employees Police and Fire Plan		Public Employees Correctional Plan	
	Discount Rate	Net Pension Liability	Discount Rate	Net Pension Liability	Discount Rate	Net Pension Liability
1% Decrease	6.50%	\$ 8,446,368	6.50%	\$ 2,974,922	4.96%	\$ 1,315,009
Current	7.50	5,445,496	7.50	1,579,639	5.96	798,003
1% Increase	8.50	2,998,736	8.50	427,757	6.96	394,472

9. 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](http://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

Four 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.

**LAKE COUNTY  
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4. Pension Plans

B. Defined Contribution Plan (Continued)

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, 2017, were:

	Employee	Employer
Contribution amount	\$ 8,622	\$ 8,622
Percentage of covered payroll	5%	5%

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, 2017, there were no retirees using their sick leave balances for insurance premiums.

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5. Other Postemployment Benefits (OPEB)

A. Plan Description and Funding Policy (Continued)

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, 2017, 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:

ARC	\$	70,340
Interest on net OPEB obligation		14,790
Adjustment to ARC		(22,584)
		_____
Annual OPEB cost	\$	62,546
Contributions during the year		(39,361)
		_____
Increase in net OPEB obligation	\$	23,185
Net OPEB - Beginning of Year		420,379
		_____
Net OPEB - End of Year	\$	443,564

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5. Other Postemployment Benefits (OPEB)

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

The County's annual OPEB cost; the percentage of annual OPEB cost contributed to the plan; and the net OPEB obligation for 2017, 2016, and 2015 were as follows:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Percentage of annual OPEB cost contributed	62.9%	67.6%	49.8%
Annual OPEB cost	\$ 62,546	\$ 76,644	\$ 77,320
Employer contributions	<u>(39,361)</u>	<u>(51,843)</u>	<u>(38,479)</u>
Net Increase in Net OPEB Obligation	<u>\$ 23,185</u>	<u>\$ 24,801</u>	<u>\$ 38,841</u>

C. Funded Status and Funding Progress

The actuarial accrued liability for benefits at January 1, 2017, the most recent actuarial date, is \$505,312. 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 \$6,761,023. The ratio of the unfunded actuarially accrued liability (UAAL) to covered payroll is 7.5 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 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.

**LAKE COUNTY  
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5. Other Postemployment Benefits (OPEB)

C. Funded Status and Funding Progress (Continued)

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, 2017, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 3.5 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 6.5 percent initially, reduced incrementally to an ultimate rate of 5.0 percent after 6 years. The unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis over 30 years.

The net other postemployment benefits liability is generally 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.

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 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.

**LAKE COUNTY  
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6. Postemployment Health Care Plans

A. MSRS Health Care Savings Plan (Continued)

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.

In 2017, 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.

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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 with coverage at \$500,000 in 2017 and 2018. 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.



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7. Summary of Significant Contingencies and Other Items

A. Risk Management (Continued)

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	
	2017	2016
Unpaid claims, beginning of fiscal year	\$ -	\$ -
Incurred claims (including incurred but not reported)	137,337	118,516
Claims payments	(137,337)	(118,516)
Unpaid Claims, End of Fiscal Year	\$ -	\$ -

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. 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.

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

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.

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 \$501,508 in funding during 2017.

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.

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7. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Carlton, Cook, Lake, and St. Louis Community Health Board (Continued)

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 2017.

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

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

**LAKE COUNTY  
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7. Summary of Significant Contingencies and Other Items

D. Joint Ventures (Continued)

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.

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 2017.

**LAKE COUNTY  
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7. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Northern Counties Land Use Coordinating Board (Continued)

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 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, 2017, is as follows:

Total Assets	\$	185,222
Total Liabilities		185,222

Separate financial information can be obtained from:

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

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7. Summary of Significant Contingencies and Other Items

D. Joint Ventures (Continued)

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 2017.

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 2017.

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7. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Northeast Minnesota Regional Radio Board (Continued)

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.

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 2017.

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 \$2,500 to the Board in 2017.

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7. Summary of Significant Contingencies and Other Items

E. Jointly-Governed Organizations (Continued)

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 2017.

Separate financial information can be obtained from:

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

8. Subsequent Event

In April 2018, Lake County issued \$7,235,000 Judgement Bonds, Series 2018A. The purpose of the bonds is to provide funds for Confession of Judgement payments to contractors to settle broadband infrastructure contracts. In June 2018, the County also issued \$2,765,000 Capital Improvement Bonds, Series 2018B. The purpose of the bonds is to provide funds for capital improvements pursuant to the approved capital improvement plan that was adopted by the County Board on May 22, 2018.

9. 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.



**LAKE COUNTY  
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9. Component Unit Disclosures

A. Summary of Significant Accounting Policies (Continued)

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 two major enterprise funds, the Silverpointe Apartments Enterprise Fund and the Lakeview Apartments 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 full 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.

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.

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9. Component Unit Disclosures

A. Summary of Significant Accounting Policies

Measurement Focus and Basis of Accounting (Continued)

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

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.

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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9. Component Unit Disclosures

A. Summary of Significant Accounting Policies

Receivables and Payables (Continued)

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

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 Authority 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. Donated capital assets are recorded at acquisition value.

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.

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

<u>Assets</u>	<u>Years</u>
Buildings and structures	25 - 40
Equipment	7

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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9. Component Unit Disclosures

A. Summary of Significant Accounting Policies (Continued)

Long-Term Obligations

In the government-wide financial statements and the proprietary 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. 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 applicable bond premiums or discounts.

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	\$ 799,691
Cash with management company for operations	78,951
Restricted cash with management company for security deposits	<u>17,258</u>
 Total Cash	 <u>\$ 895,900</u>

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  
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9. 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, 2017, the Authority’s deposits were not exposed to custodial credit risk.

Loan Receivable

The Authority has a \$7,071 loan receivable from the Town of Crystal Bay for the Finlad Coop roofing project, an unrelated organization. The loan has an interest rate of three percent, with annual payments of \$1,007 due on January 10 of each year.

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

9. Component Unit Disclosures

B. Detailed Notes on All Funds

1. Assets (Continued)

Capital Assets

Capital asset activity for the year ended December 31, 2017, 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>1,866</u>	<u>-</u>	<u>-</u>	<u>1,866</u>
Governmental Activities				
Capital Assets, Net	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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	<u>41,318</u>	<u>1,660</u>	<u>-</u>	<u>42,978</u>
Total capital assets depreciated	<u>\$ 1,927,890</u>	<u>\$ 1,660</u>	<u>\$ -</u>	<u>\$ 1,929,550</u>
Less: accumulated depreciation for				
Buildings and structures	\$ 924,449	\$ 48,469	\$ -	\$ 972,918
Equipment	<u>15,820</u>	<u>5,344</u>	<u>-</u>	<u>21,164</u>
Total accumulated depreciation	<u>\$ 940,269</u>	<u>\$ 53,813</u>	<u>\$ -</u>	<u>\$ 994,082</u>
Business-Type Activities				
Capital Assets, Net	<u>\$ 987,621</u>	<u>\$ (52,153)</u>	<u>\$ -</u>	<u>\$ 935,468</u>

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

Business-Type Activities	
Senior housing	<u>\$ 53,813</u>

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

9. Component Unit Disclosures

B. Detailed Notes on All Funds (Continued)

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, 2017</u>
2012 General Obligation Senior Housing Bonds	2027	Varies	1.0 - 3.5	\$ 860,000	\$ 570,000

Debt Service Requirements

Debt service requirements at December 31, 2017, were as follows:

Business-Type Activities

<u>Year Ending December 31</u>	<u>Revenue Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2018	\$ 55,000	\$ 16,213
2019	55,000	14,975
2020	55,000	13,738
2021	60,000	12,363
2022	60,000	10,863
2023 - 2027	285,000	27,112
Totals	\$ 570,000	\$ 95,264

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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9. Component Unit Disclosures

B. Detailed Notes on All Funds

2. Liabilities (Continued)

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	\$ 625,000	\$ -	\$ 55,000	\$ 570,000	\$ 55,000
Less: unamortized discount	(8,025)	-	(803)	(7,222)	-
Total Bonds Payable	<u>\$ 616,975</u>	<u>\$ -</u>	<u>\$ 54,197</u>	<u>\$ 562,778</u>	<u>\$ 55,000</u>

C. Summary of Significant Contingencies and Other Items

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.



**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, 2017**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 6,516,113	\$ 6,516,113	\$ 6,139,828	\$ (376,285)
Licenses and permits	12,500	12,500	16,630	4,130
Intergovernmental	4,389,385	4,389,385	5,816,376	1,426,991
Charges for services	413,170	413,170	480,659	67,489
Fines and forfeits	1,500	1,500	6,499	4,999
Investment earnings	60,764	60,764	93,576	32,812
Miscellaneous	96,887	96,887	244,939	148,052
<b>Total Revenues</b>	<b>\$ 11,490,319</b>	<b>\$ 11,490,319</b>	<b>\$ 12,798,507</b>	<b>\$ 1,308,188</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>General government</b>				
Commissioners	\$ 367,820	\$ 367,820	\$ 310,565	\$ 57,255
Courts	47,000	47,000	51,753	(4,753)
Law library	10,000	10,000	3,675	6,325
County administration	302,690	302,690	284,003	18,687
County auditor	685,286	685,286	541,417	143,869
County assessor	505,153	505,153	498,486	6,667
Elections	6,504	6,504	6,694	(190)
Accounting and auditing	93,000	93,000	67,182	25,818
Data processing	758,552	758,552	634,504	124,048
Personnel	237,715	237,715	241,092	(3,377)
Attorney	411,136	411,136	395,944	15,192
Recorder	237,467	237,467	208,547	28,920
Planning and zoning	463,036	463,036	445,274	17,762
Buildings and plant	636,961	636,961	640,884	(3,923)
Veterans service officer	81,789	81,789	94,740	(12,951)
Motor pool	23,891	23,891	17,820	6,071
<b>Total general government</b>	<b>\$ 4,868,000</b>	<b>\$ 4,868,000</b>	<b>\$ 4,442,580</b>	<b>\$ 425,420</b>
<b>Public safety</b>				
Sheriff	\$ 2,365,027	\$ 2,365,027	\$ 2,290,344	\$ 74,683
Ambulance	541,198	541,198	503,949	37,249
Emergency services	109,838	109,838	60,501	49,337
Coroner	37,500	37,500	44,732	(7,232)
County jail	1,100,189	1,100,189	1,023,441	76,748
Community corrections	508,825	508,825	503,978	4,847
Sentence to serve	96,402	96,402	91,258	5,144
Emergency management	94,697	94,697	471,247	(376,550)
Other public safety	123,917	123,917	238,487	(114,570)
<b>Total public safety</b>	<b>\$ 4,977,593</b>	<b>\$ 4,977,593</b>	<b>\$ 5,227,937</b>	<b>\$ (250,344)</b>

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

**EXHIBIT A-1  
(Continued)**

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>	<b>Variance with Final Budget</b>
	<b>Original</b>	<b>Final</b>		
<b>Expenditures</b>				
<b>Current (Continued)</b>				
<b>Sanitation</b>				
Solid waste	\$ 266,793	\$ 266,793	\$ 187,926	\$ 78,867
Recycling	188,411	188,411	192,272	(3,861)
Hazardous waste	23,800	23,800	8,437	15,363
<b>Total sanitation</b>	<b>\$ 479,004</b>	<b>\$ 479,004</b>	<b>\$ 388,635</b>	<b>\$ 90,369</b>
<b>Culture and recreation</b>				
Historical society	\$ 35,000	\$ 35,000	\$ 35,000	\$ -
Arenas	173,344	173,344	188,229	(14,885)
Humane Society	3,500	3,500	3,500	-
Memorial Day observance	3,000	3,000	3,000	-
Recreation board	153,685	153,685	149,797	3,888
Trails	-	-	299,999	(299,999)
County/regional library	122,300	122,300	122,300	-
<b>Total culture and recreation</b>	<b>\$ 490,829</b>	<b>\$ 490,829</b>	<b>\$ 801,825</b>	<b>\$ (310,996)</b>
<b>Conservation of natural resources</b>				
County extension	\$ 66,897	\$ 66,897	\$ 62,093	\$ 4,804
Soil and water conservation	64,617	64,617	59,350	5,267
Agricultural society/County fair	21,321	21,321	23,526	(2,205)
Water planning	4,571	4,571	9,142	(4,571)
CWP project	14,488	14,488	29,795	(15,307)
Wetland challenge	5,000	5,000	10,000	(5,000)
<b>Total conservation of natural resources</b>	<b>\$ 176,894</b>	<b>\$ 176,894</b>	<b>\$ 193,906</b>	<b>\$ (17,012)</b>
<b>Economic development</b>				
Information centers	\$ 13,000	\$ 13,000	\$ 13,000	\$ -
Airports	8,000	8,000	8,000	-
Housing and Redevelopment Authority	-	-	115,437	(115,437)
Other economic development	12,000	12,000	-	12,000
<b>Total economic development</b>	<b>\$ 33,000</b>	<b>\$ 33,000</b>	<b>\$ 136,437</b>	<b>\$ (103,437)</b>
<b>Total Expenditures</b>	<b>\$ 11,025,320</b>	<b>\$ 11,025,320</b>	<b>\$ 11,191,320</b>	<b>\$ (166,000)</b>

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

***EXHIBIT A-1  
(Continued)***

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Excess of Revenues Over (Under) Expenditures</b>	\$ 464,999	\$ 464,999	\$ 1,607,187	\$ 1,142,188
<b>Other Financing Sources (Uses)</b>				
Transfers out	<u>(27,000)</u>	<u>(27,000)</u>	<u>(8,767)</u>	<u>18,233</u>
<b>Net Change in Fund Balance</b>	\$ 437,999	\$ 437,999	\$ 1,598,420	\$ 1,160,421
<b>Fund Balance - January 1</b>	<u>16,997,737</u>	<u>16,997,737</u>	<u>16,997,737</u>	<u>-</u>
<b>Fund Balance - December 31</b>	<u>\$ 17,435,736</u>	<u>\$ 17,435,736</u>	<u>\$ 18,596,157</u>	<u>\$ 1,160,421</u>

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

*EXHIBIT A-2*

**BUDGETARY COMPARISON SCHEDULE  
ROAD AND BRIDGE SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 1,902,124	\$ 1,902,124	\$ 2,296,171	\$ 394,047
Intergovernmental	7,042,360	7,042,360	7,257,179	214,819
Charges for services	31,700	31,700	54,619	22,919
Miscellaneous	30,000	30,000	1,753,738	1,723,738
<b>Total Revenues</b>	<b>\$ 9,006,184</b>	<b>\$ 9,006,184</b>	<b>\$ 11,361,707</b>	<b>\$ 2,355,523</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Highways and streets</b>				
Administration	\$ 389,442	\$ 389,442	\$ 429,833	\$ (40,391)
Maintenance	2,030,908	2,030,908	1,711,285	319,623
Construction	5,495,816	5,495,816	4,746,955	748,861
Equipment maintenance and shop	812,007	812,007	698,527	113,480
<b>Total highways and streets</b>	<b>\$ 8,728,173</b>	<b>\$ 8,728,173</b>	<b>\$ 7,586,600</b>	<b>\$ 1,141,573</b>
<b>Debt service</b>				
Principal	\$ 35,000	\$ 35,000	\$ 25,841	\$ 9,159
Interest	-	-	3,072	(3,072)
<b>Total debt service</b>	<b>\$ 35,000</b>	<b>\$ 35,000</b>	<b>\$ 28,913</b>	<b>\$ 6,087</b>
<b>Total Expenditures</b>	<b>\$ 8,763,173</b>	<b>\$ 8,763,173</b>	<b>\$ 7,615,513</b>	<b>\$ 1,147,660</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 243,011</b>	<b>\$ 243,011</b>	<b>\$ 3,746,194</b>	<b>\$ 3,503,183</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	-	-	8,767	8,767
<b>Net Change in Fund Balance</b>	<b>\$ 243,011</b>	<b>\$ 243,011</b>	<b>\$ 3,754,961</b>	<b>\$ 3,511,950</b>
<b>Fund Balance - January 1</b>	<b>1,700,645</b>	<b>1,700,645</b>	<b>1,700,645</b>	<b>-</b>
<b>Increase (decrease) in inventories</b>	<b>-</b>	<b>-</b>	<b>(42,429)</b>	<b>(42,429)</b>
<b>Fund Balance - December 31</b>	<b>\$ 1,943,656</b>	<b>\$ 1,943,656</b>	<b>\$ 5,413,177</b>	<b>\$ 3,469,521</b>

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

**EXHIBIT A-3**

**BUDGETARY COMPARISON SCHEDULE  
HUMAN SERVICES SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 1,911,499	\$ 1,911,499	\$ 1,779,210	\$ (132,289)
Intergovernmental	4,020,836	4,020,836	4,576,316	555,480
Charges for services	338,781	338,781	294,115	(44,666)
Miscellaneous	30,100	30,100	54,674	24,574
<b>Total Revenues</b>	<b>\$ 6,301,216</b>	<b>\$ 6,301,216</b>	<b>\$ 6,704,315</b>	<b>\$ 403,099</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Human services</b>				
Income maintenance	\$ 1,033,313	\$ 1,033,313	\$ 968,944	\$ 64,369
Social services	2,842,337	2,842,337	2,767,876	74,461
<b>Total human services</b>	<b>\$ 3,875,650</b>	<b>\$ 3,875,650</b>	<b>\$ 3,736,820</b>	<b>\$ 138,830</b>
<b>Health</b>				
Nursing service	\$ 106,873	\$ 106,873	\$ 77,014	\$ 29,859
Transportation	93,735	93,735	103,893	(10,158)
Environmental health	111,812	111,812	101,402	10,410
Mental health	2,155,637	2,155,637	2,629,783	(474,146)
Health education	269,904	269,904	224,671	45,233
<b>Total health</b>	<b>\$ 2,737,961</b>	<b>\$ 2,737,961</b>	<b>\$ 3,136,763</b>	<b>\$ (398,802)</b>
<b>Total Expenditures</b>	<b>\$ 6,613,611</b>	<b>\$ 6,613,611</b>	<b>\$ 6,873,583</b>	<b>\$ (259,972)</b>
<b>Net Change in Fund Balance</b>	<b>\$ (312,395)</b>	<b>\$ (312,395)</b>	<b>\$ (169,268)</b>	<b>\$ 143,127</b>
<b>Fund Balance - January 1</b>	<b>8,790,987</b>	<b>8,790,987</b>	<b>8,790,987</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 8,478,592</b>	<b>\$ 8,478,592</b>	<b>\$ 8,621,719</b>	<b>\$ 143,127</b>

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

*EXHIBIT A-4*

**SCHEDULE OF FUNDING PROGRESS  
OTHER POSTEMPLOYMENT BENEFITS  
DECEMBER 31, 2017**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (b)</b>	<b>Unfunded Actuarial Accrued Liability (UAAL) (b - a)</b>	<b>Funded Ratio (a/b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll ((b - a)/c)</b>
January 1, 2011	\$ -	\$ 638,272	\$ 638,272	0.00%	\$ 6,162,682	10.36%
January 1, 2014	-	546,471	546,471	0.00	6,594,400	8.29
January 1, 2017	-	505,312	505,312	0.00	6,761,023	7.47



**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

*EXHIBIT A-5*

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY  
PERA GENERAL EMPLOYEES RETIREMENT PLAN  
DECEMBER 31, 2017**

<b>Measurement Date</b>	<b>Employer's Proportion of the Net Pension Liability (Asset)</b>	<b>Employer's Proportionate Share of the Net Pension Liability (Asset) (a)</b>	<b>State's Proportionate Share of the Net Pension Liability Associated with Lake County (b)</b>	<b>Employer's Proportionate Share of the Net Pension Liability and the State's Related Share of the Net Pension Liability (Asset) (a + b)</b>	<b>Covered Payroll (c)</b>	<b>Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/c)</b>	<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>
2017	0.0853%	\$ 5,445,496	\$ 68,493	\$ 5,513,989	\$ 5,496,867	99.07%	75.90%
2016	0.0878	7,128,924	93,162	7,222,086	5,451,333	130.77	68.91
2015	0.0932	4,830,108	N/A	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.  
N/A - Not Applicable

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

*EXHIBIT A-6*

**SCHEDULE OF CONTRIBUTIONS  
PERA GENERAL EMPLOYEES RETIREMENT PLAN  
DECEMBER 31, 2017**

<b>Year Ending</b>	<b>Statutorily Required Contributions (a)</b>	<b>Actual Contributions in Relation to Statutorily Required Contributions (b)</b>	<b>Contribution (Deficiency) Excess (b - a)</b>	<b>Covered Payroll (c)</b>	<b>Actual Contributions as a Percentage of Covered Payroll (b/c)</b>
2017	\$ 409,868	\$ 409,868	\$ -	\$ 5,464,906	7.50%
2016	416,317	416,317	-	5,550,893	7.50
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 PLAN  
DECEMBER 31, 2017**

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
2017	0.117%	\$ 1,579,639	\$ 1,199,741	131.67%	85.40%
2016	0.124	4,976,336	1,195,000	416.43	63.88
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 PLAN  
DECEMBER 31, 2017**

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)
2017	\$ 195,698	\$ 195,698	\$ -	\$ 1,208,014	16.20%
2016	191,785	191,785	-	1,183,858	16.20
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 PLAN  
DECEMBER 31, 2017**

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
2017	0.28%	\$ 798,003	\$ 554,689	143.86%	67.90%
2016	0.29	1,059,410	548,503	193.15	58.16
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 PLAN  
DECEMBER 31, 2017**

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)
2017	\$ 48,374	\$ 48,374	\$ -	\$ 552,846	8.75%
2016	50,114	50,114	-	572,731	8.75
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.

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED DECEMBER 31, 2017**

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, 2017:

	Expenditures	Final Budget	Excess
Major governmental funds			
General Fund			
Current			
General government			
Courts	\$ 51,753	\$ 47,000	\$ 4,753
Elections	6,694	6,504	190
Personnel	241,092	237,715	3,377
Buildings and plant	640,884	636,961	3,923
Veterans service officer	94,740	81,789	12,951
Public safety			
Coroner	44,732	37,500	7,232
Emergency management	471,247	94,697	376,550
Other public safety	238,487	123,917	114,570

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

2. Excess of Expenditures Over Appropriations (Continued)

	<u>Expenditures</u>	<u>Final Budget</u>	<u>Excess</u>
Major governmental funds			
General Fund			
Current (Continued)			
Sanitation			
Recycling	192,272	188,411	3,861
Culture and recreation			
Arenas	188,229	173,344	14,885
Trails	299,999	-	299,999
Conservation of natural resources			
Agricultural society/County fair	23,526	21,321	2,205
Water planning	9,142	4,571	4,571
CWP project	29,795	14,488	15,307
Wetland challenge	10,000	5,000	5,000
Economic development			
Housing and Redevelopment Authority	115,437	-	115,437
Road and Bridge Special Revenue Fund			
Current			
Highways and streets			
Administration	429,833	389,442	40,391
Debt service			
Interest	3,072	-	3,072
Human Services Special Revenue Fund			
Current			
Health			
Transportation	103,893	93,735	10,158
Mental Health	2,629,783	2,155,637	474,146

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.

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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4. Defined Benefit Pension Plans - Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions

The following changes were reflected in the valuation performed on behalf of the Public Employees Retirement Association for the year ended June 30:

General Employees Retirement Plan

2017

- The Combined Service Annuity (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and non-vested deferred members (30 percent for deferred Minneapolis Employees Retirement Fund members). The revised CSA loads are now 0.0 percent for active member liability, 15 percent for vested deferred member liability, and 3.0 percent for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044 and 2.5 percent per year thereafter.
- Minneapolis Employees Retirement Fund plan provisions change the employer supplemental contribution to \$21,000,000 in PERA's calendar years 2017 and 2018 and returns to \$31,000,000 through calendar year 2031. The state's required contribution is \$16,000,000 in PERA's fiscal years 2018 and 2019 and returns to \$6,000,000 annually through calendar year 2031.

2016

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2035 and 2.50 percent per year thereafter, to 1.00 percent for all future years.
- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was also changed from 7.90 percent to 7.50 percent.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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4. Defined Benefit Pension Plans - Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions (Continued)

Public Employees Police and Fire Plan

2017

- The assumed salary increases were changed as recommended in the June 30, 2016, experience study. The net effect is proposed rates that average 0.34 percent lower than the previous rates.
- The assumed rates of retirement were changed, resulting in fewer retirements.
- The CSA load was 30 percent for vested and non-vested, deferred members. The CSA has been changed to 33 percent for vested members and 2.0 percent for non-vested members.
- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the mortality table assumed for healthy retirees.
- The assumed termination rates were decreased to 3.0 percent for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall.
- The assumed percentage of married female members was decreased from 65 percent to 60 percent.
- The assumed age difference was changed from separate assumptions for male members (wives assumed to be three years younger) and female members (husbands assumed to be four years older) to the assumption that males are two years older than females.
- The assumed percentage of female members electing joint and survivor annuities was increased.



**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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4. Defined Benefit Pension Plans - Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions (Continued)

Public Employees Police and Fire Plan

2017 (Continued)

- The assumed post-retirement benefit increase rate was changed from 1.0 percent for all years to 1.0 percent per year through 2064 and 2.5 percent thereafter.
- The single discount rate was changed from 5.60 percent per annum to 7.50 percent per annum.

2016

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2037 and 2.50 percent per year thereafter, to 1.00 percent for all future years.
- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was changed from 7.90 percent to 5.60 percent.
- The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

Public Employees Correctional Plan

2017

- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016 and is applied to healthy and disabled members. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the RP-2014 disabled annuitant mortality table (with future mortality improvement according to Scale MP-2016).

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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4. Defined Benefit Pension Plans - Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions

Public Employees Correctional Plan

2017 (Continued)

- The CSA load was 30 percent for vested and non-vested, deferred members. The CSA has been changed to 35 percent for vested members and 1.0 percent for non-vested members.
- The single discount rate was changed from 5.31 percent per annum to 5.96 percent per annum.

2016

- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was changed from 7.90 percent to 5.31 percent.
- The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

**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, 2017**

	<u>Special Revenue</u>			<u>Debt Service</u>	<u>Total</u>
	<u>Resource Development</u>	<u>Unorganized Townships</u>	<u>Forfeited Tax</u>		
<b><u>Assets</u></b>					
Cash and pooled investments	\$ 1,203,280	\$ 319,310	\$ -	\$ 624,895	\$ 2,147,485
Petty cash and change funds	-	-	50	-	50
Undistributed cash in agency funds	-	8,697	-	18,261	26,958
Taxes receivable					
Delinquent	-	-	-	6,363	6,363
Accounts receivable	-	-	638,746	-	638,746
Due from other governments	147,262	-	-	-	147,262
<b>Total Assets</b>	<b>\$ 1,350,542</b>	<b>\$ 328,007</b>	<b>\$ 638,796</b>	<b>\$ 649,519</b>	<b>\$ 2,966,864</b>
<b><u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u></b>					
<b>Liabilities</b>					
Accounts payable	\$ 16,477	\$ -	\$ 3,339	\$ -	\$ 19,816
Salaries payable	-	-	17,264	-	17,264
Due to other funds	-	-	156,790	-	156,790
Due to other governments	-	124,081	14	-	124,095
<b>Total Liabilities</b>	<b>\$ 16,477</b>	<b>\$ 124,081</b>	<b>\$ 177,407</b>	<b>\$ -</b>	<b>\$ 317,965</b>
<b>Deferred Inflows of Resources</b>					
Unavailable revenue - taxes	\$ -	\$ -	\$ -	\$ 4,521	\$ 4,521
Unavailable revenue - grants	147,262	-	-	-	147,262
Unavailable revenue - long-term receivables	-	-	553,958	-	553,958
<b>Total Deferred Inflows of Resources</b>	<b>\$ 147,262</b>	<b>\$ -</b>	<b>\$ 553,958</b>	<b>\$ 4,521</b>	<b>\$ 705,741</b>
<b>Fund Balances</b>					
Restricted for debt service	\$ -	\$ -	\$ -	\$ 644,998	\$ 644,998
Committed forestry road grant	-	-	690	-	690
Committed to unorganized townships emergency services	-	203,926	-	-	203,926
Assigned to resource development	1,186,803	-	-	-	1,186,803
Unassigned	-	-	(93,259)	-	(93,259)
<b>Total Fund Balances</b>	<b>\$ 1,186,803</b>	<b>\$ 203,926</b>	<b>\$ (92,569)</b>	<b>\$ 644,998</b>	<b>\$ 1,943,158</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<b>\$ 1,350,542</b>	<b>\$ 328,007</b>	<b>\$ 638,796</b>	<b>\$ 649,519</b>	<b>\$ 2,966,864</b>

**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, 2017**

	<u>Special Revenue</u>			<u>Debt Service</u>	<u>Total</u>
	<u>Resource Development</u>	<u>Unorganized Townships</u>	<u>Forfeited Tax</u>		
<b>Revenues</b>					
Taxes	\$ -	\$ 114,985	\$ -	\$ 241,963	\$ 356,948
Licenses and permits	-	105	1,007	-	1,112
Intergovernmental	139,361	29,390	66,772	19,538	255,061
Charges for services	-	-	23,393	-	23,393
Investment earnings	-	-	-	3,987	3,987
Gifts and contributions	800	-	-	-	800
Miscellaneous	-	-	811,653	70,440	882,093
<b>Total Revenues</b>	<b>\$ 140,161</b>	<b>\$ 144,480</b>	<b>\$ 902,825</b>	<b>\$ 335,928</b>	<b>\$ 1,523,394</b>
<b>Expenditures</b>					
<b>Current</b>					
Public safety	\$ -	\$ 137,231	\$ -	\$ -	\$ 137,231
Culture and recreation	151,653	-	-	-	151,653
Conservation of natural resources	8,514	-	637,606	-	646,120
<b>Capital outlay</b>					
Conservation of natural resources	-	-	12,517	-	12,517
<b>Debt service</b>					
Principal	146,667	-	-	340,000	486,667
Interest	16,872	-	-	39,825	56,697
Administrative (fiscal) charges	-	-	-	900	900
<b>Total Expenditures</b>	<b>\$ 323,706</b>	<b>\$ 137,231</b>	<b>\$ 650,123</b>	<b>\$ 380,725</b>	<b>\$ 1,491,785</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (183,545)</b>	<b>\$ 7,249</b>	<b>\$ 252,702</b>	<b>\$ (44,797)</b>	<b>\$ 31,609</b>
<b>Other Financing Sources (Uses)</b>					
Transfers in	\$ 208,980	\$ -	\$ -	\$ -	\$ 208,980
Transfers out	-	-	(208,980)	-	(208,980)
<b>Total Other Financing Sources (Uses)</b>	<b>\$ 208,980</b>	<b>\$ -</b>	<b>\$ (208,980)</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Net Change in Fund Balance</b>	<b>\$ 25,435</b>	<b>\$ 7,249</b>	<b>\$ 43,722</b>	<b>\$ (44,797)</b>	<b>\$ 31,609</b>
<b>Fund Balance - January 1</b>	<b>1,161,368</b>	<b>196,677</b>	<b>(136,291)</b>	<b>689,795</b>	<b>1,911,549</b>
<b>Fund Balance - December 31</b>	<b>\$ 1,186,803</b>	<b>\$ 203,926</b>	<b>\$ (92,569)</b>	<b>\$ 644,998</b>	<b>\$ 1,943,158</b>



**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

*EXHIBIT B-3*

**BUDGETARY COMPARISON SCHEDULE  
RESOURCE DEVELOPMENT SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Intergovernmental	\$ 96,000	\$ 96,000	\$ 139,361	\$ 43,361
Gifts and contributions	-	-	800	800
<b>Total Revenues</b>	<b>\$ 96,000</b>	<b>\$ 96,000</b>	<b>\$ 140,161</b>	<b>\$ 44,161</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Culture and recreation</b>				
Trails	\$ 10,000	\$ 10,000	\$ 151,653	\$ (141,653)
<b>Conservation of natural resources</b>				
Other conservation	\$ -	\$ -	\$ 8,514	\$ (8,514)
<b>Debt service</b>				
Principal	\$ 146,667	\$ 146,667	\$ 146,667	\$ -
Interest	28,600	28,600	16,872	11,728
<b>Total debt service</b>	<b>\$ 175,267</b>	<b>\$ 175,267</b>	<b>\$ 163,539</b>	<b>\$ 11,728</b>
<b>Total Expenditures</b>	<b>\$ 185,267</b>	<b>\$ 185,267</b>	<b>\$ 323,706</b>	<b>\$ (138,439)</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (89,267)</b>	<b>\$ (89,267)</b>	<b>\$ (183,545)</b>	<b>\$ (94,278)</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	-	-	208,980	208,980
<b>Net Change in Fund Balance</b>	<b>\$ (89,267)</b>	<b>\$ (89,267)</b>	<b>\$ 25,435</b>	<b>\$ 114,702</b>
<b>Fund Balance - January 1</b>	<b>1,161,368</b>	<b>1,161,368</b>	<b>1,161,368</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 1,072,101</b>	<b>\$ 1,072,101</b>	<b>\$ 1,186,803</b>	<b>\$ 114,702</b>

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

*EXHIBIT B-4*

**BUDGETARY COMPARISON SCHEDULE  
UNORGANIZED TOWNSHIPS SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 120,620	\$ 120,620	\$ 114,985	\$ (5,635)
Licenses and permits	100	100	105	5
Intergovernmental	15,000	15,000	29,390	14,390
<b>Total Revenues</b>	<b><u>\$ 135,720</u></b>	<b><u>\$ 135,720</u></b>	<b><u>\$ 144,480</u></b>	<b><u>\$ 8,760</u></b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Public safety</b>				
Emergency services	<u>\$ 116,250</u>	<u>\$ 116,250</u>	<u>\$ 137,231</u>	<u>\$ (20,981)</u>
<b>Net Change in Fund Balance</b>	<b>\$ 19,470</b>	<b>\$ 19,470</b>	<b>\$ 7,249</b>	<b>\$ (12,221)</b>
<b>Fund Balance - January 1</b>	<u>196,677</u>	<u>196,677</u>	<u>196,677</u>	<u>-</u>
<b>Fund Balance - December 31</b>	<b><u><u>\$ 216,147</u></u></b>	<b><u><u>\$ 216,147</u></u></b>	<b><u><u>\$ 203,926</u></u></b>	<b><u><u>\$ (12,221)</u></u></b>

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

*EXHIBIT B-5*

**BUDGETARY COMPARISON SCHEDULE  
FORFEITED TAX SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Licenses and permits	\$ 1,170	\$ 1,170	\$ 1,007	\$ (163)
Intergovernmental	26,241	26,241	66,772	40,531
Charges for services	15,000	15,000	23,393	8,393
Miscellaneous	504,490	504,490	811,653	307,163
<b>Total Revenues</b>	<b>\$ 546,901</b>	<b>\$ 546,901</b>	<b>\$ 902,825</b>	<b>\$ 355,924</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Conservation of natural resources</b>				
Land use	\$ 514,571	\$ 514,571	\$ 637,606	\$ (123,035)
<b>Capital outlay</b>				
Conservation of natural resources	9,800	16,300	12,517	3,783
<b>Total Expenditures</b>	<b>\$ 524,371</b>	<b>\$ 530,871</b>	<b>\$ 650,123</b>	<b>\$ (119,252)</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 22,530</b>	<b>\$ 16,030</b>	<b>\$ 252,702</b>	<b>\$ 236,672</b>
<b>Other Financing Sources (Uses)</b>				
Transfers out	-	-	(208,980)	(208,980)
<b>Net Change in Fund Balance</b>	<b>\$ 22,530</b>	<b>\$ 16,030</b>	<b>\$ 43,722</b>	<b>\$ 27,692</b>
<b>Fund Balance - January 1</b>	<b>(136,291)</b>	<b>(136,291)</b>	<b>(136,291)</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ (113,761)</b>	<b>\$ (120,261)</b>	<b>\$ (92,569)</b>	<b>\$ 27,692</b>

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

*EXHIBIT B-6*

**BUDGETARY COMPARISON SCHEDULE  
DEBT SERVICE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 261,080	\$ 261,080	\$ 241,963	\$ (19,117)
Intergovernmental	-	-	19,538	19,538
Investment earnings	145	145	3,987	3,842
Miscellaneous	70,337	70,337	70,440	103
	<u>70,337</u>	<u>70,337</u>	<u>70,440</u>	<u>103</u>
<b>Total Revenues</b>	<b>\$ 331,562</b>	<b>\$ 331,562</b>	<b>\$ 335,928</b>	<b>\$ 4,366</b>
<b>Expenditures</b>				
<b>Debt service</b>				
Principal	\$ 355,000	\$ 355,000	\$ 340,000	\$ 15,000
Interest	33,884	33,884	39,825	(5,941)
Administrative (fiscal) charges	405	405	900	(495)
	<u>405</u>	<u>405</u>	<u>900</u>	<u>(495)</u>
<b>Total Expenditures</b>	<b>\$ 389,289</b>	<b>\$ 389,289</b>	<b>\$ 380,725</b>	<b>\$ 8,564</b>
<b>Net Change in Fund Balance</b>	<b>\$ (57,727)</b>	<b>\$ (57,727)</b>	<b>\$ (44,797)</b>	<b>\$ 12,930</b>
<b>Fund Balance - January 1</b>	<b>689,795</b>	<b>689,795</b>	<b>689,795</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 632,068</b>	<b>\$ 632,068</b>	<b>\$ 644,998</b>	<b>\$ 12,930</b>

**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, 2017**

	<b>Balance January 1</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance December 31</b>
<b><u>CITIES, TOWNS, AND OTHER GOVERNMENTS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 27,245	\$ 13,068,662	\$ 12,971,393	\$ 124,514
<b><u>Liabilities</u></b>				
Due to other governments	\$ 27,245	\$ 13,068,662	\$ 12,971,393	\$ 124,514
 <b><u>TAXES AND PENALTIES</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 536,549	\$ 22,343,136	\$ 21,877,385	\$ 1,002,300
<b><u>Liabilities</u></b>				
Due to other governments	\$ 536,549	\$ 22,343,136	\$ 21,877,385	\$ 1,002,300
 <b><u>STATE</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 41,557	\$ 257,319	\$ 275,734	\$ 23,142
<b><u>Liabilities</u></b>				
Due to other governments	\$ 41,557	\$ 257,319	\$ 275,734	\$ 23,142

**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, 2017**

	<b>Balance January 1</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance December 31</b>
<b><u>SEWER SYSTEM DEPOSITS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	<u>\$ 59,475</u>	<u>\$ 30,000</u>	<u>\$ 41,300</u>	<u>\$ 48,175</u>
<b><u>Liabilities</u></b>				
Customer deposits - current	<u>\$ 59,475</u>	<u>\$ 30,000</u>	<u>\$ 41,300</u>	<u>\$ 48,175</u>
 <b><u>NORTH SHORE COLLABORATIVE</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	<u>\$ 169,530</u>	<u>\$ 91,882</u>	<u>\$ 76,190</u>	<u>\$ 185,222</u>
<b><u>Liabilities</u></b>				
Accounts payable	<u>\$ 169,530</u>	<u>\$ 91,882</u>	<u>\$ 76,190</u>	<u>\$ 185,222</u>
 <b><u>ARROWHEAD HEALTH ALLIANCE</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	<u>\$ 266,687</u>	<u>\$ 277,695</u>	<u>\$ 268,309</u>	<u>\$ 276,073</u>
<b><u>Liabilities</u></b>				
Accounts payable	<u>\$ 266,687</u>	<u>\$ 277,695</u>	<u>\$ 268,309</u>	<u>\$ 276,073</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, 2017**

	<b>Balance January 1</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance December 31</b>
<b><u>TOTAL ALL AGENCY FUNDS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	<b>\$ 1,101,043</b>	<b>\$ 36,068,694</b>	<b>\$ 35,510,311</b>	<b>\$ 1,659,426</b>
<b><u>Liabilities</u></b>				
Accounts payable	\$ 436,217	\$ 369,577	\$ 344,499	\$ 461,295
Due to other governments	605,351	35,669,117	35,124,512	1,149,956
Customer deposits - current	59,475	30,000	41,300	48,175
<b>Total Liabilities</b>	<b>\$ 1,101,043</b>	<b>\$ 36,068,694</b>	<b>\$ 35,510,311</b>	<b>\$ 1,659,426</b>

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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, 2017**

**Appropriations and Shared Revenue**

**State**

Highway users tax	\$	5,744,064
County program aid		410,912
PERA rate reimbursement		24,330
Disparity reduction aid		149,182
Aquatic invasive species aid		159,520
Police aid		135,756
Taconite credit		574,785
Enhanced 911		82,317
SCORE		68,711
Market value credit		3,295
		3,295

**Total appropriations and shared revenue** **\$ 7,352,872**

**Reimbursement for Services**

**State**

Minnesota Department of Human Services	\$	172,532
		172,532

**Payments**

**State**

Payments in lieu of taxes	\$	839,321
		839,321

**Grants**

**State**

Minnesota Department of		
Public Safety	\$	95,439
Health		62,177
Natural Resources		396,170
Human Services		3,065,682
Pollution Control		1,200
Veterans Affairs		10,000
Board of Water and Soil Resources		180,398
		180,398

**Total state** **\$ 3,811,066**

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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

**SCHEDULE OF INTERGOVERNMENTAL REVENUE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2017**

**Grants (Continued)**

**Federal**

Department of	
Agriculture	\$ 2,685,958
Commerce	750
Housing and Urban Development	95,637
Interior	267,231
Justice	31,805
Transportation	1,197,364
Education	1,933
Health and Human Services	1,018,445
Homeland Security	430,018

**Total federal** **\$ 5,729,141**

**Total state and federal grants** **\$ 9,540,207**

**Total Intergovernmental Revenue** **\$ 17,904,932**

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

**EXHIBIT D-2**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2017**

<b>Federal Grantor Pass-Through Agency Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Contract Number/ Pass-Through Grant Numbers</b>	<b>Expenditures</b>	<b>Passed Through to Subrecipients</b>
<b>U.S. Department of Agriculture</b>				
Direct				
U.S. Forest Service Cooperative Agreement	10.U01	11-LE-11090903-022	\$ 13,500	\$ -
Cooperative Forestry Assistance	10.664	14-DG-11420004-252	43,310	-
(Total Cooperative Forestry Assistance 10.664 \$65,191)				
Passed Through Carlton, Cook, Lake, and St. Louis Community Health Board Special Supplemental Nutrition Program for Women, Infants, and Children				
	10.557	172MN004W1003	65,471	-
Passed Through Minnesota Department of Human Services SNAP Cluster State Administrative Matching Grants for the Supplemental Nutrition Assistance Program				
	10.561	172MN101S2514	107,418	-
Passed Through Minnesota Department of Natural Resources Cooperative Forestry Assistance				
	10.664	13-DG-11420004-141	21,881	-
(Total Cooperative Forestry Assistance 10.664 \$65,191)				
Passed Through Minnesota Management and Budget Forest Service Schools and Roads Cluster Schools and Roads - Grants to States				
	10.665	P.L. 115-141	<u>2,434,983</u>	<u>-</u>
<b>Total U.S. Department of Agriculture</b>			<b><u>\$ 2,686,563</u></b>	<b><u>\$ -</u></b>
<b>U.S. Department of Commerce</b>				
Passed Through Minnesota Department of Natural Resources Coastal Zone Management Administration Awards				
	11.419	NA15NOS4190126	<b><u>\$ 750</u></b>	<b><u>\$ -</u></b>
<b>U.S. Department of Housing and Urban Development</b>				
Passed Through Minnesota Department of Employment and Economic Development Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii				
	14.228	CDAP-14-0081-O-FY15	\$ 64,967	\$ 64,967
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii				
	14.228	CDAP-15-0036-O-FY16	<u>30,670</u>	<u>30,670</u>
(Total Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii 14.228 \$95,637)				
<b>Total U.S. Department of Housing and Urban Development</b>			<b><u>\$ 95,637</u></b>	<b><u>\$ 95,637</u></b>
<b>U.S. Department of the Interior</b>				
Direct				
Payments in Lieu of Taxes	15.226		<b><u>\$ 267,231</u></b>	<b><u>\$ -</u></b>
<b>U.S. Department of Justice</b>				
Passed Through Minnesota Department of Public Safety				
Crime Victim Assistance	16.575	A-CVSP-2017- LAKEAO-00038	<b><u>\$ 31,805</u></b>	<b><u>\$ -</u></b>

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

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**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

**EXHIBIT D-2  
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2017**

<b>Federal Grantor Pass-Through Agency Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Contract Number/ Pass-Through Grant Numbers</b>	<b>Expenditures</b>	<b>Passed Through to Subrecipients</b>
<b>U.S. Department of Transportation</b>				
Passed Through Minnesota Department of Transportation				
Highway Planning and Construction Cluster				
Highway Planning and Construction	20.205	00038	\$ 1,211,673	\$ -
Recreational Trails Program	20.219	0026-16-2C	56,253	-
<b>Total U.S. Department of Transportation</b>			<b>\$ 1,267,926</b>	<b>\$ -</b>
<b>U.S. Department of Education</b>				
Passed Through Carlton, Cook, Lake, and St. Louis Community Health Board				
Special Education - Grants for Infants and Families	84.181	H181A150029	<b>\$ 1,933</b>	<b>\$ -</b>
<b>U.S. Department of Health and Human Services</b>				
Passed Through Carlton, Cook, Lake, and St. Louis Community Health Board				
Public Health Emergency Preparedness TANF Cluster	93.069	NU90TP921911-01-00	\$ 20,797	\$ -
Temporary Assistance for Needy Families (Total Temporary Assistance for Needy Families 93.558 \$83,842)	93.558	2017G996115	10,630	-
State Public Health Actions to Prevent and Control Diabetes, Heart Disease, Obesity, and Associated Risk Factors and Promote School Health Financed in Part by Prevention and Public Health Funding (PPHF)	93.757	U58DP005452	16,131	-
Maternal and Child Health Services Block Grant to the States	93.994	B04MC29349	8,184	-
Passed Through Minnesota Department of Human Services				
Promoting Safe and Stable Families TANF Cluster	93.556	G-1601MNFPS	20,497	-
Temporary Assistance for Needy Families (Total Temporary Assistance for Needy Families 93.558 \$83,842)	93.558	1601MNTANF	73,212	-
Child Support Enforcement	93.563	1704MNCSES	221,966	-
Refugee and Entrant Assistance - State Administered Program CCDF Cluster	93.566	1701MNRMA	264	-
Child Care and Development Block Grant	93.575	G1701MNCDF	1,995	-
Community-Based Child Abuse Prevention Grants	93.590	G-1502MNFPG	5,000	-
Stephanie Tubbs Jones Child Welfare Services Program	93.645	G-1601MNCWSS	4,968	-
Foster Care - Title IV-E	93.658	1701MNFOS	76,891	-
Social Services Block Grant	93.667	G-1701MNSOSR	82,007	-
Chafee Foster Care Independence Program	93.674	G-1601MNCILP	951	-
Children's Health Insurance Program	93.767	05-1705MN0301	129	-
Medicaid Cluster				
Medical Assistance Program	93.778	05-1705MN5MAP	2,857	-
Medical Assistance Program (Total Medical Assistance Program 93.778 \$474,823)	93.778	05-1705MN5ADM	471,966	-
<b>Total U.S. Department of Health and Human Services</b>			<b>\$ 1,018,445</b>	<b>\$ -</b>



**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

**EXHIBIT D-2  
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2017**

<b>Federal Grantor Pass-Through Agency Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Contract Number/ Pass-Through Grant Numbers</b>	<b>Expenditures</b>	<b>Passed Through to Subrecipients</b>
<b>U.S. Department of Homeland Security</b>				
Passed Through Minnesota Department of Natural Resources Boating Safety Financial Assistance	97.012	R29G4CGSFY17	\$ 3,875	\$ -
Passed Through Minnesota Department of Public Safety Hazard Mitigation Grant	97.039	FEMA-1982-DR-MN	58,056	-
Hazard Mitigation Grant	97.039	A-HMGP-DR4113- LAKECO*-0011	81,647	-
Hazard Mitigation Grant	97.039	A-HMGP-DR4131- LAKECO*-0018	162,489	-
(Total Hazard Mitigation Grant 97.039 \$302,192)				
Emergency Management Performance Grants	97.042	F-EMPG-2017- LAKECO-2285	17,098	-
Homeland Security Grant Program	97.067	A-OPSG-2015- LAKESO-004	71,686	-
<b>Total U.S. Department of Homeland Security</b>			<b>\$ 394,851</b>	<b>\$ -</b>
<b>Total Federal Awards</b>			<b>\$ 5,765,141</b>	<b>\$ 95,637</b>
<b>Totals by Cluster</b>				
Total expenditures for SNAP Cluster			\$ 107,418	
Total expenditures for Forest Service Schools and Roads Cluster			2,434,983	
Total expenditures for Highway Planning and Construction Cluster			1,267,926	
Total expenditures for CCDF Cluster			1,995	
Total expenditures for TANF Cluster			83,842	
Total expenditures for Medicaid Cluster			474,823	

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**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2017**

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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, 2017. 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. Governmental funds use the modified accrual basis of accounting. Proprietary funds use the full accrual basis of accounting. 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 2017, the County did not incur any federal loan program expenditures. As of December 31, 2017, Lake County reported a balance outstanding of \$49,252,930.

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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5. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 5,729,141
Grants received more than 90 days after year-end, deferred in 2017	
Highway Planning and Construction	93,593
Cooperative Forestry Assistance	605
Deferred in 2016, recognized as revenue in 2017	
Highway Planning and Construction	(23,031)
Hazard Mitigation Grant	<u>(35,167)</u>
Expenditures Per Schedule of Expenditures of Federal Awards	<u>\$ 5,765,141</u>



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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA

## OFFICE OF THE 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, 2017, 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 19, 2018.

#### **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.

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. 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 the attention of those charged with governance.

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. Given these limitations, during our audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as items 1996-011 and 2015-001, that we consider 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.

### **Other Matter**

Also included in the Schedule of Findings and Questioned Costs is an unresolved other matter described as item 2015-002.



## **Lake County's Response to Findings**

Lake County's responses to the internal control findings and to the other matter identified in our audit are described in the Corrective Action Plan. 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 19, 2018

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REBECCA OTTO  
STATE AUDITOR

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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, 2017. 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.

***Opinion on Each 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 each of its major federal programs for the year ended December 31, 2017.

**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.

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. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit the attention of those charged with governance.

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **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 19, 2018

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**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2017**

**I. SUMMARY OF AUDITOR'S RESULTS**

**Financial Statements**

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: **Unmodified**

Internal control over financial reporting:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **Yes**

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

**Federal Awards**

Internal control over major program:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **None reported**

Type of auditor's report issued on compliance for the major federal program: **Unmodified**

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? **No**

The major federal programs are:

Forest Service Schools and Roads Cluster	CFDA No. 10.665
Highway Planning and Construction Cluster	
Highway Planning and Construction	CFDA No. 20.205
Recreational Trails Program	CFDA No. 20.219

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 Number 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, reconciles bank accounts, and does some cash receipting. The person who processes cash disbursements also 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.

**View of Responsible Official:** Concur



Finding Number 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:** In 2016, the management company implemented physical controls over inventory, which included storing inventory in a locked room and restricting staff access to inventory. However; 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 is not updated in the management company's general ledger at year-end. A physical count of inventory was completed at year-end but was not accurate due to miscounts.

**Effect:** Without the proper controls over inventory, inventory records are more susceptible to errors or manipulation.

**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.

**View of Responsible Official:** Concur

**III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS**

None.

#### IV. OTHER MATTER

##### PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding Number 2015-002

##### Subrecipient Monitoring

**Program:** U.S. Department of Housing and Urban Development's Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii (CFDA No. 14.228), Award Nos. CDAP-14-0081-O-FY15, 2015 and CDAP-15-0036-O-FY16, 2016

**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 2016 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 and 2016. In 2017, the County developed a policy for subrecipient monitoring, but did not perform any subrecipient monitoring procedures.

**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 follow their subrecipient monitoring procedures 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.

**View of Responsible Official:** Concur

**V. PREVIOUSLY REPORTED ITEM RESOLVED**

2003-002 Capital Assets

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**Linda Libal**  
**Lake County Auditor/Treasurer**

Lake County Courthouse  
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**REPRESENTATION OF LAKE COUNTY  
TWO HARBORS, MINNESOTA**

**CORRECTIVE ACTION PLAN  
FOR THE YEAR ENDED DECEMBER 31, 2017**

**Finding Number: 1996-011**  
**Finding Title: Segregation of Duties**

Name of Contact Person Responsible for Corrective Action:

Matt Huddleston, County Administrator

Corrective Action Planned:

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.

Anticipated Completion Date:

Ongoing

**Finding Number: 2015-001**  
**Finding Title: Broadband Inventory**

Name of Contact Person Responsible for Corrective Action:

Matt Huddleston, County Administrator

Corrective Action Planned:

Lake County is in the process of selling Lake Connections. As a part of this sale, a full inventory of Broadband related items was done. Once the sale of Lake Connections is complete, this will no longer be an issue.

Anticipated Completion Date:

Sale of Lake Connections is expected to be completed by March 2019.

**Finding Number: 2015-002**

**Finding Title: Subrecipient Monitoring**

**Program: U.S. Department of Housing and Urban Development's Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii (CFDA No. 14.228)**

Name of Contact 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 sub-recipient. Lake County has adopted the "CliftonLarsonAllen-Subrecipient Risk Assessment Matrix and Monitoring Workbook" as per Resolution No. 17082204.05 as the 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. Lake County will establish a process of using the checklist to monitor the applicable Grants.

Anticipated Completion Date:

December 2018



**Linda Libal**  
**Lake County Auditor/Treasurer**

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**REPRESENTATION OF LAKE COUNTY  
TWO HARBORS, MINNESOTA**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED DECEMBER 31, 2017**

**Finding Number: 1996-011**  
**Finding Title: Segregation of Duties**

**Summary of 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.

**Summary of Corrective Action Previously Reported:** The County's management is aware of this condition. Limited staff prohibits the extensive segregation of duties that is desired. All positions have been cross-trained and there is at least one other person who acts as a back-up for each position. Given the staffing level, this is as much segregation of duties as can be accomplished.

**Status:** Partially Corrected. All positions within the County Auditor's office have been cross-trained. There is at least one back-up person for each position. This is as much segregation as can be accomplished with the limited number of staff.

Was corrective action taken significantly different than the action previously reported?  
Yes \_\_\_\_\_ No  X

**Finding Number: 2003-002**  
**Finding Title: Capital Assets**

**Summary of 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.

**Summary of Corrective Action Previously Reported:** The County intends to develop policies and procedures for capital assets and determine a process of doing a physical inventory as time permits.

**Status:** Fully Corrected. A complete inventory was done in 2017.

Was corrective action taken significantly different than the action previously reported?

Yes \_\_\_\_\_ No  X

**Finding Number: 2015-001**

**Finding Title: Broadband Inventory**

**Summary of Condition:** The County Board has not adopted a formal inventory over Broadband inventory.

**Summary of Corrective Action Previously Reported:** 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.

**Status:** Not Corrected. Lake County is in the process of selling Lake Connections. As a part of this sale, a full inventory of Broadband related items was done. No formal Policy or Procedure for Broadband inventory was adopted by the Board.

Was corrective action taken significantly different than the action previously reported?

Yes \_\_\_\_\_ No  X

**Finding Number: 2015-002**

**Finding Title: Subrecipient Monitoring**

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

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

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



**Status:** Partially Corrected. The Lake County Auditor’s office adopted the “CliftonLarsonAllen Subrecipient Risk Assessment Matrix and Monitoring Workbook” to use as a checklist for ensuring proper monitoring of sub-recipients. This was approved by the Board on August 22, 2017, and added as Appendix L to the Lake County Accounting and Policy Procedures Manual. Monitoring of the subrecipient was not done in 2017.

Was corrective action taken significantly different than the action previously reported?  
Yes \_\_\_\_\_ No  X