STATE OF MINNESOTA

Office of the State Auditor

Julie Blaha
State Auditor

LAKE COUNTY
TWO HARBORS, MINNESOTA

YEAR ENDED DECEMBER 31, 2018

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 100 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 600 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, 2018

Audit Practice Division
Office of the State Auditor
State of Minnesota

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LAKE COUNTY
TWO HARBORS, MINNESOTA

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Introductory Section

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LAKE COUNTY
TWO HARBORS, MINNESOTA

ORGANIZATION
DECEMBER 31, 2018

			Term Expires
Elected			
Commissioner	Peter Walsh	District 1	January 2023
Commissioner	Derrick Goutermont	District 2	January 2021
Commissioner	Richard Hogenson	District 3	January 2021
Commissioner	Jeremy Hurd	District 4	January 2023
Commissioner	Rich Sve	District 5	January 2021
Attorney	Russell Conrow		January 2023
Auditor/Treasurer	Linda Libal		January 2023
Recorder	Lori Ekstrom		January 2023
Sheriff	Carey Johnson		January 2023
Appointed			
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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Financial Section

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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, 2018, 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, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter – Change in Accounting Principle

As discussed in Note 1.E. to the financial statements, in 2018, the County adopted new accounting guidance by implementing the provisions of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which represents a change in accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Lake County's basic financial statements. The Supplementary Information, as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Supplementary Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplementary Information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2019, 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/Julie Blaha	*/s/Greg Hierlinger*
JULIE BLAHA STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

September 12, 2019

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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, 2018
(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, 2018. 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 $115,506,316, of which $88,068,894 is the net investment in capital assets and $5,411,894 is restricted to specific purposes.

- Business-type activities have a total net position of ($1,511,421). Net investment in capital assets represents $17,302,181 of the total.

- Lake County's governmental activities' net position increased by $438,893 for the year ended December 31, 2018. 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 $24,845.

- The net cost of governmental activities was $7,643,909 for the current fiscal year. The net cost was funded by general revenues and other items totaling $8,082,802.

- Governmental funds' fund balances increased by $6,121,073.

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 Changes in Total OPEB Liability and Related Ratios – Other Postemployment Benefits, the Schedule of Proportionate Share of Net Pension Liability, and the Schedule of Contributions are required to accompany the basic financial statements and, therefore, are included as required supplementary information.

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

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

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

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

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

- Governmental activities—Most of the County's basic services are reported here, including general government, public safety, highways and streets, sanitation, human services, health, culture and recreation, conservation of natural resources, and economic development. Property taxes and state and federal grants finance most of these activities.

- Business-type activities—The County charges a fee to customers to help it cover all or most of the cost of services it provides. The County's broadband activities are reported here.

- Component unit—The County includes another separate legal entity in its report. The entity, the Lake County Housing and Redevelopment Authority, is presented in a separate column. Although legally separate, this "component unit" is important because the County is financially accountable for it. Further financial information for this component unit is available in separately issued and audited financial statements.

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

Fund Financial Statements

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

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

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

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

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

Reporting the County's Fiduciary Responsibilities

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

The fiduciary funds financial statement is presented on 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	
	2018	2017	2018	2017	2018	2017
Assets						
Current and other assets	$ 48,786	$ 40,900	$ (16,953)	$ (18,233)	$ 31,833	$ 22,667
Capital assets	92,416	87,892	65,803	69,136	158,219	157,028
Total Assets	$ 141,202	$ 128,792	$ 48,850	$ 50,903	$ 190,052	$ 179,695
Deferred Outflows of Resources	$ 2,906	$ 4,265	$ -	$ -	$ 2,906	$ 4,265
Liabilities						
Long-term liabilities outstanding	$ 19,688	$ 11,183	$ 48,501	$ 48,922	$ 68,189	$ 60,105
Other liabilities	4,252	2,023	1,860	9,609	6,112	11,632
Total Liabilities	$ 23,940	$ 13,206	$ 50,361	$ 58,531	$ 74,301	$ 71,737
Deferred Inflows of Resources	$ 4,662	$ 4,744	$ -	$ -	$ 4,662	$ 4,744
Net Position						
Net investment in capital assets	$ 88,069	$ 85,786	$ 17,302	$ 19,883	$ 105,371	$ 105,669
Restricted	5,412	5,197	-	-	5,412	5,197
Unrestricted	22,025	24,124	(18,813)	(27,511)	3,212	(3,387)
Total Net Position, as reported	$ 115,506	$ 115,107	$ (1,511)	$ (7,628)	$ 113,995	$ 107,479
Change in accounting principle*		(40)		-		(40)
Total Net Position, as restated		$ 115,067		$ (7,628)		$ 107,439

*This is the first year the County implemented the other postemployment benefits accounting and financial reporting standards in GASB 75. The County had to make a prior year change in accounting principles to record the County's other postemployment benefits liability and related Deferred outflows of resources.

Table 2
Changes in Net Position
(in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2018	2017	2018	2017	2018	2017
Revenues						
Program revenues						
Fees, fines, charges, and other	$ 2,379	$ 1,668	$ 4,045	$ 3,622	$ 6,424	$ 5,290
Operating grants and contributions	15,907	14,062	-	-	15,907	14,062
Capital grants and contributions	34	1,268	-	-	34	1,268
General revenues						
Property taxes	9,554	8,995	504	595	10,058	9,590
Other taxes	2,881	2,335	-	-	2,881	2,335
Unrestricted grants and contributions	1,349	1,165	-	-	1,349	1,165
Investment earnings	368	98	7	-	375	98
Gain on sale of capital assets	71	-	-	-	71	-
Miscellaneous	968	2,230	-	-	968	2,230
Transfers	(7,108)	-	7,108	-	-	-
Total Revenues	$ 26,403	$ 31,821	$ 11,664	$ 4,217	$ 38,067	$ 36,038
Expenses						
General government	$ 4,859	$ 4,696	$ -	$ -	$ 4,859	$ 4,696
Public safety	5,151	5,900	-	-	5,151	5,900
Highways and streets	5,414	5,117	-	-	5,414	5,117
Sanitation	374	366	-	-	374	366
Human services	3,729	3,821	-	-	3,729	3,821
Health	3,770	3,140	-	-	3,770	3,140
Culture and recreation	1,037	1,043	-	-	1,037	1,043
Conservation of natural resources	1,019	864	-	-	1,019	864
Economic development	86	136	-	-	86	136
Interest	525	57	-	-	525	57
Broadband	-	-	5,547	8,626	5,547	8,626
Total Expenses	$ 25,964	$ 25,140	$ 5,547	$ 8,626	$ 31,511	$ 33,766
Increase (Decrease) in Net Position	$ 439	$ 6,681	$ 6,117	$ (4,409)	$ 6,556	$ 2,272
Net Position, January 1, as restated (Note 1.E.)	*115,067	108,426	(7,628)	(3,219)	107,439	105,207
Net Position, December 31, as reported	$ 115,506	$ 115,107	$ (1,511)	$ (7,628)	$ 113,995	$ 107,479

*Amount includes a change in accounting principles.

Lake County's business-type activities consist of 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, 2018, is $48,500,694.

Governmental Activities

The cost of all governmental activities this year was $25,964,057. 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 $8,082,802, because some of the cost was paid by those who directly benefited from the programs ($2,378,840) or by other governments and organizations that subsidized certain programs with grants and contributions ($15,941,308). Table 3 presents the cost of each of the County's five largest program functions, as well as each function's net cost (total cost, less revenues generated by the activities). The net cost shows the financial burden that was placed on the County's taxpayers by each of these functions.

Table 3
Governmental Activities
(in Thousands)

	Total Cost of Services		Net Cost of Services	
	2018	2017	2018	2017
General government	$ 4,859	$ 4,696	$ (228)	$ 1,043
Public safety	5,151	5,900	4,451	4,919
Highways and streets	5,414	5,117	442	(1,272)
Human services	3,729	3,821	2,003	2,087
Health	3,770	3,140	(222)	192
All others	3,041	2,466	1,198	1,173
Total	$ 25,964	$ 25,140	$ 7,644	$ 8,142

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 $40,695,284 in 2018, compared with $34,574,211 in 2017, an increase of $6,121,073. 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 2018 of $4,234,512, or 10.40 percent, of total fund balance. Nonspendable fund balance was $440,667, and restricted fund balance was $3,793,845. Unrestricted fund balance was $36,460,772, or 89.60 percent, of total fund balance. Unrestricted fund balance was $1,226,251 committed, $15,673,568 assigned, and $19,560,953 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, 2018, unrestricted fund balance for the General Fund was $19,741,788, compared to $17,155,789 in 2017. 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 138.20 percent of the General Fund's operating revenues and 177.28 percent of operating expenditures.

The Road and Bridge Special Revenue Fund's unrestricted fund balance increased to $6,371,329 in 2018, compared to unrestricted fund balance of $4,966,235 in 2017. In 2018, 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 62.99 percent of the fund's operating revenues and 60.06 percent of operating expenditures.

The Human Services Special Revenue Fund's unrestricted fund balance was $8,851,492 in 2018, compared to $8,579,536 in 2017. The increase in the fund balance of the Human Services Special Revenue Fund is attributed to higher revenues than what was budgeted. Unrestricted fund balance at the end of the year represented 114.51 percent of the fund's operating revenues and 118.07 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 ($1,511,421) in 2018, compared to ($7,627,848) in 2017. Net position increased due to a transfer in of bond proceeds to pay Confession of Judgement payments to contractors to settle broadband infrastructure costs. 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 2018.

In the General Fund, the actual charges to appropriations (expenditures) were $150,894 less than final budget amounts. Unbudgeted expenditures included $263,731 of unbudgeted trail expenditures, $59,345 of unbudgeted small cities development program expenditures, and $114,718 of unbudgeted other public safety expenditures. These were offset by savings in various other General Fund departments.

Resources available for appropriation were also above the final budgeted amount by $2,356,375. This was primarily due to greater than expected collections in intergovernmental revenues.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2018, the County had $158,218,892 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	
	2018	2017	2018	2017	2018	2017
Land	$ 3,968	$ 3,968	$ -	$ -	$ 3,968	$ 3,968
Buildings and improvements	12,763	8,550	1,595	1,649	14,358	10,199
Machinery, vehicles, furniture, and equipment	1,485	1,488	926	1,345	2,411	2,833
Infrastructure	74,200	73,886	63,282	66,142	137,482	140,028
Totals	$ 92,416	$ 87,892	$ 65,803	$ 69,136	$ 158,219	$ 157,028

The County's fiscal year 2019 capital budget calls for it to spend another $94,000 for miscellaneous improvements at various buildings, $120,000 on vehicles for various departments, $1,001,634 on equipment for various departments, and $3,910,000 for road construction. The road construction will be funded by state-aid construction funds.

Debt

At year-end, the County had $11,100,000 in bonds and notes outstanding versus $1,450,000 last year—an increase of 765.50 percent—as shown in Table 5. The increase is attributed to general obligation bonds to pay judgment costs of the broadband network lawsuits and to rebuilding the highway garage due to a fire in 2016. Capital leases payable decreased by $173,481. The Rural Utilities Service Broadband Loan on the business-type activities portion has a balance of $48,500,694.

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

	Governmental Activities		Business-Type Activities		Totals	
	2018	2017	2018	2017	2018	2017
General obligation bonds	$ 11,100	$ 1,450	$ -	$ -	$ 11,100	$ 1,450
Capital leases	482	656	-	-	482	656
Loans payable	-	-	48,501	49,253	48,501	49,253
Compensated absences	1,533	1,334	-	-	1,533	1,334
Net pension liability	5,898	7,823	-	-	5,898	7,823
Net other postemployment benefits	540	444	-	-	540	444
Unamortized premium	135	-	-	-	135	-
Total	$ 19,688	$ 11,707	$ 48,501	$ 49,253	$ 68,189	$ 60,960

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 2019 budget and tax rates.

- County General Fund expenditures for 2019 are budgeted to increase 0.42 percent over 2018.
- Property tax levies increased 2.50 percent for 2019.

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. The sale happened in June 2019.

In February 2019, Lake County closed on a bond, General Obligation Capital Improvement Plan Bond, Series 2019A, in the amount of $1,400,000 to cover the costs of building a new highway garage. The highway garage was lost in a fire in December 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, 2018

	Primary Government			Discretely Presented Component Unit
	Governmental Activities	**Business-Type Activities**	**Total**	
Assets				
Cash and pooled investments	$ 22,893,852	$ -	$ 22,893,852	$ 874,766
Receivables	8,115,599	27,688	8,143,287	2,790
Internal balances	17,408,815	(17,408,815)	-	-
Inventories	354,129	327,768	681,897	-
Prepaid items	13,096	-	13,096	-
Restricted assets				
Bid deposits	-	100,000	100,000	-
Security deposits	-	-	-	17,842
Capital assets				
Non-depreciable capital assets	3,968,383	-	3,968,383	-
Depreciable capital assets – net of accumulated depreciation	88,447,634	65,802,875	154,250,509	892,103
Total Assets	**$ 141,201,508**	**$ 48,849,516**	**$ 190,051,024**	**$ 1,787,501**
Deferred Outflows of Resources				
Deferred pension outflows	$ 2,872,361	$ -	$ 2,872,361	$ -
Deferred other postemployment benefits outflows	33,974	-	33,974	-
Total Deferred Outflows of Resources	**$ 2,906,335**	**$ -**	**$ 2,906,335**	**$ -**
Liabilities				
Accounts payable and other current liabilities	$ 4,205,910	$ 208,312	$ 4,414,222	$ 16,811
Accrued interest payable	46,295	-	46,295	-
Unearned revenue	-	1,551,931	1,551,931	2,616
Bid deposits payable	-	100,000	100,000	-
Security deposits payable	-	-	-	17,842
Long-term liabilities				
Due within one year	1,034,490	-	1,034,490	55,000
Due in more than one year	12,215,407	48,500,694	60,716,101	453,581
Other postemployment benefits liability	540,188	-	540,188	-
Net pension liability	5,897,617	-	5,897,617	-
Total Liabilities	**$ 23,939,907**	**$ 50,360,937**	**$ 74,300,844**	**$ 545,850**

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

LAKE COUNTY
TWO HARBORS, MINNESOTA

EXHIBIT 1
(Continued)

STATEMENT OF NET POSITION
DECEMBER 31, 2018

	Primary Government			Discretely
	Governmental Activities	**Business-Type Activities**	**Total**	**Presented Component Unit**
Deferred Inflows of Resources				
Deferred pension inflows	**$ 4,661,620**	**$ -**	**$ 4,661,620**	**$ -**
Net Position				
Net investment in capital assets	$ 88,068,894	$ 17,302,181	$ 105,371,075	$ 383,522
Restricted for				
General government	789,545	-	789,545	-
Public safety	593,665	-	593,665	-
Highways and streets	2,810,657	-	2,810,657	-
Conservation of natural resources	531,142	-	531,142	-
Debt service	686,885	-	686,885	-
Unrestricted	22,025,528	(18,813,602)	3,211,926	858,129
Total Net Position	**$ 115,506,316**	**$ (1,511,421)**	**$ 113,994,895**	**$ 1,241,651**

LAKE COUNTY
TWO HARBORS, MINNESOTA

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018

	Expenses	Program Revenues: Fees, Charges, Fines, and Other	Program Revenues: Operating Grants and Contributions
Functions/Programs			
Primary government			
Governmental activities			
General government	$ 4,858,486	$ 596,566	$ 4,489,898
Public safety	5,151,276	180,384	430,064
Highways and streets	5,414,218	268,058	4,669,906
Sanitation	373,419	26,850	32,746
Human services	3,729,201	56,692	1,669,230
Health	3,770,353	276,049	3,716,258
Culture and recreation	1,036,923	-	137,095
Conservation of natural resources	1,019,364	974,241	702,551
Economic development	85,845	-	59,345
Interest	524,972	-	-
Total governmental activities	**$ 25,964,057**	**$ 2,378,840**	**$ 15,907,093**
Business-type activities			
Broadband	5,547,659	4,045,028	-
Total Primary Government	**$ 31,511,716**	**$ 6,423,868**	**$ 15,907,093**
Component unit			
Housing and Redevelopment Authority	**$ 404,181**	**$ 277,509**	**$ -**

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
- Gain on sale of capital assets
- Miscellaneous

Transfers

Total general revenues and transfers

Change in net position

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

Net Position – Ending

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

	Net (Expense) Revenue and Changes in Net Position			
	Primary Government			
Capital Grants and Contributions	**Governmental Activities**	**Business-Type Activities**	**Total**	**Discretely Presented Component Unit**
$ -	$ 227,978	$ -	$ 227,978	
-	(4,540,828)	-	(4,540,828)	
34,215	(442,039)	-	(442,039)	
-	(313,823)	-	(313,823)	
-	(2,003,279)	-	(2,003,279)	
-	221,954	-	221,954	
-	(899,828)	-	(899,828)	
-	657,428	-	657,428	
-	(26,500)	-	(26,500)	
-	(524,972)	-	(524,972)	
$ 34,215	**$ (7,643,909)**	**$ -**	**$ (7,643,909)**	
-	-	(1,502,631)	(1,502,631)	
$ 34,215	**$ (7,643,909)**	**$ (1,502,631)**	**$ (9,146,540)**	
$ -				**$ (126,672)**
	$ 9,554,225	$ 503,887	$ 10,058,112	$ 114,114
	650,075	-	650,075	-
	902,533	-	902,533	-
	989,841	-	989,841	-
	338,296	-	338,296	-
	1,349,221	-	1,349,221	6,991
	368,338	7,032	375,370	10,279
	70,728	-	70,728	-
	967,684	-	967,684	20,133
	(7,108,139)	7,108,139	-	-
	$ 8,082,802	**$ 7,619,058**	**$ 15,701,860**	**$ 151,517**
	$ 438,893	**$ 6,116,427**	**$ 6,555,320**	**$ 24,845**
	115,067,423	**(7,627,848)**	**107,439,575**	**1,216,806**
	$ 115,506,316	**$ (1,511,421)**	**$ 113,994,895**	**$ 1,241,651**

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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, 2018

	General	Road and Bridge	Human Services	Nonmajor Funds	Total
Assets					
Cash and pooled investments	$ 1,468,631	$ 7,320,900	$ 8,149,950	$ 5,162,850	$ 22,102,331
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	459,278	108,427	137,998	46,180	751,883
Taxes receivable – delinquent	138,921	28,458	42,541	11,937	221,857
Accounts receivable	15,876	3,105	7,824	637,980	664,785
Accrued interest receivable	47,206	-	-	-	47,206
Loans receivable	50,000	-	-	-	50,000
Due from other funds	17,428,004	2,800,000	1,765	372,603	20,602,372
Due from other governments	2,609,542	2,172,936	884,567	214,706	5,881,751
Prepaid items	-	-	13,096	-	13,096
Inventories	-	354,129	-	-	354,129
Leases receivable	1,250,000	-	-	-	1,250,000
Total Assets	**$ 23,505,046**	**$ 12,788,955**	**$ 9,238,741**	**$ 6,446,306**	**$ 51,979,048**
Liabilities, Deferred Inflows of Resources, and Fund Balances					
Liabilities					
Accounts payable	$ 93,144	$ 136,510	$ 198,318	$ 3,947	$ 431,919
Salaries payable	271,216	103,333	98,161	19,913	492,623
Contracts payable	-	2,698,397	-	-	2,698,397
Retainage payable	-	206,930	-	-	206,930
Due to other funds	1,765	853	17,940	3,172,999	3,193,557
Due to other governments	59,050	7,059	44,584	265,348	376,041
Total Liabilities	**$ 425,175**	**$ 3,153,082**	**$ 359,003**	**$ 3,462,207**	**$ 7,399,467**
Deferred Inflows of Resources					
Unavailable revenue – taxes	$ 91,345	$ 17,226	$ 28,246	$ 7,356	$ 144,173
Unavailable revenue – grants	5,848	1,700,581	-	214,706	1,921,135
Unavailable revenue – long-term receivables	1,240,000	-	-	578,989	1,818,989
Total Deferred Inflows of Resources	**$ 1,337,193**	**$ 1,717,807**	**$ 28,246**	**$ 801,051**	**$ 3,884,297**

EXHIBIT 3
(Continued)

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2018

	General	Road and Bridge	Human Services	Nonmajor Funds	Total
Liabilities, Deferred Inflows of Resources, and Fund Balances (Continued)					
Fund Balances					
Nonspendable					
Loans receivables	$ 50,000	$ -	$ -	$ -	$ 50,000
Inventories	-	354,129	-	-	354,129
Missing heirs	36,538	-	-	-	36,538
Restricted for					
Law library	59,462	-	-	-	59,462
Recorder's technology equipment	359,032	-	-	-	359,032
Enhanced 911	521,453	-	-	-	521,453
County property recorder's fee	336,345	-	-	-	336,345
Law and prosecutorial equipment	67,212	-	-	-	67,212
County roads	-	1,192,608	-	-	1,192,608
Election equipment	4,663	-	-	-	4,663
Sheriff's contingency fund	5,000	-	-	-	5,000
Title III forest	100,329	-	-	-	100,329
Invasive species	430,813	-	-	-	430,813
Debt service	-	-	-	686,885	686,885
VEGA grant	30,043	-	-	-	30,043
Committed to					
Rescue squad capital expenditures	25,019	-	-	-	25,019
Out-of-home placement costs	-	-	1,000,000	-	1,000,000
Unorganized townships					
Emergency services	-	-	-	201,232	201,232
Assigned to					
Capital assets	15,568	-	-	-	15,568
Wellness grant	463	-	-	-	463
Highways and streets	-	6,371,329	-	-	6,371,329
Human services	-	-	7,851,492	-	7,851,492
Resource development	-	-	-	1,434,716	1,434,716
Unassigned	19,700,738	-	-	(139,785)	19,560,953
Total Fund Balances	**$ 21,742,678**	**$ 7,918,066**	**$ 8,851,492**	**$ 2,183,048**	**$ 40,695,284**
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	**$ 23,505,046**	**$ 12,788,955**	**$ 9,238,741**	**$ 6,446,306**	**$ 51,979,048**

EXHIBIT 4

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION—GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2018

Fund balances – total governmental funds (Exhibit 3)		**$ 40,695,284**
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.		92,416,017
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		3,884,297
Deferred outflows of resources are not available resources and, therefore, are not reported in the governmental funds.		
Deferred other postemployment benefits outflows	$ 33,974	
Deferred pension outflows	2,872,361	2,906,335
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	$ (11,100,000)	
Capital leases payable	(482,123)	
Compensated absences	(1,533,324)	
Bond premium	(134,450)	
Net pension liability	(5,897,617)	
Net other postemployment benefits liability	(540,188)	
Accrued interest payable	(46,295)	(19,733,997)
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.		(4,661,620)
Net Position of Governmental Activities (Exhibit 1)		**$ 115,506,316**

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

EXHIBIT 5

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018**

	General	Road and Bridge	Human Services	Nonmajor Funds	Total
Revenues					
Taxes	$ 6,366,006	$ 2,686,819	$ 1,782,298	$ 620,678	$ 11,455,801
Licenses and permits	19,231	-	-	1,597	20,828
Intergovernmental	6,719,454	6,677,085	5,611,605	405,345	19,413,489
Charges for services	532,809	180,297	278,312	300	991,718
Fines and forfeits	13,100	-	-	-	13,100
Investment earnings	339,164	-	-	29,174	368,338
Gifts and contributions	-	-	-	1,935	1,935
Miscellaneous	292,708	570,247	54,429	1,110,798	2,028,182
Total Revenues	**$ 14,282,472**	**$ 10,114,448**	**$ 7,726,644**	**$ 2,169,827**	**$ 34,293,391**
Expenditures					
Current					
General government	$ 4,689,541	$ -	$ -	$ 7,043	$ 4,696,584
Public safety	5,087,416	-	-	140,548	5,227,964
Highways and streets	-	6,032,776	-	-	6,032,776
Sanitation	357,868	-	-	-	357,868
Human services	-	-	3,727,611	-	3,727,611
Health	-	-	3,769,260	-	3,769,260
Culture and recreation	737,830	-	-	205,615	943,445
Conservation of natural resources	177,451	-	-	782,600	960,051
Economic development	85,845	-	-	-	85,845
Capital outlay					
Highways and streets	-	4,548,028	-	-	4,548,028
Conservation of natural resources	-	-	-	27,962	27,962
Debt service					
Principal	-	25,993	-	496,667	522,660
Interest	-	2,099	-	187,222	189,321
Bond issuance costs	-	-	-	317,719	317,719
Administrative (fiscal) charges	-	-	-	475	475
Total Expenditures	**$ 11,135,951**	**$ 10,608,896**	**$ 7,496,871**	**$ 2,165,851**	**$ 31,407,569**
Excess of Revenues Over (Under) Expenditures	**$ 3,146,521**	**$ (494,448)**	**$ 229,773**	**$ 3,976**	**$ 2,885,822**

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

LAKE COUNTY
TWO HARBORS, MINNESOTA

EXHIBIT 5
(Continued)

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018

	General	Road and Bridge	Human Services	Nonmajor Funds	Total
Other Financing Sources (Uses)					
Transfers in	$ -	$ 2,800,000	$ -	$ 372,603	$ 3,172,603
Transfers out	-	-	-	(10,280,742)	(10,280,742)
Premium on bonds/notes issued	-	-	-	144,053	144,053
Proceeds from sale of bonds	-	-	-	10,000,000	10,000,000
Total Other Financing Sources (Uses)	**$ -**	**$ 2,800,000**	**$ -**	**$ 235,914**	**$ 3,035,914**
Net Change in Fund Balances	**$ 3,146,521**	**$ 2,305,552**	**$ 229,773**	**$ 239,890**	**$ 5,921,736**
Fund Balances – January 1	**18,596,157**	**5,413,177**	**8,621,719**	**1,943,158**	**34,574,211**
Increase (decrease) in inventories	**-**	**199,337**	**-**	**-**	**199,337**
Fund Balances – December 31	**$ 21,742,678**	**$ 7,918,066**	**$ 8,851,492**	**$ 2,183,048**	**$ 40,695,284**

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

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, 2018

Net change in fund balances – total governmental funds (Exhibit 5)		**$ 5,921,736**
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	$ 3,884,297	
Unavailable revenue – January 1	(4,575,858)	(691,561)
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	$ 7,783,504	
Net book value of assets sold	(136,498)	
Current year depreciation	(3,123,164)	4,523,842
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.		
Debt issued		
General obligation bonds issued	$ (10,000,000)	
Bond premium	(144,053)	
Principal repayments		
General obligation bonds	350,000	
Capital lease	173,481	
Amortization of premium	9,603	(9,610,969)
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	$ (27,881)	
Change in compensated absences	(199,769)	
Change in net pension liability	1,925,521	
Change in deferred pension outflows	(1,392,203)	
Change in deferred pension inflows	(186,487)	
Change in other postemployment benefits liability	(56,647)	
Change in other postemployment benefits outflows	33,974	
Change in inventories	199,337	295,845
Change in Net Position of Governmental Activities (Exhibit 2)		**$ 438,893**

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

PROPRIETARY FUND

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LAKE COUNTY
TWO HARBORS, MINNESOTA

EXHIBIT 7

STATEMENT OF NET POSITION
PROPRIETARY FUND
DECEMBER 31, 2018

		Broadband
Assets		
Current assets		
Taxes receivable	$	11,769
Accounts receivable		15,919
Restricted assets		
Bid deposits		100,000
Inventories		327,768
Capital assets		
Depreciable – net of accumulated depreciation		65,802,875
Total Assets	**$**	**66,258,331**
Liabilities		
Current liabilities		
Accounts payable	$	201,856
Due to other governments		6,456
Due to other funds		17,408,815
Bid deposits – current		100,000
Unearned revenue		1,551,931
Total current liabilities	**$**	**19,269,058**
Noncurrent liabilities		
Loans payable – noncurrent		48,500,694
Total Liabilities	**$**	**67,769,752**
Net Position		
Net investment in capital assets	$	17,302,181
Unrestricted		(18,813,602)
Total Net Position	**$**	**(1,511,421)**

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

LAKE COUNTY
TWO HARBORS, MINNESOTA

EXHIBIT 8

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2018

		Broadband
Operating Revenues		
Charges for services	$	3,976,108
Miscellaneous		68,920
Total Operating Revenues	**$**	**4,045,028**
Operating Expenses		
Contracted services	$	397,153
Administration and fiscal services		121,898
Real estate taxes		6,129
Supplies		1,665
Snowplowing		4,031
Utilities		69,899
Telephone		4
Fuel		19,750
Advertising		5,342
Consulting services		344,000
Insurance		19,643
Travel		6,853
Training		4,714
License and dues		4,188
Postage		23,922
Rent and leased equipment		89,727
Repairs and maintenance		390,764
Video and internet services		1,227,855
Bad debts		1,404
Miscellaneous		10,262
Other services and charges		17,986
Waste management		2,530
Depreciation		2,777,549
Total Operating Expenses	**$**	**5,547,268**
Operating Income (Loss)	**$**	**(1,502,240)**

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

LAKE COUNTY
TWO HARBORS, MINNESOTA

EXHIBIT 8
(Continued)

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2018

		Broadband
Nonoperating Revenues (Expenses)		
Taxes	$	467,852
Disparity aid		7,811
Taconite homestead credit		28,059
Market value credit		165
Interest income		7,032
Interest expense		(391)
Total Nonoperating Revenues (Expenses)	**$**	**510,528**
Income (Loss) Before Transfers	**$**	**(991,712)**
Transfers in		7,108,139
Change in Net Position	**$**	**6,116,427**
Net Position – January 1		**(7,627,848)**
Net Position – December 31	**$**	**(1,511,421)**

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

EXHIBIT 9

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2018

		Broadband
Cash Flows from Operating Activities		
Cash received from customers	$	4,018,321
Other operating revenues		68,920
Cash paid to suppliers		(2,998,984)
Net cash provided by (used in) operating activities	**$**	**1,088,257**
Cash Flows from Noncapital Financing Activities		
Market value credit	$	165
Taconite homestead credit		28,059
Taxes		477,239
Interest income		7,032
Interest expense		(397)
Net cash provided by (used in) noncapital financing activities	**$**	**512,098**
Cash Flows from Capital and Related Financing Activities		
Transfers from other funds	$	7,108,139
Acquisition of capital assets		(7,490,754)
Intergovernmental receipts		239,791
Repayment of advance		(1,357,531)
Net cash provided by (used in) capital and related financing activities	**$**	**(1,500,355)**
Net Increase (Decrease) in Cash and Cash Equivalents	**$**	**100,000**
Cash and Cash Equivalents at January 1		**-**
Cash and Cash Equivalents at December 31	**$**	**100,000**
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities		
Operating income (loss)	**$**	**(1,502,240)**
Adjustments to reconcile net operating income (loss) to net cash provided by (used in) operating activities		
Depreciation	$	2,777,549
(Increase) decrease in receivables		42,213
(Increase) decrease in inventories		143,303
Increase (decrease) in payables		(372,568)
Total adjustments	**$**	**2,590,497**
Net Cash Provided by (Used in) Operating Activities	**$**	**1,088,257**

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

FIDUCIARY FUNDS

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LAKE COUNTY
TWO HARBORS, MINNESOTA

EXHIBIT 10

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
DECEMBER 31, 2018

		Agency
Assets		
Cash and pooled investments	**$**	**1,234,314**
Liabilities		
Accounts payable	$	447,358
Due to other governments		711,301
Customer deposits – current		75,655
Total Liabilities	**$**	**1,234,314**

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

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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, 2018. 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:

Component Unit	Component Unit Included in Reporting Entity Because	Separate Financial Statements
Lake County Housing and Redevelopment Authority	The County appoints members, and the Authority is a potential financial burden.	Lake County Housing and Redevelopment Authority PO 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.

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 4.D. The County also participates in jointly-governed organizations described in Note 4.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 revenues. 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.

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.

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.

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, 2018. 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 2018 were $339,164 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.

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.

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:

Assets	Years
Buildings	5 – 50
Improvements other than buildings	8 – 20
Public domain infrastructure	50 – 75
Furniture, equipment, and vehicles	5 – 20

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.

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 post-retirement 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 ten 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 post-retirement 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 a 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 reports deferred outflows of resources only under the full accrual basis of accounting associated with defined benefit pension plans and other postemployment benefits (OPEB) 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 two types of deferred inflows. The governmental funds report unavailable revenue from delinquent taxes receivable, grant receivables, and long-term receivables. Unavailable revenue arises only under the modified accrual basis of accounting and, accordingly, is reported only in the

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)

governmental funds balance sheet. Unavailable revenue is deferred and recognized as an inflow of resources in the period that the amounts become available. The County also reports deferred inflows of resources associated with defined benefit pension plans. These inflows arise only under the full accrual basis of accounting 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.

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.

1. Summary of Significant Accounting Policies

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

11. Classification of Net Position (Continued)

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. 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.

1. Summary of Significant Accounting Policies

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

12. Classification of Fund Balances (Continued)

Assigned – amounts 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.

E. Change in Accounting Principles

During the year ended December 31, 2018, the County adopted new accounting guidance by implementing the provisions of GASB Statement 75. GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*,

1. Summary of Significant Accounting Policies

E. Change in Accounting Principles (Continued)

changes standards for recognizing and measuring OPEB liabilities and related deferred outflows of resources, deferred inflows of resources, and OPEB expense. This statement also requires additional note disclosures and a schedule in the required supplementary information. Beginning net position has been restated to reflect this change.

	Governmental Activities
Net Position, January 1, 2018, as previously reported	$ 115,107,400
Change in accounting principles	(39,977)
Net Position, January 1, 2018, as restated	$ 115,067,423

2. Stewardship, Compliance, and Accountability

A. Deficit Fund Equity

At December 31, 2018, the Forfeited Tax Special Revenue Fund had a deficit fund balance of $139,785. 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, 2018, expenditures exceeded appropriations in the following nonmajor funds:

	Final Budget	Expenditures	Excess
Special Revenue Funds			
Resource Development	$ 185,267	$ 392,843	$ 207,576
Unorganized Townships	116,250	147,591	31,341
Forfeited Tax	622,718	783,515	160,797
Debt Service Fund	681,289	841,902	160,613

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	$	22,993,852
Component unit		
Cash and pooled investments		874,766
Restricted cash for security deposits		17,842
Fiduciary funds		
Cash and pooled investments		1,234,314
Total Cash and Investments	$	25,120,774

a. Deposits

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

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, 2018, the County's deposits were not exposed to custodial credit risk.

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

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;

(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.

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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.

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.

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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, 2018, and information relating to potential investment risks:

	Credit Risk		Concentration Risk	Interest Rate Risk	
Investment Type	Credit Rating	Rating Agency	Over 5% of Portfolio	Maturity Date	Carrying (Fair) Value
U.S. government agency securities					
Federal Home Loan Mortgage Corporation Note	Aaa	Moody's	<5%	06/30/2021	$ 542,498
Negotiable certificates of deposit					
Comenity Bank	N/A	N/A	<5%	10/21/2019	$ 198,614
Customers Bank	N/A	N/A	<5%	08/21/2019	244,233
Worlds Foremost Bank	N/A	N/A	<5%	04/15/2020	98,654
Total negotiable certificates of deposit					$ 541,501
Investment pools/mutual funds					
MAGIC Fund	N/R	N/A	95.29%	N/A	$ 21,965,759
Total investments					$ 23,049,758
Deposits – primary government					1,138,770
Deposits – component unit					892,608
Petty cash and change funds					3,100
Escheat cash					36,538
Total Cash and Investments					$ 25,120,774

N/A – Not Applicable
N/R – Not Rated
<5% – Concentration is less than 5% of investments

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

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.

At December 31, 2018, Lake County had the following recurring fair value measurements.

		Fair Value Measurements Using		
	December 31, 2018	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	$ 542,498	$ -	$ 542,498	$ -
Negotiable certificates of deposit	541,501	-	541,501	-
Total Investments Included in the Fair Value Hierarchy	$ 1,083,999	$ -	$ 1,083,999	$ -
Investments measured at the net asset value (NAV)				
MAGIC Portfolio	21,965,759			
Total Investments	$ 23,049,758			

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

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.

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 NAV not reasonably practical.

2. Receivables

Receivables as of December 31, 2018, 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	$ 221,857	$ -
Due from other governments	5,881,751	-
Accounts	664,785	-
Interest	47,206	-
Loans receivable	50,000	50,000
Leases receivable	1,250,000	1,250,000
Total Governmental Activities	$ 8,115,599	$ 1,300,000

3. Detailed Notes on All Funds

A. Assets

2. Receivables (Continued)

	Total Receivables		Amounts Not Scheduled for Collection During the Subsequent Year	
Business-Type Activities				
Taxes	$	11,769	$	-
Accounts		15,919		-
Total Business-Type Activities	$	27,688	$	-

Loans Receivable

Loans receivable consist of outstanding loans to a township for a wastewater project facility plan.

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. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2018, was as follows:

Governmental Activities

	Beginning Balance	Increase	Decrease	Transfer/ Reclassification	Ending Balance
Capital assets not depreciated					
Land	$ 3,968,383	$ -	$ -	$ -	$ 3,968,383
Capital assets depreciated					
Buildings	$ 16,218,989	$ 4,582,998	$ -	$ -	$ 20,801,987
Improvements other than buildings	828,815	105,605	-	-	934,420
Machinery, furniture, and equipment	12,695,064	532,610	575,512	135,000	12,787,162
Infrastructure	107,724,759	2,427,291	-	-	110,152,050
Total capital assets depreciated	$ 137,467,627	$ 7,648,504	$ 575,512	$ 135,000	$ 144,675,619
Less: accumulated depreciation for					
Buildings	$ 7,915,898	$ 436,645	$ -	$ -	$ 8,352,543
Improvements other than buildings	581,850	39,462	-	-	621,312
Machinery, furniture, and equipment	11,206,857	514,984	439,014	19,285	11,302,112
Infrastructure	33,839,230	2,112,788	-	-	35,952,018
Total accumulated depreciation	$ 53,543,835	$ 3,103,879	$ 439,014	$ 19,285	$ 56,227,985
Total capital assets depreciated, net	$ 83,923,792	$ 4,544,625	$ 136,498	$ 115,715	$ 88,447,634
Governmental Activities Capital Assets, Net	$ 87,892,175	$ 4,544,625	$ 136,498	$ 115,715	$ 92,416,017

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

Business-Type Activities

	Beginning Balance	Increase	Decrease	Transfer/ Reclassification	Ending Balance
Capital assets depreciated					
Buildings	$ 761,879	$ -	$ -	$ -	$ 761,879
Improvements other than buildings	1,135,835	-	-	-	1,135,835
Machinery, furniture, and equipment	2,983,185	4,988	-	-	2,988,173
Infrastructure	72,837,969	191,500	-	(752,236)	72,277,233
Total capital assets depreciated	$ 77,718,868	$ 196,488	$ -	$ (752,236)	$ 77,163,120
Less: accumulated depreciation for					
Buildings	$ 84,626	$ 20,357	$ -	$ -	$ 104,983
Improvements other than buildings	163,811	34,042	-	-	197,853
Machinery, furniture, and equipment	1,638,682	423,278	-	-	2,061,960
Infrastructure	6,695,577	2,299,872	-	-	8,995,449
Total accumulated depreciation	$ 8,582,696	$ 2,777,549	$ -	$ -	$ 11,360,245
Business-Type Activities Capital Assets, Net	$ 69,136,172	$ (2,581,061)	$ -	$ (752,236)	$ 65,802,875

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

Governmental Activities	
General government	$ 293,170
Public safety	244,283
Highways and streets, including depreciation of infrastructure assets	2,413,490
Human services	4,139
Sanitation	10,674
Culture and recreation	109,535
Conservation of natural resources	28,588
Total Depreciation Expense – Governmental Activities	$ 3,103,879
Business-Type Activities	
Broadband	$ 2,777,549

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

Construction Commitments

The County's commitment with respect to an unfinished construction project as of December 31, 2018, is as follows:

Highway Transportation Building	$ 3,130,614

B. Interfund Receivables, Payables, and Transfers

1. Due To/From Other Funds

The composition of interfund balances as of December 31, 2018, is as follows:

Receivable Fund	Payable Fund	Amount	Purpose
General	Human Services Special Revenue	$ 17,940	Reimbursement for services
	Forfeited Tax Special Revenue	396	Tax forfeit apportionment
	Road and Bridge Special Revenue	853	Reimbursement for services
	Broadband Enterprise	17,408,815	Deficit cash balance
Total due to General Fund		$ 17,428,004	
Road and Bridge Special Revenue	Debt Service	2,800,000	Capital outlay purchases
Human Services	General	1,765	Reimbursement for services
Resource Development	Forfeited Tax Special Revenue	372,603	Tax forfeit apportionment
Total Due To/From Other Funds		$ 20,602,372	

3. Detailed Notes on All Funds

B. Interfund Receivables, Payables, and Transfers (Continued)

2. Interfund Transfers

Interfund transfers for the year ended December 31, 2018, consisted of the following:

Transfer to Resource Development Fund from Tax Forfeited Special Revenue Fund	$ 372,603	Tax forfeit apportionment
Transfer to Road and Bridge Special Revenue Fund from Debt Service Fund	2,800,000	Capital outlay purchases
Transfer to Broadband Enterprise Fund from Debt Service Fund	7,108,139	Court settlement payments
Total Transfers to Other Funds	$ 10,280,742	

C. Liabilities

1. Payables

Payables at December 31, 2018, were as follows:

	Governmental Activities	Business-Type Activities
Accounts payable	$ 431,919	$ 201,856
Salaries payable	492,623	-
Contracts payable	2,698,397	-
Retainage payable	206,930	-
Due to other governments	376,041	6,456
Total Payables	$ 4,205,910	$ 208,312

3. Detailed Notes on All Funds

C. Liabilities (Continued)

2. Long-Term Debt

Governmental Activities

Types of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2018
General obligation bonds					
G.O. Capital Improvement Refunding Bonds, Series 2014A	2030	$60,000 – $355,000	2.00 – 3.25	$ 2,410,000	$ 1,100,000
G.O. Judgement Bonds, Series 2018A	2033	$390,000 – $590,000	3.00 – 3.25	7,235,000	7,235,000
G.O. Capital Improvement Bonds, Series 2018B	2033	$115,000 – $235,000	3.00 – 3.50	2,765,000	2,765,000
Total General Obligation Bonds					$ 11,100,000
Other Long-Term Debt					
Capital lease – Land	2021	$146,667	3.25 – 5.375	$ 2,200,000	$ 439,997
Capital lease – Chieftain	2020	$14,302 – $27,823	3.70	178,065	42,126
Total Other Long-Term Debt					$ 482,123

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	$ 48,500,694

3. Detailed Notes on All Funds

C. Liabilities (Continued)

3. Debt Service Requirements

Debt service requirements at December 31, 2018, were as follows:

Governmental Activities

Year Ending December 31	General Obligation Bonds Principal	General Obligation Bonds Interest	Other Long-Term Debt Principal	Other Long-Term Debt Interest
2019	$ 860,000	$ 374,621	$ 174,490	$ 10,440
2020	610,000	320,944	160,970	6,387
2021	625,000	302,944	146,663	3,117
2022	645,000	284,194	-	-
2023	670,000	264,769	-	-
2024 – 2028	3,665,000	989,651	-	-
2029 – 2033	4,025,000	393,038	-	-
Total	$ 11,100,000	$ 2,930,161	$ 482,123	$ 19,944

Business-Type Activities

The debt service requirements for the Rural Utilities Service Broadband Loans at December 31, 2018, are not currently available.

4. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2018, was as follows:

Governmental Activities

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Bonds payable					
General obligation improvement refunding bonds	$ 1,450,000	$ -	$ 350,000	$ 1,100,000	$ 355,000
General obligation judgment bonds	-	7,235,000	-	7,235,000	390,000
General obligation capital improvement bond	-	2,765,000	-	2,765,000	115,000
Bond premium	-	144,053	9,603	134,450	-
Capital leases payable	655,604	-	173,481	482,123	174,490
Compensated absences	1,333,555	845,523	645,754	1,533,324	-
Governmental Activities Long-Term Liabilities	$ 3,439,159	$ 10,989,576	$ 1,178,838	$ 13,249,897	$ 1,034,490

3. Detailed Notes on All Funds

C. Liabilities

4. Changes in Long-Term Liabilities (Continued)

Business-Type Activities

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Broadband loans	$ 49,252,930	$ -	$ 752,236	$ 48,500,694	$ -

D. Other Postemployment Benefits (OPEB)

1. 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 two 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 three 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, 2018, there were no retirees using their sick leave balances for insurance premiums.

Active employees who retire from the County when eligible to receive a retirement benefit from PERA 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 retires 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, 2018, ten retirees were receiving health benefits from the County’s health plan, of which, four employees are under the age of 65 years old. The authority to provide these benefits is established in Minn. Stat. § 471.61, subd. 2a.

3. Detailed Notes on All Funds

D. Other Postemployment Benefits (OPEB)

1. Plan Description and Funding Policy (Continued)

The cost of OPEB is funded on a "pay-as-you-go" method.

No assets have been accumulated in a trust that meets the criteria in paragraph four of GASB 75. The OPEB plan does not issue a stand-alone financial report.

2. Total OPEB Liability

The County's total OPEB liability of $540,188 was measured as of January 1, 2018, and was determined by an actuarial valuation as of January 1, 2017.

The total OPEB liability in the fiscal year-end December 31, 2018, actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50 percent
Salary increases	3.00 percent, average wage inflation plus merit/productivity increases
Health care cost trend	6.25 percent, decreasing to 5.00 percent over five years

The current year discount rate is 3.30 percent, which is a change from the prior year rate of 3.50 percent. For the current valuation, GASB 75 requires liabilities to be discounted based on a tax-exempt, high-quality 20-year municipal bond index.

Mortality rates are based on RP-2014 adjusted to 2006 White Collar Mortality Tables with MP-2016 Generational Improvement Scale (with Blue Collar adjustment for Police and Fire personnel).

The actuarial assumptions are currently based on a combination of historical information and the most recent actuarial valuation for PERA as of June 30, 2018.

3. Detailed Notes on All Funds

D. Other Postemployment Benefits (OPEB) (Continued)

3. Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at December 31, 2017	$ 522,902
Changes for the year	
Service cost	$ 38,756
Interest	17,891
Benefit payments	(39,361)
Net change	$ 17,286
Balance at December 31, 2018	$ 540,188

4. OPEB Liability Sensitivity

The following presents the total OPEB liability of the County, calculated using the discount rate previously disclosed, as well as what the County's total OPEB liability would be if it were calculated using a discount rate that is 1.00 percentage point lower or 1.00 percentage point higher than the current discount rate:

	Discount Rate	Total OPEB Liability
1% Decrease	2.30%	$ 581,786
Current	3.30	540,188
1% Increase	4.30	501,495

The following presents the total OPEB liability of the County, calculated using the health care cost trend previously disclosed, as well as what the County's total OPEB liability would be if it were calculated using health care cost trend rates that are 1.00 percentage point lower or 1.00 percentage point higher than the current health care cost trend rate:

3. Detailed Notes on All Funds

D. Other Postemployment Benefits (OPEB)

4. OPEB Liability Sensitivity (Continued)

	Health Care Trend Rate	Total OPEB Liability
1% Decrease	5.25% Decreasing to 4.00%	$ 482,099
Current	6.25% Decreasing to 5.00%	540,188
1% Increase	7.25% Decreasing to 6.00%	608,622

5. OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended December 31, 2018, the County recognized OPEB expense of $56,647. The County reported deferred outflows of resources and no deferred inflows of resources related to OPEB for this same time period.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions paid subsequent to measurement date	$ 33,974	$ -

6. Changes in Actuarial Methods and Assumptions

The following changes in actuarial assumptions occurred in 2018:

- The discount rate used changed from 3.50 percent to 3.30 percent.
- The actuarial cost method was changed from projected unit credit to entry age as prescribed by GASB 75.

3. Detailed Notes on All Funds (Continued)

E. Pension Plans

1. Defined Benefit Pension Plans

a. 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 General Employees Plan), the Public Employees Police and Fire Plan (the Police and Fire Plan), and the Public Employees Local Government Correctional Service Retirement Plan (the 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.

The General Employees 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 Plan in 2015. All new members must participate in the Coordinated Plan, for which benefits vest after five years of credited service. No Lake County employees belong to either the Basic Plan or the Minneapolis Employees Retirement Fund.

Police officers, firefighters, and peace officers who qualify for membership by statute are covered by the 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 basis starting with 50 percent after five years and increasing ten percent for each year of service until fully vested after ten years. Benefits for members first hired after June 30, 2014, vest on a prorated basis from 50 percent after ten years and increasing 5.00 percent for each year of service until fully vested after 20 years.

3. Detailed Notes on All Funds

E. Pension Plans

1. Defined Benefit Pension Plans

a. Plan Description (Continued)

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 Correctional Plan (accounted for in the Correctional Fund). For members hired after June 30, 2010, benefits vest on a prorated basis starting with 50 percent after five years and increasing ten percent for each year of service until fully vested after ten years.

b. 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 Plan and Police and Fire Plan benefit recipients receive a future annual 1.00 percent for the post-retirement benefit increase, while Correctional Plan benefit recipients receive 2.50 percent. If the funding ratio reaches 90 percent for two consecutive years, the benefit increase will be 2.50 percent. If, after reverting to a 2.50 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 1.00 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 60 consecutive months of allowable service, age, and years of credit at termination of service. In the General Employees Plan, two methods are used to compute benefits for Coordinated Plan members. Members hired prior to July 1, 1989, receive the

3. Detailed Notes on All Funds

E. Pension Plans

1. Defined Benefit Pension Plans

b. Benefits Provided (Continued)

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 Coordinated Plan member is 1.20 percent of average salary for each of the first ten years of service and 1.70 percent of average salary for each remaining year. Under Method 2, the annuity accrual rate is 1.70 percent for Coordinated Plan members for each year of service. Only Method 2 is used for members hired after June 30, 1989. For Police and Fire Plan members, the annuity accrual rate is 3.00 percent of average salary for each year of service. For Correctional Plan members, the annuity accrual rate is 1.90 percent of average salary for each year of service.

For General Employees 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 Police and Fire Plan and 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.

c. 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 Plan members were required to contribute 6.50 percent of their annual covered salary in 2018. Police and Fire Plan members were required to contribute 10.80 percent of their annual covered salary in 2018. Correctional Plan members were required to contribute 5.83 percent of their annual covered salary in 2018.

3. Detailed Notes on All Funds

E. Pension Plans

1. Defined Benefit Pension Plans

c. Contributions (Continued)

In 2018, the County was required to contribute the following percentages of annual covered salary:

General Employees Plan – Coordinated Plan members	7.50%
Police and Fire Plan	16.20
Correctional Plan	8.75

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

The County's contributions for the year ended December 31, 2018, to the pension plans were:

General Employees Plan	$	421,704
Police and Fire Plan		199,512
Correctional Plan		51,881

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

d. Pension Costs

General Employees Plan

At December 31, 2018, the County reported a liability of $4,615,595 for its proportionate share of the General Employees Plan's net pension liability. The net pension liability was measured as of June 30, 2018, 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, 2017, through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2018, the County's proportion

3. Detailed Notes on All Funds

E. Pension Plans

1. Defined Benefit Pension Plans

d. Pension Costs

General Employees Plan (Continued)

was 0.0832 percent. It was 0.0853 percent measured as of June 30, 2017. The County recognized pension expense of $312,629 for its proportionate share of the General Employees Plan's pension expense.

The County also recognized $35,335 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 Plan, which qualifies as a special funding situation. Legislation requires the State of Minnesota to contribute $16 million to the General Employees Plan for the fiscal years ended June 30, 2018 and 2019, and $6 million thereafter, through calendar year 2031.

The County's proportionate share of the net pension liability	$	4,615,595
State of Minnesota's proportionate share of the net pension liability associated with the County		151,525
Total	$	4,767,120

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

3. Detailed Notes on All Funds

E. Pension Plans

1. Defined Benefit Pension Plans

d. Pension Costs

General Employees Plan (Continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 125,112	$ 142,059
Changes in actuarial assumptions	465,284	527,570
Difference between projected and actual investment earnings	-	449,464
Changes in proportion	-	272,004
Contributions paid to PERA subsequent to the measurement date	207,938	-
Total	$ 798,334	$ 1,391,097

The $207,938 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, 2019. 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
2019	$ 38,463
2020	(329,107)
2021	(413,722)
2022	(96,335)

3. Detailed Notes on All Funds

E. Pension Plans

1. Defined Benefit Pension Plans

d. Pension Costs (Continued)

Police and Fire Plan

At December 31, 2018, the County reported a liability of $1,234,309 for its proportionate share of the Police and Fire Plan's net pension liability. The net pension liability was measured as of June 30, 2018, 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, 2017, through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2018, the County's proportion was 0.1158 percent. It was 0.1170 percent measured as of June 30, 2017. The County recognized pension expense of $114,694 for its proportionate share of the Police and Fire Plan's pension expense.

The County also recognized $10,422 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 Police and Fire Plan. Legislation requires the State of Minnesota to contribute $9 million to the 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 Police and Fire Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

3. Detailed Notes on All Funds

E. Pension Plans

1. Defined Benefit Pension Plans

d. Pension Costs

Police and Fire Plan (Continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 50,048	$ 330,144
Changes in actuarial assumptions	1,643,217	1,835,465
Difference between projected and actual investment earnings	-	235,344
Changes in proportion	7,201	246,232
Contributions paid to PERA subsequent to the measurement date	99,337	-
Total	$ 1,799,803	$ 2,647,185

The $99,337 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, 2019. 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
2019	$ (54,185)
2020	(119,513)
2021	(218,295)
2022	(547,958)
2023	(6,768)

3. Detailed Notes on All Funds

E. Pension Plans

1. Defined Benefit Pension Plans

d. Pension Costs (Continued)

Correctional Plan

At December 31, 2018, the County reported a liability of $47,713 for its proportionate share of the Correctional Plan's net pension liability. The net pension liability was measured as of June 30, 2018, 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, 2017, through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2018, the County's proportion was 0.2901 percent. It was 0.2800 percent measured as of June 30, 2017. The County recognized pension expense of ($55,298) for its proportionate share of the Correctional Plan's pension expense.

The County reported its proportionate share of the 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	$ 2,488	$ 4,923
Changes in actuarial assumptions	224,990	548,332
Difference between projected and actual investment earnings	-	51,431
Changes in proportion	21,589	18,652
Contributions paid to PERA subsequent to the measurement date	25,157	-
Total	$ 274,224	$ 623,338

3. Detailed Notes on All Funds

E. Pension Plans

1. Defined Benefit Pension Plans

d. Pension Costs

Correctional Plan (Continued)

The $25,157 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, 2019. 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
2019	$ 23,223
2020	(211,325)
2021	(176,178)
2022	(9,991)

Total Pension Expense

The total pension expense for all plans recognized by the County for the year ended December 31, 2018, was $372,025.

e. Actuarial Assumptions

The total pension liability in the June 30, 2018, 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

3. Detailed Notes on All Funds

E. Pension Plans

1. Defined Benefit Pension Plans

e. 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. Cost of living benefit increases for retirees are assumed to be 1.25 percent for the General Employees Plan and 2.00 percent for the Correctional Plan. For the Police and Fire Plan, cost of living benefit increases for retirees are 1.00 percent as set by state statute.

Actuarial assumptions used in the June 30, 2018, valuation were based on the results of actuarial experience studies. The experience study for the General Employees Plan was dated June 30, 2015. The experience study for the Police and Fire Plan was dated August 30, 2016. The experience study for the Correctional Plan was dated February 2012. Economic assumptions were updated in 2017 based on a review of inflation and investment return assumptions.

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 rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

3. Detailed Notes on All Funds

E. Pension Plans

1. Defined Benefit Pension Plans

e. Actuarial Assumptions (Continued)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic stocks	36%	5.10%
International stocks	17	5.30
Bonds (fixed income)	20	0.75
Alternative assets (private markets)	25	5.90
Cash	2	0.00

f. Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent in 2018, which remained consistent with 2017. 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 Plan, the Police and Fire Plan, and the Correctional 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.

g. Changes in Actuarial Assumptions and Plan Provisions

The following changes in actuarial assumptions occurred in 2018:

General Employees Plan

- The mortality projection scale was changed from MP-2015 to MP-2017.

- The assumed benefit increase rate was changed from 1.00 percent per year through 2044 and 2.50 percent per year thereafter, to 1.25 percent per year.

3. Detailed Notes on All Funds

E. Pension Plans

1. Defined Benefit Pension Plans

g. Changes in Actuarial Assumptions and Plan Provisions (Continued)

Police and Fire Plan

- The mortality projection scale was changed from MP-2016 to MP-2017.
- Post-retirement benefit increases changed to 1.00 percent for all years, with no trigger.
- An end date of July 1, 2048, was added to the existing $9.0 million state contribution. Additionally, annual state aid will equal $4.5 million in fiscal years 2019 and 2020, and $9.0 million thereafter, until the plan reaches 100 percent funding, or July 1, 2048, if earlier.
- Member contributions were changed effective January 1, 2019, and January 1, 2020, from 10.80 percent to 11.30 and 11.80 percent of pay, respectively. Employer contributions were changed effective January 1, 2019, and January 1, 2020, from 16.20 percent to 16.95 and 17.70 percent of pay, respectively. Interest credited on member contributions decreased from 4.00 percent to 3.00 percent, beginning July 1, 2018.
- Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

Correctional Plan

- The single discount rate was changed from 5.96 percent per annum to 7.50 percent per annum.
- The mortality projection scale was changed from MP-2016 to MP-2017.

3. Detailed Notes on All Funds

E. Pension Plans

1. Defined Benefit Pension Plans

g. Changes in Actuarial Assumptions and Plan Provisions

Correctional Plan (Continued)

- The assumed post-retirement benefit increase was changed from 2.50 percent per year to 2.00 percent per year.

h. Pension Liability Sensitivity

The following presents the County's proportionate share of the net pension liability calculated using the discount rate previously 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 1.00 percentage point lower or 1.00 percentage point higher than the current discount rate:

	Proportionate Share of the					
	General Employees Plan		Police and Fire Plan		Correctional Plan	
	Discount Rate	Net Pension Liability	Discount Rate	Net Pension Liability	Discount Rate	Net Pension Liability
1% Decrease	6.50%	$ 7,500,933	6.50%	$ 2,646,435	6.50%	$ 408,339
Current	7.50	4,615,595	7.50	1,234,309	7.50	47,713
1% Increase	8.50	2,233,831	8.50	66,539	8.50	(240,777)

i. Pension Plan Fiduciary Net Position

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

3. Detailed Notes on All Funds

E. Pension Plans (Continued)

2. Defined Contribution Plan

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

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

Total contributions by dollar amount and percentage of covered payroll made by Lake County during the year ended December 31, 2018, were:

	Employee	Employer
Contribution amount	$ 9,895	$ 9,895
Percentage of covered payroll	5.00%	5.00%

F. Postemployment Health Care Plans

1. Minnesota State Retirement System (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

3. Detailed Notes on All Funds

   F. Postemployment Health Care Plans

      1. Minnesota State Retirement System (MSRS) Health Care Savings Plan (Continued)

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.

Under Lake County's plan, both unionized and non-represented employees are required to contribute, at retirement, a lump sum of ten 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.

      2. Voluntary Employees' Beneficiary Association (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.

3. Detailed Notes on All Funds

F. Postemployment Health Care Plans

2. Voluntary Employees' Beneficiary Association (VEBA) Plan (Continued)

In 2018, 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.

4. 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.

4. Summary of Significant Contingencies and Other Items

A. Risk Management (Continued)

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 2018 and 2019. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

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

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

	Year Ended December 31	
	2018	2017
Unpaid claims, beginning of fiscal year	$ -	$ -
Incurred claims (including incurred but not reported)	130,121	137,337
Claims payments	(130,121)	(137,337)
Unpaid Claims, End of Fiscal Year	$ -	$ -

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

B. Contingent Liabilities

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

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

C. 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.

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, which was established pursuant to the Community Corrections Act, Minn. Stat. §§ 401.01-.16.

The Arrowhead Regional Corrections 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.

4. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Arrowhead Regional Corrections (Continued)

Arrowhead Regional Corrections is governed by an eight-member Board, composed of one member appointed from the Board of Commissioners of each of the participating counties, 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 $625,152 in funding during 2018.

Separate financial information can be obtained from:

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

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

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

The Community Health Board is composed of nine members. The Carlton, Cook, and Lake County Boards of Commissioners each appoint two members; the St. Louis County Board of Commissioners appoints three members. Financing is obtained through federal and state grants. Lake County provided no funding to this organization in 2018.

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

4. Summary of Significant Contingencies and Other Items

D. Joint Ventures (Continued)

Northeast Minnesota Office of Job Training

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

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

Separate financial information can be obtained from:

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

Minnesota Counties Information Systems (MCIS)

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

4. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Minnesota Counties Information Systems (MCIS) (Continued)

Separate financial information can be obtained from:

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

Northern Counties Land Use Coordinating Board

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

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

Lake County provided no funding to this organization during 2018.

Separate financial information can be obtained from:

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

4. Summary of Significant Contingencies and Other Items

D. Joint Ventures (Continued)

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, 2018, is as follows:

Total Assets	$	219,583
Total Liabilities		219,583

Separate financial information can be obtained from:

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

Arrowhead Health Alliance

Carlton, Cook, Koochiching, Lake, and St. Louis 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.

4. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Arrowhead Health Alliance (Continued)

Lake County contributed $78,697 in start-up funds to the Arrowhead Health Alliance in 2007. Lake County provided no further funding in 2018.

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 2018.

Separate financial information can be obtained from:

Itasca County
123 Northeast 4th Street
Grand Rapids, Minnesota 55744-2847

4. Summary of Significant Contingencies and Other Items

D. Joint Ventures (Continued)

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 Lake and St. Louis 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 2018.

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. Lake County contributed $2,500 to the Board in 2018.

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 Authority, and all of its financial transactions

4. Summary of Significant Contingencies and Other Items

D. Joint Ventures

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

are recorded in the Regional Railroad Authority Agency Fund. Financing is obtained through a tax levy and federal, state, and local grants or participation. Lake County did not contribute to the Authority during 2018.

Separate financial information can be obtained from:

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

5. Subsequent Events

In December 2018, Lake County approved the sale of Lake Connections, its business-type activity of providing broadband infrastructure to the residents of Lake County, to Pinpoint Holdings, Inc., for $8,400,000. The sale was finalized in June 2019.

In February 2019, Lake County issued $1,400,000 in General Obligation Capital Improvement Bonds, Series 2019A. The proceeds of the bonds will be used to fund the completion of the County highway maintenance facility.

6. 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.

6. 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.

6. 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.

6. 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:

Assets	Years
Buildings and structures	25 – 40
Equipment	7

6. 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	$	782,668
Cash with management company for operations		92,098
Restricted cash with management company for security deposits		17,842
Total Cash	$	892,608

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.

6. 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, 2018, the Authority's deposits were not exposed to custodial credit risk.

Capital Assets

Capital asset activity for the year ended December 31, 2018, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets depreciated				
Buildings and structures	$ 1,886,572	$ 2,160	$ -	$ 1,888,732
Equipment	44,844	8,527	-	53,371
Total capital assets depreciated	$ 1,931,416	$ 10,687	$ -	$ 1,942,103
Less: accumulated depreciation for				
Buildings and structures	$ 972,918	$ 48,469	$ -	$ 1,021,387
Equipment	23,030	5,583	-	28,613
Total accumulated depreciation	$ 995,948	$ 54,052	$ -	$ 1,050,000
Capital Assets, Net	$ 935,468	$ (43,365)	$ -	$ 892,103

6. Component Unit Disclosures

B. Detailed Notes on All Funds

1. Assets

Capital Assets (Continued)

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

Business-Type Activities	
Senior housing	$ 54,052

2. Liabilities

Long-Term Debt

Business-Type Activities

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2018
2012 General Obligation Senior Housing Bonds	2027	Varies	1.0 – 3.5	$ 860,000	$ 515,000

6. Component Unit Disclosures

B. Detailed Notes on All Funds

2. Liabilities (Continued)

Debt Service Requirements

Debt service requirements at December 31, 2018, were as follows:

Business-Type Activities

Year Ending December 31	Revenue Bonds Principal	Revenue Bonds Interest
2019	$ 55,000	$ 15,594
2020	55,000	14,356
2021	60,000	13,050
2022	60,000	11,613
2023	60,000	10,038
2024 – 2027	225,000	22,506
Totals	$ 515,000	$ 87,157

Changes in Long-Term Liabilities

Business-Type Activities

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Bonds payable					
2012 General Obligation Senior Housing Bonds	$ 570,000	$ -	$ 55,000	$ 515,000	$ 55,000
Less: unamortized discount	(7,222)	-	(803)	(6,419)	-
Total Bonds Payable	$ 562,778	$ -	$ 54,197	$ 508,581	$ 55,000

6. Component Unit Disclosures (Continued)

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, 2018

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 6,798,259	$ 6,798,259	$ 6,366,006	$ (432,253)
Licenses and permits	12,500	12,500	19,231	6,731
Intergovernmental	4,555,277	4,555,277	6,719,454	2,164,177
Charges for services	394,810	394,810	532,809	137,999
Fines and forfeits	3,000	3,000	13,100	10,100
Investment earnings	60,764	60,764	339,164	278,400
Miscellaneous	101,487	101,487	292,708	191,221
Total Revenues	**$ 11,926,097**	**$ 11,926,097**	**$ 14,282,472**	**$ 2,356,375**
Expenditures				
Current				
General government				
Commissioners	$ 327,687	$ 327,687	$ 282,965	$ 44,722
Courts	51,100	51,100	34,465	16,635
Law library	10,000	10,000	4,614	5,386
County administration	329,188	329,188	299,147	30,041
County auditor	668,053	668,053	518,900	149,153
County assessor	519,582	519,582	471,641	47,941
Elections	21,709	21,709	35,997	(14,288)
Accounting and auditing	93,000	93,000	74,080	18,920
Data processing	716,147	716,147	684,240	31,907
Personnel	218,314	218,314	197,687	20,627
Attorney	415,292	415,292	416,671	(1,379)
Recorder	253,894	253,894	217,239	36,655
Planning and zoning	501,389	501,389	476,934	24,455
Buildings and plant	777,534	777,534	845,074	(67,540)
Veterans service officer	92,195	92,195	101,368	(9,173)
Motor pool	24,078	24,078	28,519	(4,441)
Total general government	**$ 5,019,162**	**$ 5,019,162**	**$ 4,689,541**	**$ 329,621**
Public safety				
Sheriff	$ 2,393,133	$ 2,393,133	$ 2,296,337	$ 96,796
Ambulance	541,295	541,295	504,426	36,869
Emergency services	86,903	86,903	92,929	(6,026)
Coroner	37,500	37,500	23,231	14,269
County jail	1,146,475	1,146,475	1,041,389	105,086
Community corrections	623,653	623,653	627,215	(3,562)
Sentence to serve	98,508	98,508	90,785	7,723
Emergency management	111,149	111,149	169,044	(57,895)
Other public safety	127,342	127,342	242,060	(114,718)
Total public safety	**$ 5,165,958**	**$ 5,165,958**	**$ 5,087,416**	**$ 78,542**

The notes to the required supplementary information are an integral part of this schedule.

LAKE COUNTY
TWO HARBORS, MINNESOTA

EXHIBIT A-1
(Continued)

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2018

	Budgeted Amounts							
	Original		Final		Actual Amounts		Variance with Final Budget	
Expenditures								
Current (Continued)								
Sanitation								
Solid waste	$	207,781	$	207,781	$	166,048	$	41,733
Recycling		189,899		189,899		178,660		11,239
Hazardous waste		24,000		24,000		13,160		10,840
Total sanitation	**$**	**421,680**	**$**	**421,680**	**$**	**357,868**	**$**	**63,812**
Culture and recreation								
Historical society	$	35,000	$	35,000	$	35,000	$	-
Arenas		161,659		161,659		156,325		5,334
Humane Society		3,500		3,500		3,500		-
Memorial Day observance		3,000		3,000		3,000		-
Recreation board		153,685		153,685		153,974		(289)
Trails		-		-		263,731		(263,731)
County/regional library		122,300		122,300		122,300		-
Total culture and recreation	**$**	**479,144**	**$**	**479,144**	**$**	**737,830**	**$**	**(258,686)**
Conservation of natural resources								
County extension	$	68,468	$	68,468	$	63,728	$	4,740
Soil and water conservation		60,597		60,597		66,211		(5,614)
Agricultural society/County fair		21,277		21,277		23,205		(1,928)
Water planning		4,571		4,571		4,571		-
CWP project		14,488		14,488		14,736		(248)
Wetland challenge		5,000		5,000		5,000		-
Total conservation of natural resources	**$**	**174,401**	**$**	**174,401**	**$**	**177,451**	**$**	**(3,050)**
Economic development								
Information centers	$	13,000	$	13,000	$	13,000	$	-
Airports		13,500		13,500		10,500		3,000
Housing and Redevelopment Authority		-		-		59,345		(59,345)
Other economic development		-		-		3,000		(3,000)
Total economic development	**$**	**26,500**	**$**	**26,500**	**$**	**85,845**	**$**	**(59,345)**
Total Expenditures	**$**	**11,286,845**	**$**	**11,286,845**	**$**	**11,135,951**	**$**	**150,894**
Net Change in Fund Balance	**$**	**639,252**	**$**	**639,252**	**$**	**3,146,521**	**$**	**2,507,269**
Fund Balance – January 1		**18,596,157**		**18,596,157**		**18,596,157**		**-**
Fund Balance – December 31	**$**	**19,235,409**	**$**	**19,235,409**	**$**	**21,742,678**	**$**	**2,507,269**

The notes to the required supplementary information are an integral part of this schedule.

LAKE COUNTY
TWO HARBORS, MINNESOTA

EXHIBIT A-2

BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2018

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 2,302,124	$ 2,302,124	$ 2,686,819	$ 384,695
Intergovernmental	4,796,694	4,796,694	6,677,085	1,880,391
Charges for services	59,000	59,000	180,297	121,297
Miscellaneous	141,000	141,000	570,247	429,247
Total Revenues	**$ 7,298,818**	**$ 7,298,818**	**$ 10,114,448**	**$ 2,815,630**
Expenditures				
Current				
Highways and streets				
Administration	$ 395,864	$ 395,864	$ 374,503	$ 21,361
Maintenance	2,238,223	2,238,223	1,613,958	624,265
Construction	4,182,185	4,182,185	3,167,468	1,014,717
Equipment maintenance and shop	735,081	735,081	876,847	(141,766)
Total highways and streets	**$ 7,551,353**	**$ 7,551,353**	**$ 6,032,776**	**$ 1,518,577**
Capital outlay				
Highways and streets	**$ -**	**$ -**	**$ 4,548,028**	**$ (4,548,028)**
Debt service				
Principal	$ 35,000	$ 35,000	$ 25,993	$ 9,007
Interest	-	-	2,099	(2,099)
Total debt service	**$ 35,000**	**$ 35,000**	**$ 28,092**	**$ 6,908**
Total Expenditures	**$ 7,586,353**	**$ 7,586,353**	**$ 10,608,896**	**$ (3,022,543)**
Excess of Revenues Over (Under) Expenditures	**$ (287,535)**	**$ (287,535)**	**$ (494,448)**	**$ (206,913)**
Other Financing Sources (Uses)				
Transfers in	7,500	7,500	2,800,000	2,792,500
Net Change in Fund Balance	**$ (280,035)**	**$ (280,035)**	**$ 2,305,552**	**$ 2,585,587**
Fund Balance – January 1	**5,413,177**	**5,413,177**	**5,413,177**	**-**
Increase (decrease) in inventories	**-**	**-**	**199,337**	**199,337**
Fund Balance – December 31	**$ 5,133,142**	**$ 5,133,142**	**$ 7,918,066**	**$ 2,784,924**

The notes to the required supplementary information are an integral part of this schedule.

LAKE COUNTY
TWO HARBORS, MINNESOTA

EXHIBIT A-3

BUDGETARY COMPARISON SCHEDULE
HUMAN SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2018

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 1,911,499	$ 1,911,499	$ 1,782,298	$ (129,201)
Intergovernmental	4,587,068	4,587,068	5,611,605	1,024,537
Charges for services	337,781	337,781	278,312	(59,469)
Miscellaneous	23,350	23,350	54,429	31,079
Total Revenues	**$ 6,859,698**	**$ 6,859,698**	**$ 7,726,644**	**$ 866,946**
Expenditures				
Current				
Human services				
Income maintenance	$ 1,036,237	$ 1,036,237	$ 976,842	$ 59,395
Social services	2,884,218	2,884,218	2,750,769	133,449
Total human services	**$ 3,920,455**	**$ 3,920,455**	**$ 3,727,611**	**$ 192,844**
Health				
Nursing service	$ 106,513	$ 106,513	$ 76,161	$ 30,352
Transportation	93,735	93,735	92,739	996
Environmental health	111,441	111,441	108,165	3,276
Mental health	2,568,272	2,568,272	3,195,596	(627,324)
Health education	268,761	268,761	296,599	(27,838)
Total health	**$ 3,148,722**	**$ 3,148,722**	**$ 3,769,260**	**$ (620,538)**
Total Expenditures	**$ 7,069,177**	**$ 7,069,177**	**$ 7,496,871**	**$ (427,694)**
Net Change in Fund Balance	**$ (209,479)**	**$ (209,479)**	**$ 229,773**	**$ 439,252**
Fund Balance – January 1	**8,621,719**	**8,621,719**	**8,621,719**	**-**
Fund Balance – December 31	**$ 8,412,240**	**$ 8,412,240**	**$ 8,851,492**	**$ 439,252**

The notes to the required supplementary information are an integral part of this schedule.

EXHIBIT A-4

SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS
OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2018

	2018
Total OPEB Liability	
Service cost	$ 38,756
Interest	17,891
Benefit payments	(39,361)
Net change in total OPEB liability	**$ 17,286**
Total OPEB Liability – Beginning	**522,902**
Total OPEB Liability – Ending	**$ 540,188**
Covered-employee payroll	$ 6,963,854
Total OPEB liability (asset) as a percentage of covered-employee payroll	7.76%

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.

The notes to the required supplementary information are an integral part of this schedule.

LAKE COUNTY
TWO HARBORS, MINNESOTA

EXHIBIT A-5

SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA GENERAL EMPLOYEES RETIREMENT PLAN
DECEMBER 31, 2018

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	State's Proportionate Share of the Net Pension Liability Associated with Lake County (b)	Employer's Proportionate Share of the Net Pension Liability and the State's Related Share of the Net Pension Liability (Asset) (a + b)	Covered Payroll (c)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2018	0.0832 %	$ 4,615,595	$ 151,525	$ 4,767,120	$ 5,594,427	82.50 %	79.53 %
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, 2018

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)
2018	$ 421,704	$ 421,704	$ -	$ 5,622,720	7.50 %
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.
The 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, 2018

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
2018	0.1158 %	$ 1,234,309	$ 1,220,179	101.16 %	88.84 %
2017	0.1170	1,579,639	1,199,741	131.67	85.43
2016	0.1240	4,976,336	1,195,000	416.43	63.88
2015	0.1320	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, 2018

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)
2018	$ 199,512	$ 199,512	$ -	$ 1,231,556	16.20 %
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.
The 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 LOCAL GOVERNMENT CORRECTIONAL SERVICE RETIREMENT PLAN
DECEMBER 31, 2018

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
2018	0.2901 %	$ 47,713	$ 592,526	8.05 %	97.64 %
2017	0.2800	798,003	554,689	143.86	67.89
2016	0.2900	1,059,410	548,503	193.15	58.16
2015	0.3000	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.

EXHIBIT A-10

SCHEDULE OF CONTRIBUTIONS
PERA PUBLIC EMPLOYEES LOCAL GOVERNMENT CORRECTIONAL SERVICE RETIREMENT PLAN
DECEMBER 31, 2018

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)
2018	$ 51,881	$ 51,881	$ -	$ 592,926	8.75 %
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.
The County's year-end is December 31.

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LAKE COUNTY
TWO HARBORS, MINNESOTA

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2018

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, 2018:

	Expenditures	Final Budget	Excess
Major governmental funds			
General Fund			
Current			
General government			
Elections	$ 35,997	$ 21,709	$ 14,288
Attorney	416,671	415,292	1,379
Buildings and plant	845,074	777,534	67,540
Veterans service officer	101,368	92,195	9,173
Motor pool	28,519	24,078	4,441
Public safety			
Emergency services	92,929	86,903	6,026
Community corrections	627,215	623,653	3,562
Emergency management	169,044	111,149	57,895
Other public safety	242,060	127,342	114,718

2. Excess of Expenditures Over Appropriations (Continued)

	Expenditures	Final Budget	Excess
Major governmental funds			
General Fund			
Current (Continued)			
Culture and recreation			
Recreation board	153,974	153,685	289
Trails	263,731	-	263,731
Conservation of natural resources			
Soil and water conservation	66,211	60,597	5,614
Agricultural society/County fair	23,205	21,277	1,928
CWP project	14,736	14,488	248
Economic development			
Housing and Redevelopment Authority	59,345	-	59,345
Other economic development	3,000	-	3,000
Road and Bridge Special Revenue Fund			
Current			
Highways and streets			
Equipment maintenance and shop	876,847	735,081	141,766
Capital Outlay			
Highways and streets	4,548,028	-	4,548,028
Debt service			
Interest	2,099	-	2,099
Human Services Special Revenue Fund			
Current			
Health			
Mental health	3,195,596	2,568,272	627,324
Health education	296,599	268,761	27,838

3. Other Postemployment Benefits Funded Status

In 2018, Lake County implemented Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. See Note 3.D. in the notes to the financial statements for additional information regarding the County's other postemployment benefits.

4. Employer Contributions to Other Postemployment Benefits

Assets have not been accumulated in a trust that meets the criteria in paragraph four of GASB Statement 75 to pay related benefits.

4. Employer Contributions to Other Postemployment Benefits (Continued)

The following changes in actuarial methods and assumptions occurred in 2018:

- The discount rate was changed from 3.50 percent to 3.30 percent.
- The actuarial cost method was changed from projected unit credit to entry age as prescribed by GASB 75.

5. 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 fiscal year June 30:

General Employees Retirement Plan

2018

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed benefit increase rate was changed from 1.00 percent per year through 2044 and 2.50 percent per year thereafter, to 1.25 percent per year.

2017

- The Combined Service Annuity (CSA) loads were changed from 0.80 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 0.00 percent for active member liability, 15 percent for vested deferred member liability, and 3.00 percent for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year for all years to 1.00 percent per year through 2044 and 2.50 percent per year thereafter.

5. Defined Benefit Pension Plans – Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions

General Employees Retirement Plan

2017 (Continued)

- Minneapolis Employees Retirement Fund plan provisions change the employer supplemental contribution to $21 million in calendar years 2017 and 2018 and returns to $31 million through calendar year 2031. The state's required contribution is $16 million in PERA's fiscal years 2018 and 2019, and returns to $6 million 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.

Public Employees Police and Fire Plan

2018

- The mortality projection scale was changed from MP-2016 to MP-2017.

- Post-retirement benefit increases changed to 1.00 percent for all years, with no trigger.

- An end date of July 1, 2048, was added to the existing $9.0 million state contribution. Additionally, annual state aid will equal $4.5 million in fiscal years 2019 and 2020, and $9.0 million thereafter, until the plan reaches 100 percent funding, or July 1, 2048, if earlier.

5. Defined Benefit Pension Plans – Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions

Public Employees Police and Fire Plan

2018 (Continued)

- Member contributions were changed effective January 1, 2019, and January 1, 2020, from 10.80 percent to 11.30 and 11.80 percent of pay, respectively. Employer contributions were changed effective January 1, 2019, and January 1, 2020, from 16.20 percent to 16.95 and 17.70 percent of pay, respectively. Interest credited on member contributions decreased from 4.00 percent to 3.00 percent, beginning July 1, 2018.

- Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.

- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

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 2.00 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.

5. Defined Benefit Pension Plans – Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions

Public Employees Police and Fire Plan

2017 (Continued)

- The assumed termination rates were decreased to 3.00 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.

- The assumed post-retirement benefit increase rate was changed from 1.00 percent for all years to 1.00 percent per year through 2064, and 2.50 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.

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

Public Employees Local Government Correctional Service Retirement Plan

2018

- The single discount rate was changed from 5.96 percent per annum to 7.50 percent per annum.

- The mortality projection scale was changed from MP-2016 to MP-2017.

- The assumed post-retirement benefit increase was changed from 2.50 percent per year to 2.00 percent per year.

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).

- 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 1.00 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.

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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, 2018

	Special Revenue				
	Resource Development	**Unorganized Townships**	**Forfeited Tax**	**Debt Service**	**Total**
Assets					
Cash and pooled investments	$ 1,062,113	$ 320,374	$ 335,983	$ 3,444,380	$ 5,162,850
Petty cash and change funds	-	-	50	-	50
Undistributed cash in agency funds	-	7,665	-	38,515	46,180
Taxes receivable					
Delinquent	-	591	-	11,346	11,937
Accounts receivable	-	-	637,980	-	637,980
Due from other funds	372,603	-	-	-	372,603
Due from other governments	214,706	-	-	-	214,706
Total Assets	**$ 1,649,422**	**$ 328,630**	**$ 974,013**	**$ 3,494,241**	**$ 6,446,306**
Liabilities, Deferred Inflows of Resources, and Fund Balances					
Liabilities					
Accounts payable	$ -	$ -	$ 3,947	$ -	$ 3,947
Salaries payable	-	-	19,913	-	19,913
Due to other funds	-	-	372,999	2,800,000	3,172,999
Due to other governments	-	127,398	137,950	-	265,348
Total Liabilities	**$ -**	**$ 127,398**	**$ 534,809**	**$ 2,800,000**	**$ 3,462,207**
Deferred Inflows of Resources					
Unavailable revenue – taxes	$ -	$ -	$ -	$ 7,356	$ 7,356
Unavailable revenue – grants	214,706	-	-	-	214,706
Unavailable revenue – long-term receivables	-	-	578,989	-	578,989
Total Deferred Inflows of Resources	**$ 214,706**	**$ -**	**$ 578,989**	**$ 7,356**	**$ 801,051**
Fund Balances					
Restricted for debt service	$ -	$ -	$ -	$ 686,885	$ 686,885
Committed to unorganized townships emergency services	-	201,232	-	-	201,232
Assigned to resource development	1,434,716	-	-	-	1,434,716
Unassigned	-	-	(139,785)	-	(139,785)
Total Fund Balances	**$ 1,434,716**	**$ 201,232**	**$ (139,785)**	**$ 686,885**	**$ 2,183,048**
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	**$ 1,649,422**	**$ 328,630**	**$ 974,013**	**$ 3,494,241**	**$ 6,446,306**

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, 2018

	Special Revenue				
	Resource Development	Unorganized Townships	Forfeited Tax	Debt Service	Total
Revenues					
Taxes	$ -	$ 112,218	$ -	$ 508,460	$ 620,678
Licenses and permits	-	105	1,492	-	1,597
Intergovernmental	266,218	32,574	66,930	39,623	405,345
Charges for services	-	-	300	-	300
Investment earnings	-	-	-	29,174	29,174
Gifts and contributions	1,935	-	-	-	1,935
Miscellaneous	-	-	1,040,180	70,618	1,110,798
Total Revenues	**$ 268,153**	**$ 144,897**	**$ 1,108,902**	**$ 647,875**	**$ 2,169,827**
Expenditures					
Current					
General government	$ -	$ 7,043	$ -	$ -	$ 7,043
Public safety	-	140,548	-	-	140,548
Culture and recreation	205,615	-	-	-	205,615
Conservation of natural resources	27,047	-	755,553	-	782,600
Capital outlay					
Conservation of natural resources	-	-	27,962	-	27,962
Debt service					
Principal	146,667	-	-	350,000	496,667
Interest	13,514	-	-	173,708	187,222
Administrative (fiscal) charges	-	-	-	475	475
Bond issuance costs	-	-	-	317,719	317,719
Total Expenditures	**$ 392,843**	**$ 147,591**	**$ 783,515**	**$ 841,902**	**$ 2,165,851**
Excess of Revenues Over (Under) Expenditures	**$ (124,690)**	**$ (2,694)**	**$ 325,387**	**$ (194,027)**	**$ 3,976**
Other Financing Sources (Uses)					
Transfers in	$ 372,603	$ -	$ -	$ -	$ 372,603
Transfers out	-	-	(372,603)	(9,908,139)	(10,280,742)
Premium on bonds/notes issued	-	-	-	144,053	144,053
Proceeds from sale of bonds	-	-	-	10,000,000	10,000,000
Total Other Financing Sources (Uses)	**$ 372,603**	**$ -**	**$ (372,603)**	**$ 235,914**	**$ 235,914**
Net Change in Fund Balance	**$ 247,913**	**$ (2,694)**	**$ (47,216)**	**$ 41,887**	**$ 239,890**
Fund Balance – January 1	**1,186,803**	**203,926**	**(92,569)**	**644,998**	**1,943,158**
Fund Balance – December 31	**$ 1,434,716**	**$ 201,232**	**$ (139,785)**	**$ 686,885**	**$ 2,183,048**

LAKE COUNTY
TWO HARBORS, MINNESOTA

EXHIBIT B-3

BUDGETARY COMPARISON SCHEDULE
RESOURCE DEVELOPMENT SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2018

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Intergovernmental	$ 96,000	$ 96,000	$ 266,218	$ 170,218
Gifts and contributions	-	-	1,935	1,935
Total Revenues	**$ 96,000**	**$ 96,000**	**$ 268,153**	**$ 172,153**
Expenditures				
Current				
Culture and recreation				
Trails	**$ 10,000**	**$ 10,000**	**$ 205,615**	**$ (195,615)**
Conservation of natural resources				
Other conservation	**$ -**	**$ -**	**$ 27,047**	**$ (27,047)**
Debt service				
Principal	$ 146,667	$ 146,667	$ 146,667	$ -
Interest	28,600	28,600	13,514	15,086
Total debt service	**$ 175,267**	**$ 175,267**	**$ 160,181**	**$ 15,086**
Total Expenditures	**$ 185,267**	**$ 185,267**	**$ 392,843**	**$ (207,576)**
Excess of Revenues Over (Under) Expenditures	**$ (89,267)**	**$ (89,267)**	**$ (124,690)**	**$ (35,423)**
Other Financing Sources (Uses)				
Transfers in	-	-	372,603	372,603
Net Change in Fund Balance	**$ (89,267)**	**$ (89,267)**	**$ 247,913**	**$ 337,180**
Fund Balance – January 1	**1,186,803**	**1,186,803**	**1,186,803**	**-**
Fund Balance – December 31	**$ 1,097,536**	**$ 1,097,536**	**$ 1,434,716**	**$ 337,180**

LAKE COUNTY
TWO HARBORS, MINNESOTA

EXHIBIT B-4

BUDGETARY COMPARISON SCHEDULE
UNORGANIZED TOWNSHIPS SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2018

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 120,620	$ 120,620	$ 112,218	$ (8,402)
Licenses and permits	100	100	105	5
Intergovernmental	15,000	15,000	32,574	17,574
Total Revenues	**$ 135,720**	**$ 135,720**	**$ 144,897**	**$ 9,177**
Expenditures				
Current				
General government				
Elections	$ -	$ -	$ 7,043	$ (7,043)
Public safety				
Emergency services	116,250	116,250	140,548	(24,298)
Total Expenditures	**$ 116,250**	**$ 116,250**	**$ 147,591**	**$ (31,341)**
Net Change in Fund Balance	**$ 19,470**	**$ 19,470**	**$ (2,694)**	**$ (22,164)**
Fund Balance – January 1	**203,926**	**203,926**	**203,926**	**-**
Fund Balance – December 31	**$ 223,396**	**$ 223,396**	**$ 201,232**	**$ (22,164)**

LAKE COUNTY
TWO HARBORS, MINNESOTA

EXHIBIT B-5

BUDGETARY COMPARISON SCHEDULE
FORFEITED TAX SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2018

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Licenses and permits	$ 1,330	$ 1,330	$ 1,492	$ 162
Intergovernmental	26,241	26,241	66,930	40,689
Charges for services	15,000	15,000	300	(14,700)
Miscellaneous	551,090	551,090	1,040,180	489,090
Total Revenues	**$ 593,661**	**$ 593,661**	**$ 1,108,902**	**$ 515,241**
Expenditures				
Current				
Conservation of natural resources				
Land use	$ 526,768	$ 555,018	$ 755,553	$ (200,535)
Capital outlay				
Conservation of natural resources	46,000	67,700	27,962	39,738
Total Expenditures	**$ 572,768**	**$ 622,718**	**$ 783,515**	**$ (160,797)**
Excess of Revenues Over (Under) Expenditures	**$ 20,893**	**$ (29,057)**	**$ 325,387**	**$ 354,444**
Other Financing Sources (Uses)				
Transfers out	-	-	(372,603)	(372,603)
Net Change in Fund Balance	**$ 20,893**	**$ (29,057)**	**$ (47,216)**	**$ (18,159)**
Fund Balance – January 1	**(92,569)**	**(92,569)**	**(92,569)**	**-**
Fund Balance – December 31	**$ (71,676)**	**$ (121,626)**	**$ (139,785)**	**$ (18,159)**

LAKE COUNTY
TWO HARBORS, MINNESOTA

EXHIBIT B-6

BUDGETARY COMPARISON SCHEDULE
DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2018

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 551,080	$ 551,080	$ 508,460	$ (42,620)
Intergovernmental	-	-	39,623	39,623
Investment earnings	145	145	29,174	29,029
Miscellaneous	70,337	70,337	70,618	281
Total Revenues	**$ 621,562**	**$ 621,562**	**$ 647,875**	**$ 26,313**
Expenditures				
Debt service				
Principal	$ 355,000	$ 355,000	$ 350,000	$ 5,000
Interest	325,884	325,884	173,708	152,176
Bond issuance costs	-	-	317,719	(317,719)
Administrative (fiscal) charges	405	405	475	(70)
Total Expenditures	**$ 681,289**	**$ 681,289**	**$ 841,902**	**$ (160,613)**
Excess of Revenues Over (Under) Expenditures	**$ (59,727)**	**$ (59,727)**	**$ (194,027)**	**$ (134,300)**
Other Financing Sources (Uses)				
Transfers out	$ -	$ -	$ (9,908,139)	$ (9,908,139)
Premium on bonds/notes issued	-	-	144,053	144,053
Proceeds on bonds	-	-	10,000,000	10,000,000
Total Other Financing Sources (Uses)	**$ -**	**$ -**	**$ 235,914**	**$ 235,914**
Net Change in Fund Balance	**$ (59,727)**	**$ (59,727)**	**$ 41,887**	**$ 101,614**
Fund Balance – January 1	**644,998**	**644,998**	**644,998**	**-**
Fund Balance – December 31	**$ 585,271**	**$ 585,271**	**$ 686,885**	**$ 101,614**

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, 2018

	Balance January 1	Additions	Deductions	Balance December 31
CITIES, TOWNS, AND OTHER GOVERNMENTS				
Assets				
Cash and pooled investments	$ 124,514	$ 12,977,596	$ 13,052,754	$ 49,356
Liabilities				
Due to other governments	$ 124,514	$ 12,977,596	$ 13,052,754	$ 49,356
TAXES AND PENALTIES				
Assets				
Cash and pooled investments	$ 1,002,300	$ 21,519,345	$ 21,890,025	$ 631,620
Liabilities				
Due to other governments	$ 1,002,300	$ 21,519,345	$ 21,890,025	$ 631,620
STATE				
Assets				
Cash and pooled investments	$ 23,142	$ 316,968	$ 309,785	$ 30,325
Liabilities				
Due to other governments	$ 23,142	$ 316,968	$ 309,785	$ 30,325

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, 2018

	Balance January 1	Additions	Deductions	Balance December 31
SEWER SYSTEM DEPOSITS				
Assets				
Cash and pooled investments	$ 48,175	$ 108,850	$ 81,370	$ 75,655
Liabilities				
Customer deposits – current	$ 48,175	$ 108,850	$ 81,370	$ 75,655
NORTH SHORE COLLABORATIVE				
Assets				
Cash and pooled investments	$ 185,222	$ 81,502	$ 47,141	$ 219,583
Liabilities				
Accounts payable	$ 185,222	$ 81,502	$ 47,141	$ 219,583
ARROWHEAD HEALTH ALLIANCE				
Assets				
Cash and pooled investments	$ 276,073	$ 220,248	$ 268,546	$ 227,775
Liabilities				
Accounts payable	$ 276,073	$ 220,248	$ 268,546	$ 227,775

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, 2018

	Balance January 1	Additions	Deductions	Balance December 31
TOTAL ALL AGENCY FUNDS				
Assets				
Cash and pooled investments	**$ 1,659,426**	**$ 35,224,509**	**$ 35,649,621**	**$ 1,234,314**
Liabilities				
Accounts payable	$ 461,295	$ 301,750	$ 315,687	$ 447,358
Due to other governments	1,149,956	34,813,909	35,252,564	711,301
Customer deposits – current	48,175	108,850	81,370	75,655
Total Liabilities	**$ 1,659,426**	**$ 35,224,509**	**$ 35,649,621**	**$ 1,234,314**

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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, 2018

Appropriations and Shared Revenue		
State		
Highway users tax	$	5,853,998
County program aid		552,975
PERA rate reimbursement		24,330
Disparity reduction aid		151,165
Aquatic invasive species aid		185,047
Police aid		141,377
Taconite credit		582,451
Enhanced 911		83,829
SCORE		67,729
Market value credit		2,965
Total appropriations and shared revenue	**$**	**7,645,866**
Reimbursement for Services		
State		
Minnesota Department of Human Services	**$**	**153,979**
Payments		
State		
Payments in lieu of taxes	$	989,841
Local		210,839
Total payments	**$**	**1,200,680**
Grants		
State		
Minnesota Department of		
Public Safety	$	4,503
Health		45,581
Natural Resources		452,910
Human Services		4,260,995
Pollution Control		32,746
Veterans Affairs		10,000
Board of Water and Soil Resources		79,445
Total state	**$**	**4,886,180**

EXHIBIT D-1
(Continued)

SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018

Grants (Continued)		
Federal		
Department of		
Agriculture	$	2,982,768
Commerce		36,937
Housing and Urban Development		59,345
Interior		1,193,795
Justice		19,955
Transportation		45,276
Education		2,263
Health and Human Services		1,042,779
Homeland Security		143,666
Total federal	**$**	**5,526,784**
Total state and federal grants	**$**	**10,412,964**
Total Intergovernmental Revenue	**$**	**19,413,489**

LAKE COUNTY
TWO HARBORS, MINNESOTA

EXHIBIT D-2

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2018

Federal Grantor Pass-Through Agency Program or Cluster Title	Federal CFDA Number	Contract Number/ Pass-Through Grant Numbers	Expenditures	Passed Through to Subrecipients
U.S. Department of Agriculture				
Direct				
U.S. Forest Service Cooperative Agreement	10.U01	11-LE-11090903-022	$ 13,500	$ -
Passed Through Carlton, Cook, Lake, and St. Louis Community Health Board				
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	182MN004W1006	56,376	-
Passed Through Minnesota Department of Human Services				
SNAP Cluster				
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	182MN101S2514	109,045	-
Passed Through Minnesota Department of Natural Resources				
Cooperative Forestry Assistance	10.664	13-DG-11420004-141	23,941	-
Passed Through Minnesota Management and Budget				
Forest Service Schools and Roads Cluster				
Schools and Roads – Grants to States	10.665	P.L. 115-141	2,785,149	-
Total U.S. Department of Agriculture			**$ 2,988,011**	**$ -**
U.S. Department of Commerce				
Passed Through Minnesota Department of Natural Resources				
Coastal Zone Management Administration Awards	11.419	NA15NOS4190126	$ 7,500	$ -
Coastal Zone Management Administration Awards	11.419	NA17NOS4190062	27,523	-
(Total Coastal Zone Management Administration Awards 11.419 $35,023)				
Passed Through National Institute of Standards and Technology				
State and Local Implementation Grant Program	11.549	27-10-S18027	1,914	-
Total U.S. Department of Commerce			**$ 36,937**	**$ -**
U.S. Department of Housing and Urban Development				
Passed Through Minnesota Department of Employment and Economic Development				
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	CDAP-15-0036-O-FY16	**$ 59,345**	**$ 59,345**
U.S. Department of the Interior				
Direct				
Payments in Lieu of Taxes	15.226		**$ 1,193,795**	**$ -**
U.S. Department of Justice				
Passed Through Minnesota Department of Public Safety				
Crime Victim Assistance	16.575	A-CVSP-2018-LAKEAO-00050	**$ 19,955**	**$ -**

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

EXHIBIT D-2
(Continued)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2018

Federal Grantor Pass-Through Agency Program or Cluster Title	Federal CFDA Number	Contract Number/ Pass-Through Grant Numbers	Expenditures	Passed Through to Subrecipients
U.S. Department of Transportation				
Passed Through Minnesota Department of Transportation				
Highway Planning and Construction Cluster				
Highway Planning and Construction	20.205	00038	**$ 34,215**	**$ -**
U.S. Department of Education				
Passed Through Carlton, Cook, Lake, and St. Louis Community Health Board				
Special Education – Grants for Infants and Families	84.181	H181A170029	**$ 2,263**	**$ -**
U.S. Department of Health and Human Services				
Passed Through Carlton, Cook, Lake, and St. Louis Community Health Board				
Public Health Emergency Preparedness	93.069	NU90TP921843	$ 23,169	$ -
TANF Cluster				
Temporary Assistance for Needy Families	93.558	2017G996115	11,188	-
(Total Temporary Assistance for Needy Families 93.558 $70,144)				
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	45,943	-
Maternal and Child Health Services Block Grant to the States	93.994	B04MC29349	7,117	-
Passed Through Minnesota Department of Human Services				
Promoting Safe and Stable Families	93.556	G-1701MNFPSS	2,207	-
TANF Cluster				
Temporary Assistance for Needy Families	93.558	1801MNTANF	58,956	-
(Total Temporary Assistance for Needy Families 93.558 $70,144)				
Child Support Enforcement	93.563	1804MNCSES	59,403	-
Child Support Enforcement	93.563	1804MNCEST	178,129	-
(Total Child Support Enforcement 93.563 $237,532)				
Community-Based Child Abuse Prevention Grants	93.590	G-1702MNFRPG	1,395	-
CCDF Cluster				
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	G1801MNCCDF	2,016	-
Stephanie Tubbs Jones Child Welfare Services Program	93.645	G-1701MNCWSS	1,618	-
Foster Care – Title IV-E	93.658	1801MNFOST	61,137	-
Social Services Block Grant	93.667	G-1801MNSOSR	84,363	-
Chafee Foster Care Independence Program	93.674	G-1801MNCILP	2,000	-
Children's Health Insurance Program	93.767	1805MN5R21	119	-
Medicaid Cluster				
Medical Assistance Program	93.778	05-1805MN5MAP	2,452	-
Medical Assistance Program	93.778	05-1805MN5ADM	501,567	-
(Total Medical Assistance Program 93.778 $504,019)				
Total U.S. Department of Health and Human Services			**$ 1,042,779**	**$ -**

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

EXHIBIT D-2
(Continued)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2018

Federal Grantor Pass-Through Agency Program or Cluster Title	Federal CFDA Number	Contract Number/ Pass-Through Grant Numbers	Expenditures	Passed Through to Subrecipients
U.S. Department of Homeland Security				
Passed Through Minnesota Department of Natural Resources				
Boating Safety Financial Assistance	97.012	R29G4CGSFY17	$ 27,875	$ -
Passed Through Minnesota Department of Public Safety				
Hazard Mitigation Grant	97.039	A-HMGP-DR4113-LAKECO*-0011	18,461	-
Hazard Mitigation Grant	97.039	A-HMGP-DR4131-LAKECO*-0018	25,886	-
(Total Hazard Mitigation Grant 97.039 $44,347)				
Emergency Management Performance Grants	97.042	F-EMPG-2017-LAKECO-2285	10,898	-
Emergency Management Performance Grants (Total Emergency Management Performance Grants 97.042 $27,952)	97.042	F-EMPG-2018-LAKECO-2734	17,054	-
Homeland Security Grant Program	97.067	A-OPSG-2017-LAKESO-005	43,492	-
Total U.S. Department of Homeland Security			**$ 143,666**	**$ -**
Total Federal Awards			**$ 5,520,966**	**$ 59,345**

Totals by Cluster	
Total expenditures for SNAP Cluster	$ 109,045
Total expenditures for Forest Service Schools and Roads Cluster	2,785,149
Total expenditures for Highway Planning and Construction Cluster	34,215
Total expenditures for TANF Cluster	70,144
Total expenditures for CCDF Cluster	2,016
Total expenditures for Medicaid Cluster	504,019

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

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2018

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, 2018. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of Lake County, it is not intended to and does not present the financial position, changes in net position, or cash flows of Lake County.

3. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the modified basis of accounting used by the individual funds of Lake County. Such expenditures are recognized following, as applicable, either the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Lake County has not elected to use the ten 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 2018, the County did not incur any federal loan program expenditures. As of December 31, 2018, Lake County reported a balance outstanding of $48,500,694.

5. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	$	5,526,784
Grants received more than 90 days after year-end, deferred in 2018		
Cooperative Forestry Assistance		3,620
Schools and Roads – Grants to States		2,228
Highway Planning and Construction		82,532
Deferred in 2017, recognized as revenue in 2018		
Cooperative Forestry Assistance		(605)
Highway Planning and Construction		(93,593)
Expenditures Per Schedule of Expenditures of Federal Awards	$	5,520,966

Management and Compliance Section

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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, 2018, 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 12, 2019.

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. We did identify a deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as item 1996-011, that we consider to be a significant deficiency.

Compliance and Other Matters

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

Minnesota Legal Compliance

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

In connection with our audit, nothing came to our attention that caused us to believe that Lake County failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Counties*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the County's noncompliance with the above referenced provisions.

Lake County's Response to Finding

Lake County's response to the internal control finding identified in our audit is described in the Corrective Action Plan. The County's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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/Julie Blaha	*/s/Greg Hierlinger*
JULIE BLAHA STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

September 12, 2019

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STATE OF MINNESOTA
OFFICE OF THE 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 the 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 the County's major federal program for the year ended December 31, 2018. Lake County's major federal program is 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 Lake County's major federal program 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 the 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 the major federal program. However, our audit does not provide a legal determination of the County's compliance.

Opinion on the Major Federal Program

In our opinion, Lake County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2018.

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 the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the 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.

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/Julie Blaha	*/s/Greg Hierlinger*
JULIE BLAHA STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

September 12, 2019

LAKE COUNTY
TWO HARBORS, MINNESOTA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2018

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 the 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 program is:

Payments in Lieu of Taxes	CFDA No. 15.226

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

Lake County qualified as a low-risk auditee? **Yes**

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM 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

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. PREVIOUSLY REPORTED ITEMS RESOLVED

2015-001 Broadband Inventory
2015-002 Subrecipient Monitoring (CFDA No. 14.228)

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Linda Libal
Lake County Auditor/Treasurer

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REPRESENTATION OF LAKE COUNTY
TWO HARBORS, MINNESOTA

CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED DECEMBER 31, 2018

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

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REPRESENTATION OF LAKE COUNTY
TWO HARBORS, MINNESOTA

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2018

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: Not Corrected. 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.

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: Fully Corrected. Corrective action was taken.

Was corrective action taken significantly different than the action previously reported?
Yes ___X___ No _______

Lake Connections was sold by the County to PinPoint on December 18, 2018.

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: Fully Corrected. Corrective action was taken.

Was corrective action taken significantly different than the action previously reported?
Yes ___X___ No _______

The Lake County Auditor's office is using the adopted CliftonLarsonAllen Subrecipient Risk Assessment Matrix and Monitoring Workbook as a checklist for ensuring proper monitoring of sub-recipients. The only sub-recipient applicable to this monitoring is AEOA (Arrowhead Economic Opportunity Agency). Lake County receives a copy of the report from DEED, a copy of the AEOA Annual Report and verifies with AEOA any personnel changes that would have significant effect on the process. Moving forward, AEOA will include the DUNS number and Federal Contract number on the Administrative Agreement.