

# STATE OF MINNESOTA

## Office of the State Auditor



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

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

**YEAR ENDED DECEMBER 31, 2014**

## **Description of the Office of the State Auditor**

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

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

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

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

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

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

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

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

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

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**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

**Year Ended December 31, 2014**



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

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**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

ORGANIZATION  
DECEMBER 31, 2014

|                           |                                |            | <u>Term Expires</u> |
|---------------------------|--------------------------------|------------|---------------------|
| <b>Elected</b>            |                                |            |                     |
| Commissioner              | Peter Walsh                    | District 1 | January 2015        |
| Commissioner              | Derrick Goutermont             | District 2 | January 2017        |
| Commissioner              | Brad Jones                     | District 3 | January 2017        |
| Commissioner              | Jeremy Hurd                    | District 4 | January 2015        |
| Commissioner              | Rich Sve                       | District 5 | January 2017        |
| Attorney                  | Laura M. Auron                 |            | January 2015        |
| Interim Auditor/Treasurer | Lola Haus                      |            | January 2015        |
| Recorder                  | Erica Koski                    |            | January 2015        |
| Sheriff                   | Carey Johnson                  |            | January 2015        |
| <b>Appointed</b>          |                                |            |                     |
| Assessor                  | Jack Renick                    |            | December 2015       |
| Examiner of Titles        | David Adams (St. Louis County) |            | Indefinite          |
| Health Officer            | Harold B. Leppink, M.D.        |            | Indefinite          |
| Highway Engineer          | Krysten Foster                 |            | May 2018            |
| Veterans Service Officer  | Nazareth V. Sando              |            | September 2015      |
| Clerk of the Board        | Laurel Buchanan                |            | Indefinite          |
| County Administrator      | Matthew Huddleston             |            | Indefinite          |
| <b>Human Services</b>     |                                |            |                     |
| Board Members             | Peter Walsh                    |            | January 2015        |
|                           | Derrick Goutermont             |            | January 2017        |
|                           | Brad Jones                     |            | January 2017        |
|                           | Jeremy Hurd                    |            | January 2015        |
|                           | Rich Sve                       |            | January 2017        |
|                           | Kathy Goedel                   |            | Indefinite          |
|                           | Christine Johnson              |            | Indefinite          |
| Director                  | Vickie Thompson                |            | Indefinite          |

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA

## OFFICE OF THE STATE AUDITOR

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### INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners  
Lake County  
Two Harbors, Minnesota

#### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Lake County, Minnesota, as of and for the year ended December 31, 2014, 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 of 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, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

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

#### ***Supplementary Information***

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

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other

additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued a report dated September 22, 2015, on our consideration of Lake County’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 OMB Circular A-133**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (SEFA) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the SEFA is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

September 22, 2015

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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, 2014  
(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, 2014. 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 \$114,043,950, of which \$87,085,577 is the net investment in capital assets and \$2,896,200 is restricted to specific purposes.
- Business-type activities have a total net position of \$1,732,567. Net investment in capital assets represents \$9,578,498 of the total.
- Lake County's net position increased by \$4,801,042 for the year ended December 31, 2014. 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 \$21,349.
- The net cost of governmental activities was \$7,691,844 for the current fiscal year. The net cost was funded by general revenues and other items totaling \$11,788,568.
- Governmental funds' fund balances increased by \$4,488,348.

**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, and the Schedule of Funding Progress - Other Postemployment Benefits are required to accompany the basic financial statements and, therefore, are included as required supplementary information.

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

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

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

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

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

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

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

## **Fund Financial Statements**

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

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

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

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

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

## **Reporting the County's Fiduciary Responsibilities**

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

The fiduciary funds financial statement is Exhibit 10.

## LAKE COUNTY AS A WHOLE

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

**Table 1**  
**Net Position**  
**(in Thousands)**

|                                  | Governmental Activities |                   | Business-Type Activities |                  | Total Primary Government |                   |
|----------------------------------|-------------------------|-------------------|--------------------------|------------------|--------------------------|-------------------|
|                                  | 2014                    | 2013              | 2014                     | 2013             | 2014                     | 2013              |
| <b>Assets</b>                    |                         |                   |                          |                  |                          |                   |
| Current and other assets         | \$ 29,940               | \$ 23,156         | \$ (3,419)               | \$ (627)         | \$ 26,521                | \$ 22,529         |
| Capital assets                   | 90,699                  | 92,621            | 44,282                   | 23,619           | 134,981                  | 116,240           |
| <b>Total Assets</b>              | <b>\$ 120,639</b>       | <b>\$ 115,777</b> | <b>\$ 40,863</b>         | <b>\$ 22,992</b> | <b>\$ 161,502</b>        | <b>\$ 138,769</b> |
| <b>Liabilities</b>               |                         |                   |                          |                  |                          |                   |
| Long-term debt outstanding       | \$ 4,924                | \$ 4,323          | \$ 33,053                | \$ 17,721        | \$ 37,977                | \$ 22,044         |
| Other liabilities                | 1,671                   | 1,507             | 6,077                    | 3,879            | 7,748                    | 5,386             |
| <b>Total Liabilities</b>         | <b>\$ 6,595</b>         | <b>\$ 5,830</b>   | <b>\$ 39,130</b>         | <b>\$ 21,600</b> | <b>\$ 45,725</b>         | <b>\$ 27,430</b>  |
| Deferred Inflows of Resources    | \$ -                    | \$ -              | \$ -                     | \$ 364           | \$ -                     | \$ 364            |
| <b>Net Position</b>              |                         |                   |                          |                  |                          |                   |
| Net investment in capital assets | \$ 87,086               | \$ 89,530         | \$ 9,579                 | \$ 5,034         | \$ 96,665                | \$ 94,564         |
| Restricted                       | 2,896                   | 1,776             | -                        | -                | 2,896                    | 1,776             |
| Unrestricted                     | 24,062                  | 18,641            | (7,846)                  | (4,006)          | 16,216                   | 14,635            |
| <b>Total Net Position</b>        | <b>\$ 114,044</b>       | <b>\$ 109,947</b> | <b>\$ 1,733</b>          | <b>\$ 1,028</b>  | <b>\$ 115,777</b>        | <b>\$ 110,975</b> |

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

|                                       | Governmental Activities |                  | Business-Type Activities |                 | Total Primary Government |                  |
|---------------------------------------|-------------------------|------------------|--------------------------|-----------------|--------------------------|------------------|
|                                       | 2014                    | 2013             | 2014                     | 2013            | 2014                     | 2013             |
| <b>Revenues</b>                       |                         |                  |                          |                 |                          |                  |
| Program revenues                      |                         |                  |                          |                 |                          |                  |
| Fees, fines, charges, and other       | \$ 3,249                | \$ 1,691         | \$ 192                   | \$ -            | \$ 3,441                 | \$ 1,691         |
| Operating grants and contributions    | 12,665                  | 12,837           | -                        | -               | 12,665                   | 12,837           |
| Capital grants and contributions      | 2,715                   | 191              | 3,372                    | 1,859           | 6,087                    | 2,050            |
| General revenues                      |                         |                  |                          |                 |                          |                  |
| Property taxes                        | 8,043                   | 7,884            | -                        | -               | 8,043                    | 7,884            |
| Other taxes                           | 2,033                   | 2,055            | -                        | -               | 2,033                    | 2,055            |
| Unrestricted grants and contributions | 1,183                   | 1,087            | -                        | -               | 1,183                    | 1,087            |
| Investment earnings                   | 355                     | (247)            | -                        | -               | 355                      | (247)            |
| Gain on sale of capital assets        | 11                      | 20               | -                        | -               | 11                       | 20               |
| Miscellaneous                         | 164                     | 75               | -                        | 483             | 164                      | 558              |
| <b>Total Revenues</b>                 | <b>\$ 30,418</b>        | <b>\$ 25,593</b> | <b>\$ 3,564</b>          | <b>\$ 2,342</b> | <b>\$ 33,982</b>         | <b>\$ 27,935</b> |

|                                     | Governmental Activities |            | Business-Type Activities |          | Total Primary Government |            |
|-------------------------------------|-------------------------|------------|--------------------------|----------|--------------------------|------------|
|                                     | 2014                    | 2013       | 2014                     | 2013     | 2014                     | 2013       |
| Expenses                            |                         |            |                          |          |                          |            |
| General government                  | \$ 4,366                | \$ 4,421   | \$ -                     | \$ -     | \$ 4,366                 | \$ 4,421   |
| Public safety                       | 4,863                   | 4,846      | -                        | -        | 4,863                    | 4,846      |
| Highways and streets                | 8,657                   | 4,611      | -                        | -        | 8,657                    | 4,611      |
| Sanitation                          | 302                     | 262        | -                        | -        | 302                      | 262        |
| Human services                      | 3,273                   | 3,254      | -                        | -        | 3,273                    | 3,254      |
| Health                              | 2,684                   | 2,481      | -                        | -        | 2,684                    | 2,481      |
| Culture and recreation              | 974                     | 1,314      | -                        | -        | 974                      | 1,314      |
| Conservation of natural resources   | 770                     | 810        | -                        | -        | 770                      | 810        |
| Economic development                | 339                     | 176        | 2,860                    | 1,446    | 3,199                    | 1,622      |
| Interest                            | 93                      | 126        | -                        | -        | 93                       | 126        |
| Total Expenses                      | \$ 26,321               | \$ 22,301  | \$ 2,860                 | \$ 1,446 | \$ 29,181                | \$ 23,747  |
| Increase (Decrease) in Net Position | \$ 4,097                | \$ 3,292   | \$ 704                   | \$ 896   | \$ 4,801                 | \$ 4,188   |
| Net Position, January 1             | 109,947                 | 106,655    | 1,028                    | 132      | 110,975                  | 106,787    |
| Net Position, December 31           | \$ 114,044              | \$ 109,947 | \$ 1,732                 | \$ 1,028 | \$ 115,776               | \$ 110,975 |

Lake County's business-type activities is the broadband project that started in 2012. This is primarily funded by capital grants and contributions, which includes a Broadband Initiatives Program Grant of \$3,372,375 and a Broadband Initiatives Program Loan of \$34,703,063.

The increase in highways and streets expenses can be attributed to construction projects that were outside of Lake County's regular construction program. These expenses were offset by operating grants and contributions received from state and federal sources.

### Governmental Activities

The cost of all governmental activities this year was \$26,320,766. 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 \$7,691,844, because some of the cost was paid by those who directly benefited from the programs (\$3,249,408) or by other governments and organizations that subsidized certain programs with grants and contributions (\$15,379,514). 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 |                 |
|----------------------|------------------------|------------------|----------------------|-----------------|
|                      | 2014                   | 2013             | 2014                 | 2013            |
| General government   | \$ 4,366               | \$ 4,420         | \$ 735               | \$ 940          |
| Public safety        | 4,863                  | 4,846            | 4,150                | 3,607           |
| Highways and streets | 8,657                  | 4,611            | 1,840                | 142             |
| Human services       | 3,273                  | 3,254            | 736                  | 1,431           |
| Health               | 2,684                  | 2,481            | 781                  | 229             |
| All others           | 2,478                  | 2,689            | (550)                | 1,233           |
| <b>Total</b>         | <b>\$ 26,321</b>       | <b>\$ 22,301</b> | <b>\$ 7,692</b>      | <b>\$ 7,582</b> |

## FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

### Governmental Funds

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

The County's governmental funds reported a combined fund balance of \$24,304,976 in 2014, compared with \$19,816,628 in 2013, an increase of \$4,488,348. Fund balances that are classified as restricted are either nonspendable or restricted and have specific (usually external) constraints placed on their use. Fund balances that are classified as unrestricted are either committed, assigned, or unassigned fund balances. Committed and assigned fund balances are fund balances for which the County has identified a specific purpose. Unassigned fund balances do not have a specific use identified, but generally support cash flows of the County.

Governmental funds reported restricted fund balance for 2014 of \$3,216,599, or 13.2 percent, of total fund balance. Restricted fund balance was \$360,167 nonspendable and \$2,856,432 restricted. Unrestricted fund balance was \$21,088,377, or 86.8 percent, of total fund balance. Unrestricted fund balance was \$4,656,880 committed, \$7,307,482 assigned, and \$9,124,015 unassigned. Committed fund balances are approved by the County Board. For example, the Board has decided, by resolution, to set aside monies to fund a portion of the County's broadband project. Assigned fund balances are amounts that are to be used for specific purposes, but are neither restricted nor committed. Unassigned fund balance is fund balance that has not been reported in any other classification and is only used in the General Fund unless there are deficit fund balances in other funds.



The General Fund is the main operating fund of the County. At December 31, 2014, unrestricted fund balance for the General Fund was \$12,661,058, compared to \$11,038,131 in 2013. 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 106.80 percent of the General Fund's operating revenues and 123.15 percent of operating expenditures.

The Road and Bridge Special Revenue Fund's unrestricted fund balance increased to \$156,645 in 2014, compared to a negative unrestricted fund balance of \$172,681 in 2013. In 2014, there was an increase in construction projects undertaken by the Road and Bridge Department. Unrestricted fund balance at the end of the year represented 2.05 percent of the fund's operating revenues and 2.14 percent of operating expenditures.

The Human Services Special Revenue Fund's unrestricted fund balance was \$7,106,974 in 2014, compared to \$6,868,357 in 2013. The increase in the fund balance of the Human Services Special Revenue Fund is attributed to lower expenditures than what was budgeted. Unrestricted fund balance at the end of the year represented 117.20 percent of the fund's operating revenues and 122.00 percent of operating expenditures.

### **Proprietary Fund**

The County's proprietary fund for broadband provides the same type of information found in the government-wide financial statements, only in more detail. The broadband fund's net position was \$1,732,567 in 2014, compared to \$1,028,249 in 2013. Net position increased due to an increase in grant funds received for the construction of the broadband system. In 2014, the County's broadband fund began operations, collecting operating revenues and incurring operating expenditures. The broadband fund was originally started in 2012 to track the construction and related expenses of the County's broadband project.

### **General Fund Budgetary Highlights**

Over the course of the year, the County Board reviews the County's General Fund budget and may make budget amendments. These budget amendments fall into three categories: new information changing original budget estimations, greater than anticipated revenues or costs, and final agreement reached on employee contracts. There was one immaterial budget amendment in the General Fund budget in 2014.

In the General Fund, the actual charges to appropriations (expenditures) were \$102,103 less than the final budget amounts. Unbudgeted expenditures included \$262,192 of unbudgeted trail expenditures, \$246,198 of unbudgeted small cities development program expenditures, and \$156,489 of unbudgeted emergency management expenditures. These were offset by savings in various other General Fund departments.

Resources available for appropriation were also above the final budgeted amount by \$1,276,808. This was primarily due to greater than expected collections in intergovernmental revenues.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At the end of 2014, the County had \$134,429,822 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     |            |
|--|-------------------------|-----------|--------------------------|-----------|------------|------------|
|  | 2014                    | 2013      | 2014                     | 2013      | 2014       | 2013       |
| Land   | \$ 4,021                | \$ 4,021  | \$ -                     | \$ -      | \$ 4,021   | \$ 4,021   |
| Construction in progress                         | -                       | -         | 31,519                   | 22,078    | 31,519     | 22,078     |
| Buildings and improvements                       | 9,682                   | 10,116    | 1,440                    | 1,404     | 11,122     | 11,520     |
| Machinery, vehicles, furniture,<br>and equipment | 2,110                   | 2,338     | 1,805                    | 137       | 3,915      | 2,475      |
| Infrastructure                                   | 74,886                  | 76,146    | 9,518                    | -         | 84,404     | 76,146     |
| Totals   | \$ 90,699               | \$ 92,621 | \$ 44,282                | \$ 23,619 | \$ 134,981 | \$ 116,240 |

The County's fiscal year 2014 capital budget calls for it to spend another \$174,500 for miscellaneous improvements at various buildings, \$283,000 on vehicles for various departments, \$281,967 on equipment for various departments, and \$5,500,000 for road construction. The road construction will be funded by state-aid construction funds.

### Debt

At year-end, the County had \$2,410,000 in bonds and notes outstanding versus \$1,690,000 last year--an increase of 42.6 percent--as shown in Table 5. Capital leases payable decreased by \$197,461. The Rural Utilities Service Broadband Loan on the business-type activities portion has a balance of \$34,703,063.

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

|                                      | Governmental Activities |          | Business-Type Activities |           | Totals    |           |
|--------------------------------------|-------------------------|----------|--------------------------|-----------|-----------|-----------|
|                                      | 2014                    | 2013     | 2014                     | 2013      | 2014      | 2013      |
| General obligation bonds             | \$ 2,410                | \$ 1,690 | \$ -                     | \$ -      | \$ 2,410  | \$ 1,690  |
| Capital leases                       | 1,204                   | 1,401    | -                        | -         | 1,204     | 1,401     |
| Loans payable                        | -                       | -        | 34,703                   | 18,584    | 34,703    | 18,584    |
| Compensated absences                 | 1,433                   | 1,373    | -                        | -         | 1,433     | 1,373     |
| Net other postemployment<br>benefits | 357                     | 311      | -                        | -         | 357       | 311       |
| Total                                | \$ 5,404                | \$ 4,775 | \$ 34,703                | \$ 18,584 | \$ 40,107 | \$ 23,359 |

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, and net other postemployment benefits. 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 2015 budget and tax rates.

- County General Fund expenditures for 2015 are budgeted to increase 3.5 percent over 2014.
- Property tax levies increased 9.0 percent for 2015.

## **CONTACTING LAKE COUNTY'S FINANCIAL MANAGEMENT**

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

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## **BASIC FINANCIAL STATEMENTS**

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**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

**EXHIBIT 1**

**STATEMENT OF NET POSITION  
DECEMBER 31, 2014**

|  | <b>Primary Government</b>          |                                     |                       | <b>Housing and<br/>Redevelopment<br/>Authority<br/>Component Unit</b> |
|--|------------------------------------|-------------------------------------|-----------------------|---|
|  | <b>Governmental<br/>Activities</b> | <b>Business-Type<br/>Activities</b> | <b>Total</b>          |   |
| <b><u>Assets</u></b>   |                                    |                                     |                       |   |
| Cash and pooled investments                                  | \$ 11,200,161                      | \$ -                                | \$ 11,200,161         | \$ 786,034  |
| Receivables - net  | 8,240,758                          | 6,570,624                           | 14,811,382            | 144,957   |
| Due from component unit                                      | 196,189                            | -                                   | 196,189               | -   |
| Internal balances  | 9,989,411                          | (9,989,411)                         | -                     | -   |
| Inventories  | 300,167                            | -                                   | 300,167               | -   |
| Prepaid items  | 13,096                             | -                                   | 13,096                | -   |
| Restricted assets for security deposits                      | -                                  | -                                   | -                     | 15,015  |
| Capital assets   |                                    |                                     |                       |   |
| Non-depreciable capital assets                               | 4,021,386                          | 31,518,771                          | 35,540,157            | -   |
| Depreciable capital assets - net of accumulated depreciation | 86,678,154                         | 12,762,790                          | 99,440,944            | 1,072,820   |
| <b>Total Assets</b>  | <b>\$ 120,639,322</b>              | <b>\$ 40,862,774</b>                | <b>\$ 161,502,096</b> | <b>\$ 2,018,826</b>   |
| <b><u>Liabilities</u></b>                                    |                                    |                                     |                       |   |
| Accounts payable and other current liabilities               | \$ 1,016,364                       | \$ 4,427,144                        | \$ 5,443,508          | \$ 103,497  |
| Accrued interest payable                                     | 28,869                             | -                                   | 28,869                | -   |
| Due to primary government                                    | -                                  | -                                   | -                     | 196,189   |
| Unearned revenue   | 146,567                            | -                                   | 146,567               | -   |
| Payable from restricted assets                               |                                    |                                     |                       |   |
| Security deposits payable                                    | -                                  | -                                   | -                     | 15,015  |
| Long-term liabilities  |                                    |                                     |                       |   |
| Due within one year  | 479,387                            | 1,649,519                           | 2,128,906             | 50,000  |
| Due in more than one year                                    | 4,567,448                          | 33,053,544                          | 37,620,992            | 670,369   |
| Other postemployment benefits                                | 356,737                            | -                                   | 356,737               | -   |
| <b>Total Liabilities</b>                                     | <b>\$ 6,595,372</b>                | <b>\$ 39,130,207</b>                | <b>\$ 45,725,579</b>  | <b>\$ 1,035,070</b>   |



**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

**EXHIBIT 1  
(Continued)**

**STATEMENT OF NET POSITION  
DECEMBER 31, 2014**

|                                   | <b>Primary Government</b>          |                                     |                              | <b>Housing and<br/>Redevelopment<br/>Authority<br/>Component Unit</b> |
|-----------------------------------|------------------------------------|-------------------------------------|------------------------------|---|
|                                   | <b>Governmental<br/>Activities</b> | <b>Business-Type<br/>Activities</b> | <b>Total</b>                 |   |
| <b><u>Net Position</u></b>        |                                    |                                     |                              |   |
| Net investment in capital assets  | \$ 87,085,577                      | \$ 9,578,498                        | \$ 96,664,075                | \$ 352,451  |
| Restricted for                    |                                    |                                     |                              |   |
| General government                | 521,602                            | -                                   | 521,602                      | -   |
| Public safety                     | 601,563                            | -                                   | 601,563                      | -   |
| Highways and streets              | 134,053                            | -                                   | 134,053                      | -   |
| Conservation of natural resources | 68,696                             | -                                   | 68,696                       | -   |
| Debt service                      | 1,570,286                          | -                                   | 1,570,286                    | -   |
| Unrestricted                      | 24,062,173                         | (7,845,931)                         | 16,216,242                   | 631,305   |
| <b>Total Net Position</b>         | <b><u>\$ 114,043,950</u></b>       | <b><u>\$ 1,732,567</u></b>          | <b><u>\$ 115,776,517</u></b> | <b><u>\$ 983,756</u></b>  |

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2014**

|                                      | <u>Expenses</u>      | <u>Fees, Charges,<br/>Fines, and Other</u> | <u>Program Revenues<br/>Operating<br/>Grants and<br/>Contributions</u> |
|--------------------------------------|----------------------|--|--|
| <b><u>Functions/Programs</u></b>     |                      |  |  |
| <b>Primary government</b>            |                      |  |  |
| <b>Governmental activities</b>       |                      |  |  |
| General government                   | \$ 4,365,817         | \$ 561,996                                 | \$ 3,068,683   |
| Public safety                        | 4,863,073            | 160,929                                    | 551,754  |
| Highways and streets                 | 8,656,739            | 85,254                                     | 4,016,446  |
| Sanitation                           | 301,828              | 32,716                                     | -  |
| Human services                       | 3,273,397            | 94,087                                     | 2,443,399  |
| Health                               | 2,684,402            | 197,553                                    | 1,705,546  |
| Culture and recreation               | 973,797              | -  | -  |
| Conservation of natural resources    | 769,550              | 2,026,873                                  | 632,498  |
| Economic development                 | 339,497              | 90,000                                     | 246,198  |
| Interest                             | 92,666               | -  | -  |
| <b>Total governmental activities</b> | <b>\$ 26,320,766</b> | <b>\$ 3,249,408</b>                        | <b>\$ 12,664,524</b>   |
| <b>Business-type activities</b>      |                      |  |  |
| Broadband                            | 2,860,341            | 192,284                                    | -  |
| <b>Total Primary Government</b>      | <b>\$ 29,181,107</b> | <b>\$ 3,441,692</b>                        | <b>\$ 12,664,524</b>   |
| <b>Component unit</b>                |                      |  |  |
| Housing and Redevelopment Authority  | \$ 289,357           | \$ 186,033                                 | \$ -   |

**General Revenues**

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

**Total general revenues**

**Change in net position**

**Net Position - Beginning**

**Net Position - Ending**

**EXHIBIT 2**

| Capital<br>Grants and<br>Contributions | Net (Expense) Revenue and Changes in Net Position |                             |                       | Discretely<br>Presented<br>Component Unit |
|--|---|-----------------------------|-----------------------|---|
|  | Primary Government                                |                             | Total                 |   |
|  | Governmental<br>Activities                        | Business-Type<br>Activities |                       |   |
| \$ -                                   | \$ (735,138)                                      | \$ -                        | \$ (735,138)          |   |
| -                                      | (4,150,390)                                       | -                           | (4,150,390)           |   |
| 2,714,990                              | (1,840,049)                                       | -                           | (1,840,049)           |   |
| -                                      | (269,112)   | -                           | (269,112)             |   |
| -                                      | (735,911)   | -                           | (735,911)             |   |
| -                                      | (781,303)   | -                           | (781,303)             |   |
| -                                      | (973,797)   | -                           | (973,797)             |   |
| -                                      | 1,889,821   | -                           | 1,889,821             |   |
| -                                      | (3,299)   | -                           | (3,299)               |   |
| -                                      | (92,666)  | -                           | (92,666)              |   |
| <b>\$ 2,714,990</b>                    | <b>\$ (7,691,844)</b>                             | <b>\$ -</b>                 | <b>\$ (7,691,844)</b> |   |
| 3,372,375                              | -   | 704,318                     | <b>704,318</b>        |   |
| <b>\$ 6,087,365</b>                    | <b>\$ (7,691,844)</b>                             | <b>\$ 704,318</b>           | <b>\$ (6,987,526)</b> |   |
| <b>\$ -</b>                            |   |                             |                       | <b>\$ (103,324)</b>                       |
|  | \$ 8,043,229                                      | \$ -                        | \$ 8,043,229          | \$ 108,615                                |
|  | 789,750   | -                           | 789,750               | -   |
|  | 904,823   | -                           | 904,823               | -   |
|  | 338,296   | -                           | 338,296               | -   |
|  | 1,182,682   | -                           | 1,182,682             | 8,020                                     |
|  | 354,759   | -                           | 354,759               | 850                                       |
|  | 10,768  | -                           | 10,768                | -   |
|  | 164,261   | -                           | 164,261               | 7,188                                     |
|  | <b>\$ 11,788,568</b>                              | <b>\$ -</b>                 | <b>\$ 11,788,568</b>  | <b>\$ 124,673</b>                         |
|  | <b>\$ 4,096,724</b>                               | <b>\$ 704,318</b>           | <b>\$ 4,801,042</b>   | <b>\$ 21,349</b>                          |
|  | <b>109,947,226</b>                                | <b>1,028,249</b>            | <b>110,975,475</b>    | <b>962,407</b>                            |
|  | <b>\$ 114,043,950</b>                             | <b>\$ 1,732,567</b>         | <b>\$ 115,776,517</b> | <b>\$ 983,756</b>                         |

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**FUND FINANCIAL STATEMENTS**

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**GOVERNMENTAL FUNDS**

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**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

**EXHIBIT 3**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2014**

|   | <u>General</u>       | <u>Road and<br/>Bridge</u> | <u>Human<br/>Services</u> | <u>Nonmajor<br/>Funds</u> | <u>Total</u>         |
|---|----------------------|----------------------------|---------------------------|---------------------------|----------------------|
| <b><u>Assets</u></b>  |                      |                            |                           |                           |                      |
| Cash and pooled investments   | \$ 903,998           | \$ 188,110                 | \$ 6,568,534              | \$ 2,718,213              | \$ 10,378,855        |
| Escheat cash  | 36,538               | -                          | -                         | -                         | 36,538               |
| Petty cash and change funds   | 1,350                | 1,000                      | 1,000                     | 50                        | 3,400                |
| Undistributed cash in agency funds  | 437,591              | 130,119                    | 181,491                   | 32,167                    | 781,368              |
| Taxes receivable - prior  | 275,887              | 90,947                     | 127,908                   | 22,000                    | 516,742              |
| Accounts receivable   | 18,910               | 12,207                     | 12,565                    | 653,949                   | 697,631              |
| Accrued interest receivable   | 9,560                | -                          | -                         | -                         | 9,560                |
| Loans receivable  | 98,298               | -                          | -                         | -                         | 98,298               |
| Due from other funds  | 10,238,207           | 13,832                     | -                         | -                         | 10,252,039           |
| Due from other governments  | 2,568,226            | 2,622,865                  | 1,115,688                 | 281,748                   | 6,588,527            |
| Due from component unit   | -                    | -                          | -                         | 196,189                   | 196,189              |
| Prepaid expense   | -                    | -                          | 13,096                    | -                         | 13,096               |
| Inventories   | -                    | 300,167                    | -                         | -                         | 300,167              |
| Leases receivable   | 330,000              | -                          | -                         | -                         | 330,000              |
| <b>Total Assets</b>   | <b>\$ 14,918,565</b> | <b>\$ 3,359,247</b>        | <b>\$ 8,020,282</b>       | <b>\$ 3,904,316</b>       | <b>\$ 30,202,410</b> |
| <b><u>Liabilities, Deferred Inflows of<br/>Resources, and Fund Balances</u></b> |                      |                            |                           |                           |                      |
| <b>Liabilities</b>  |                      |                            |                           |                           |                      |
| Accounts payable  | \$ 97,046            | \$ 62,583                  | \$ 120,747                | \$ 2,032                  | \$ 282,408           |
| Escheat payable   | 36,538               | -                          | -                         | -                         | 36,538               |
| Salaries payable  | 191,507              | 62,156                     | 62,762                    | 13,565                    | 329,990              |
| Contracts payable   | -                    | 159,922                    | -                         | -                         | 159,922              |
| Due to other funds  | 9,836                | -                          | 16,700                    | 236,092                   | 262,628              |
| Due to other governments  | 39,069               | 5,360                      | 45,453                    | 117,624                   | 207,506              |
| Unearned revenue  | -                    | 146,567                    | -                         | -                         | 146,567              |
| <b>Total Liabilities</b>  | <b>\$ 373,996</b>    | <b>\$ 436,588</b>          | <b>\$ 245,662</b>         | <b>\$ 369,313</b>         | <b>\$ 1,425,559</b>  |
| <b>Deferred Inflows of Resources</b>  |                      |                            |                           |                           |                      |
| Unavailable revenue - taxes   | \$ 233,648           | \$ 78,388                  | \$ 110,389                | \$ 18,895                 | \$ 441,320           |
| Unavailable revenue - grants  | 13,472               | 2,391,459                  | 557,257                   | 100,000                   | 3,062,188            |
| Unavailable revenue - long-term<br>receivables                                  | 368,298              | -                          | -                         | 600,069                   | 968,367              |
| <b>Total Deferred Inflows of<br/>Resources</b>                                  | <b>\$ 615,418</b>    | <b>\$ 2,469,847</b>        | <b>\$ 667,646</b>         | <b>\$ 718,964</b>         | <b>\$ 4,471,875</b>  |

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

**EXHIBIT 3  
(Continued)**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2014**

|   | <u>General</u>       | <u>Road and<br/>Bridge</u> | <u>Human<br/>Services</u> | <u>Nonmajor<br/>Funds</u> | <u>Total</u>         |
|---|----------------------|----------------------------|---------------------------|---------------------------|----------------------|
| <b><u>Liabilities, Deferred Inflows of<br/>Resources, and Fund Balances</u></b> |                      |                            |                           |                           |                      |
| <b>(Continued)</b>  |                      |                            |                           |                           |                      |
| <b>Fund Balances</b>  |                      |                            |                           |                           |                      |
| Nonspendable  |                      |                            |                           |                           |                      |
| Loans receivables   | \$ 60,000            | \$ -                       | \$ -                      | \$ -                      | \$ 60,000            |
| Inventories   | -                    | 300,167                    | -                         | -                         | 300,167              |
| Restricted for  |                      |                            |                           |                           |                      |
| Law library   | 25,942               | -                          | -                         | -                         | 25,942               |
| Recorder's technology equipment   | 289,560              | -                          | -                         | -                         | 289,560              |
| Enhanced 911  | 533,764              | -                          | -                         | -                         | 533,764              |
| County property recorder's fee  | 206,100              | -                          | -                         | -                         | 206,100              |
| Law and prosecutorial equipment   | 62,799               | -                          | -                         | -                         | 62,799               |
| Election equipment  | 16,232               | -                          | -                         | -                         | 16,232               |
| Sheriff's contingency fund  | 5,000                | -                          | -                         | -                         | 5,000                |
| Title III forest  | 68,696               | -                          | -                         | -                         | 68,696               |
| Debt service  | -                    | -                          | -                         | 1,570,286                 | 1,570,286            |
| Forest development  | -                    | -                          | -                         | 78,053                    | 78,053               |
| Committed to  |                      |                            |                           |                           |                      |
| Broadband project   | 3,500,000            | -                          | -                         | -                         | 3,500,000            |
| Rescue squad capital expenditures   | 25,019               | -                          | -                         | -                         | 25,019               |
| Out-of-home placement costs   | -                    | -                          | 1,000,000                 | -                         | 1,000,000            |
| Forestry road grant   | 12,024               | -                          | -                         | 12,024                    | 24,048               |
| Unorganized townships   |                      |                            |                           |                           |                      |
| Emergency services  | -                    | -                          | -                         | 107,813                   | 107,813              |
| Assigned to   |                      |                            |                           |                           |                      |
| Highways and streets  | -                    | 152,645                    | -                         | -                         | 152,645              |
| Human services  | -                    | -                          | 6,106,974                 | -                         | 6,106,974            |
| Resource development  | -                    | -                          | -                         | 1,047,863                 | 1,047,863            |
| Unassigned  | 9,124,015            | -                          | -                         | -                         | 9,124,015            |
| <b>Total Fund Balances</b>  | <b>\$ 13,929,151</b> | <b>\$ 452,812</b>          | <b>\$ 7,106,974</b>       | <b>\$ 2,816,039</b>       | <b>\$ 24,304,976</b> |
| <b>Total Liabilities, Deferred Inflows<br/>of Resources, and Fund Balances</b>  | <b>\$ 14,918,565</b> | <b>\$ 3,359,247</b>        | <b>\$ 8,020,282</b>       | <b>\$ 3,904,316</b>       | <b>\$ 30,202,410</b> |

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

**EXHIBIT 4**

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO  
THE GOVERNMENT-WIDE STATEMENT OF NET POSITION--GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2014**

|  |    |                             |                              |
|--|----|-----------------------------|------------------------------|
| <b>Fund balances - total governmental funds (Exhibit 3)</b>  |    | <b>\$</b>                   | <b>24,304,976</b>            |
| Amounts reported for governmental activities in the statement of net position are different because:   |    |                             |                              |
| Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. |    |                             | 90,699,540                   |
| Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.                                  |    |                             | 4,471,875                    |
| Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.                |    |                             |                              |
| General obligation bonds   | \$ | (2,410,000)                 |                              |
| Capital leases payable   |    | (1,203,963)                 |                              |
| Compensated absences   |    | (1,432,872)                 |                              |
| Net other postemployment benefits payable  |    | (356,737)                   |                              |
| Accrued interest payable   |    | (28,869)                    |                              |
|  |    | <u>                    </u> | <u>(5,432,441)</u>           |
| <b>Net Position of Governmental Activities (Exhibit 1)</b>   |    |                             | <b><u>\$ 114,043,950</u></b> |

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

**EXHIBIT 5**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

|   | <u>General</u>       | <u>Road and<br/>Bridge</u> | <u>Human<br/>Services</u> | <u>Nonmajor<br/>Funds</u> | <u>Total</u>         |
|---|----------------------|----------------------------|---------------------------|---------------------------|----------------------|
| <b>Revenues</b>   |                      |                            |                           |                           |                      |
| Taxes   | \$ 5,162,335         | \$ 1,769,633               | \$ 1,894,969              | \$ 352,531                | \$ 9,179,468         |
| Licenses and permits                                    | 14,220               | -                          | -                         | 1,604                     | 15,824               |
| Intergovernmental                                       | 5,542,493            | 5,601,701                  | 3,877,243                 | 453,981                   | 15,475,418           |
| Charges for services                                    | 454,273              | 74,519                     | 269,468                   | 38,176                    | 836,436              |
| Fines and forfeits                                      | 1,148                | -                          | -                         | -                         | 1,148                |
| Investment earnings                                     | 354,479              | 7                          | -                         | 273                       | 354,759              |
| Miscellaneous   | 326,441              | 10,735                     | 22,172                    | 2,034,979                 | 2,394,327            |
| <b>Total Revenues</b>                                   | <b>\$ 11,855,389</b> | <b>\$ 7,456,595</b>        | <b>\$ 6,063,852</b>       | <b>\$ 2,881,544</b>       | <b>\$ 28,257,380</b> |
| <b>Expenditures</b>                                     |                      |                            |                           |                           |                      |
| <b>Current</b>  |                      |                            |                           |                           |                      |
| General government                                      | \$ 4,188,287         | \$ -                       | \$ -                      | \$ 6,096                  | \$ 4,194,383         |
| Public safety   | 4,541,002            | -                          | -                         | 128,524                   | 4,669,526            |
| Highways and streets                                    | -                    | 7,087,158                  | -                         | -                         | 7,087,158            |
| Sanitation  | 327,905              | -                          | -                         | -                         | 327,905              |
| Human services  | -                    | -                          | 3,146,386                 | -                         | 3,146,386            |
| Health  | -                    | -                          | 2,678,849                 | -                         | 2,678,849            |
| Culture and recreation                                  | 719,087              | -                          | -                         | 69,273                    | 788,360              |
| Conservation of natural resources                       | 164,893              | -                          | -                         | 565,957                   | 730,850              |
| Economic development                                    | 339,497              | -                          | -                         | -                         | 339,497              |
| <b>Capital outlay</b>                                   |                      |                            |                           |                           |                      |
| Conservation of natural resources                       | -                    | -                          | -                         | 21,609                    | 21,609               |
| <b>Debt service</b>                                     |                      |                            |                           |                           |                      |
| Principal   | -                    | 50,794                     | -                         | 1,836,667                 | 1,887,461            |
| Interest  | -                    | 7,608                      | -                         | 89,661                    | 97,269               |
| Administrative (fiscal) charges                         | -                    | -                          | -                         | 425                       | 425                  |
| <b>Total Expenditures</b>                               | <b>\$ 10,280,671</b> | <b>\$ 7,145,560</b>        | <b>\$ 5,825,235</b>       | <b>\$ 2,718,212</b>       | <b>\$ 25,969,678</b> |
| <b>Excess of Revenues Over<br/>(Under) Expenditures</b> | <b>\$ 1,574,718</b>  | <b>\$ 311,035</b>          | <b>\$ 238,617</b>         | <b>\$ 163,332</b>         | <b>\$ 2,287,702</b>  |
| <b>Other Financing Sources (Uses)</b>                   |                      |                            |                           |                           |                      |
| Transfers in  | \$ 207,683           | \$ 18,190                  | \$ -                      | \$ 1,256,771              | \$ 1,482,644         |
| Transfers out   | (18,190)             | (207,683)                  | -                         | (1,256,771)               | (1,482,644)          |
| Proceeds from sale of bonds                             | -                    | -                          | -                         | 2,391,704                 | 2,391,704            |
| <b>Total Other Financing Sources<br/>(Uses)</b>         | <b>\$ 189,493</b>    | <b>\$ (189,493)</b>        | <b>\$ -</b>               | <b>\$ 2,391,704</b>       | <b>\$ 2,391,704</b>  |
| <b>Net Change in Fund Balances</b>                      | <b>\$ 1,764,211</b>  | <b>\$ 121,542</b>          | <b>\$ 238,617</b>         | <b>\$ 2,555,036</b>       | <b>\$ 4,679,406</b>  |
| <b>Fund Balances - January 1</b>                        | <b>12,164,940</b>    | <b>522,328</b>             | <b>6,868,357</b>          | <b>261,003</b>            | <b>19,816,628</b>    |
| <b>Increase (decrease) in inventories</b>               | <b>-</b>             | <b>(191,058)</b>           | <b>-</b>                  | <b>-</b>                  | <b>(191,058)</b>     |
| <b>Fund Balances - December 31</b>                      | <b>\$ 13,929,151</b> | <b>\$ 452,812</b>          | <b>\$ 7,106,974</b>       | <b>\$ 2,816,039</b>       | <b>\$ 24,304,976</b> |

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

**EXHIBIT 6**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE  
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2014**

**Net change in fund balances - total governmental funds (Exhibit 5) \$ 4,679,406**

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

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

|                                |              |           |
|--------------------------------|--------------|-----------|
| Deferred revenue - December 31 | \$ 4,471,875 |           |
| Deferred revenue - January 1   | (2,318,484)  | 2,153,391 |
|                                |              |           |

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

|  |              |             |
|--|--------------|-------------|
| Expenditures for general capital assets and infrastructure | \$ 1,345,784 |             |
| Current year depreciation                                  | (3,267,492)  | (1,921,708) |
|  |              |             |

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 | \$ (2,410,000) |           |
| Principal repayments            |                |           |
| General obligation bonds        | 1,690,000      |           |
| Capital lease                   | 197,461        | (522,539) |
|                                 |                |           |

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      | \$ 5,028  |           |
| Change in deferred bond issuance costs  |           |           |
| Change in compensated absences          | (59,838)  |           |
| Change in other postemployment benefits | (45,958)  |           |
| Change in inventories                   | (191,058) | (291,826) |
|   |           |           |

**Change in Net Position of Governmental Activities (Exhibit 2) \$ 4,096,724**

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**PROPRIETARY FUND**

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**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

*EXHIBIT 7*

**STATEMENT OF NET POSITION  
PROPRIETARY FUND  
DECEMBER 31, 2014**

|   | <u>Broadband</u>                  |
|---|-----------------------------------|
| <b><u>Assets</u></b>                          |                                   |
| <b>Current assets</b>                         |                                   |
| Accounts receivable                           | \$ 35,690                         |
| Due from other governments                    | 6,534,934                         |
| <b>Capital assets</b>                         |                                   |
| Non-depreciable capital assets                | 31,518,771                        |
| Depreciable - net of accumulated depreciation | <u>12,762,790</u>                 |
| <b>Total Assets</b>                           | <b>\$ <u>50,852,185</u></b>       |
| <b><u>Liabilities</u></b>                     |                                   |
| <b>Current liabilities</b>                    |                                   |
| Accounts payable                              | \$ 155,913                        |
| Contracts payable                             | 2,188,556                         |
| Retainage payable                             | 2,079,254                         |
| Due to other governments                      | 3,421                             |
| Due to other funds                            | 9,989,411                         |
| Loans payable - current                       | <u>1,649,519</u>                  |
| <b>Total current liabilities</b>              | <b>\$ 16,066,074</b>              |
| <b>Noncurrent liabilities</b>                 |                                   |
| Loans payable - noncurrent                    | <u>33,053,544</u>                 |
| <b>Total Liabilities</b>                      | <b>\$ <u>49,119,618</u></b>       |
| <b><u>Net Position</u></b>                    |                                   |
| Net investment in capital assets              | \$ 9,578,498                      |
| Unrestricted                                  | <u>(7,845,931)</u>                |
| <b>Total Net Position</b>                     | <b>\$ <u><u>1,732,567</u></u></b> |

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

*EXHIBIT 8*

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
PROPRIETARY FUND  
FOR THE YEAR ENDED DECEMBER 31, 2014**

|   | <b>Broadband</b>      |
|---|-----------------------|
| <b>Operating Revenues</b>               |                       |
| Charges for services                    | \$ 192,142            |
| Miscellaneous                           | 142                   |
|   | <b>\$ 192,284</b>     |
| <b>Operating Expenses</b>               |                       |
| Contracted services                     | \$ 305,836            |
| Supplies                                | 16,571                |
| Utilities                               | 37,467                |
| Telephone                               | 3,332                 |
| Fuel                                    | 5,545                 |
| Advertising                             | 13,828                |
| Consulting services                     | 966,645               |
| Insurance                               | 67,391                |
| Travel                                  | 33,813                |
| Training                                | 1,091                 |
| License and dues                        | 2,439                 |
| Postage                                 | 3,573                 |
| Rent and leased equipment               | 42,664                |
| Repairs and maintenance                 | 306,046               |
| Video and Internet services             | 93,740                |
| Miscellaneous                           | 20,628                |
| Depreciation                            | 867,128               |
|   | <b>\$ 2,787,737</b>   |
| <b>Operating Income (Loss)</b>          | <b>\$ (2,595,453)</b> |
| <b>Nonoperating Revenues (Expenses)</b> |                       |
| Broadband initiatives program           | \$ 3,372,375          |
| Interest expense                        | (72,604)              |
|   | <b>\$ 3,299,771</b>   |
| <b>Change in Net Position</b>           | <b>\$ 704,318</b>     |
| <b>Net Position - January 1</b>         | <b>1,028,249</b>      |
| <b>Net Position - December 31</b>       | <b>\$ 1,732,567</b>   |

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

**EXHIBIT 9**

**STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
FOR THE YEAR ENDED DECEMBER 31, 2014**

|  | <b>Broadband</b>      |
|--|-----------------------|
| <b>Cash Flows from Operating Activities</b>  |                       |
| Cash received from customers   | \$ 156,452            |
| Other operating revenues   | 142                   |
| Cash paid to suppliers   | (1,860,032)           |
| <b>Net cash provided by (used in) operating activities</b>   | <b>\$ (1,703,438)</b> |
| <b>Cash Flows from Capital and Related Financing Activities</b>  |                       |
| Acquisition of capital assets  | \$ (20,188,985)       |
| Grant proceeds   | 2,451,314             |
| Proceeds from loan   | 13,890,773            |
| Advance  | 6,552,488             |
| Professional services  | (1,190)               |
| Principal paid on loan   | (928,358)             |
| Interest paid on loan  | (72,604)              |
| <b>Net cash provided by (used in) capital and related financing activities</b>                                     | <b>\$ 1,703,438</b>   |
| <b>Net Increase (Decrease) in Cash and Cash Equivalents</b>  | <b>\$ -</b>           |
| <b>Cash and Cash Equivalents at January 1</b>  | <b>-</b>              |
| <b>Cash and Cash Equivalents at December 31</b>  | <b>\$ -</b>           |
| <b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities</b>            |                       |
|  | <b>\$ (2,595,453)</b> |
| <b>Adjustments to reconcile net operating income (loss) to net cash provided by (used in) operating activities</b> |                       |
| Depreciation   | \$ 867,128            |
| Increase (decrease) in receivables   | (35,690)              |
| Increase (decrease) in payables  | 60,577                |
| <b>Total adjustments</b>   | <b>\$ 892,015</b>     |
| <b>Net Cash Provided by (Used in) Operating Activities</b>   | <b>\$ (1,703,438)</b> |

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**FIDUCIARY FUNDS**

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**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

*EXHIBIT 10*

**STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
DECEMBER 31, 2014**

|                             | <u>Agency</u>              |
|-----------------------------|----------------------------|
| <b><u>Assets</u></b>        |                            |
| Cash and pooled investments | <u><u>\$ 1,464,090</u></u> |
| <b><u>Liabilities</u></b>   |                            |
| Accounts payable            | \$ 360,196                 |
| Taxes collected in advance  | 10,432                     |
| Due to other governments    | 1,036,752                  |
| Customer deposits - current | <u>56,710</u>              |
| <b>Total Liabilities</b>    | <u><u>\$ 1,464,090</u></u> |

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**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2014

1. Summary of Significant Accounting Policies

The County’s financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2014. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

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

Discretely Presented Component Unit

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

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

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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1. Summary of Significant Accounting Policies

A. Financial Reporting Entity

Discretely Presented Component Unit (Continued)

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

Joint Ventures and Jointly-Governed Organizations

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

B. Basic Financial Statements

1. Government-Wide Statements

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

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

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

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

2. Fund Financial Statements

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

The County reports the following major governmental funds:

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

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

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

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

The County reports the following major proprietary fund:

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

Additionally, the County reports the following fund types:

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

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

C. Measurement Focus and Basis of Accounting

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

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

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

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

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

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

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

1. Cash and Cash Equivalents

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

2. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Auditor/Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2014, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2014 were \$354,759 at the governmental fund level.

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

2. Deposits and Investments (Continued)

Lake County invests in an external investment pool, the Minnesota Association of Governments Investing for Counties (MAGIC) Fund, which is created under a joint powers agreement pursuant to Minn. Stat. § 471.59. The MAGIC Fund is not registered with the Securities and Exchange Commission. The investment in the pool is measured at the amortized cost per share provided by the pool, which would closely approximate fair value.

3. Receivables and Payables

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

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

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

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

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

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 at the government-wide level are recorded as expenses when consumed.

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 financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

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

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

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

5. Capital Assets (Continued)

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

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

6. Unearned Revenue

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

7. Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. Compensated absences are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

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



**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

7. Compensated Absences (Continued)

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.

8. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expenditure/expense) until then. Currently, the County has no items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report 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 only one type of item, which arises only under the modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. This amount is deferred and recognized as an inflow of resources in the period that the amounts became available.

9. Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the 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.

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

9. Long-Term Obligations (Continued)

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.

10. Classification of Net Position

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

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

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

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

11. Classification of Fund Balances

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

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

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

11. Classification of Fund Balances (Continued)

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

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

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

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

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

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

12. Use of Estimates

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

E. Future Change in Accounting Standards

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, replaces Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 50, *Pension Disclosures*, as they relate to employer governments that provide pensions through pension plans administered as trusts or similar arrangement that meet certain criteria. GASB Statement 68 requires governments providing defined benefit pension plans to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This statement will be effective for the County's calendar year 2015. The County has not yet determined the financial statement impact of adopting this new standard.

2. Stewardship, Compliance, and Accountability

Excess of Expenditures Over Appropriations

For the year ended December 31, 2014, expenditures exceeded appropriations in the following nonmajor funds:

|                       | Final<br>Budget |  | Expenditures |  | Excess    |
|-----------------------|-----------------|--|--------------|--|-----------|
|                       | _____           |  | _____        |  | _____     |
| Special Revenue Funds |                 |  |              |  |           |
| Resource Development  | \$ 189,567      |  | \$ 254,005   |  | \$ 64,438 |
| Unorganized Townships | 121,150         |  | 134,620      |  | 13,470    |
| Debt Service Fund     | 313,153         |  | 1,748,173    |  | 1,435,020 |

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

|   |                          |
|---|--------------------------|
| Primary government  |                          |
| Cash and pooled investments                                   | \$ 11,200,161            |
| Component unit  |                          |
| Cash and pooled investments                                   | 786,034                  |
| Restricted cash with management company for security deposits | 15,015                   |
| Fiduciary funds   |                          |
| Cash and pooled investments                                   | <u>1,464,090</u>         |
| <br>Total Cash and Investments                                | <br><u>\$ 13,465,300</u> |

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.

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

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, 2014, the County's deposits were not exposed to custodial credit risk.

b. Investments

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

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

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

Interest Rate Risk

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

Credit Risk

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

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.

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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 deposit and investment balances at December 31, 2014, and information relating to potential investment risks:

| Investment Type                       | Credit Risk   |               | Concentration Risk   | Interest Rate Risk | Carrying (Fair) Value |
|---------------------------------------|---------------|---------------|----------------------|--------------------|-----------------------|
|                                       | Credit Rating | Rating Agency | Over 5% of Portfolio | Maturity Date      |                       |
| U.S. government agency securities     |               |               |                      |                    |                       |
| Federal National Mortgage Association | N/R           | N/A           | <5%                  | 02/01/2019         | \$ 29,718             |
| Federal Home Loan Bank Bonds          | Aaa           | Moody's       |                      | 12/30/2019         | \$ 799,896            |
| Federal Home Loan Bank Bonds          | Aaa           | Moody's       |                      | 03/27/2023         | 497,500               |
| Federal Home Loan Bank Bonds          | Aaa           | Moody's       |                      | 04/25/2023         | 247,363               |
| Federal Home Loan Bank Bonds          | Aaa           | Moody's       |                      | 05/08/2023         | 999,170               |
| Federal Home Loan Bank Bonds          | Aaa           | Moody's       |                      | 06/13/2023         | 490,510               |
| Federal Home Loan Bank Bonds          | Aaa           | Moody's       |                      | 05/28/2024         | 498,995               |
| Federal Home Loan Bank Bonds          | Aaa           | Moody's       |                      | 07/10/2024         | 300,060               |
| Total Federal Home Loan Bank Bonds    |               |               | 31.3%                |                    | \$ 3,833,494          |
| Negotiable Certificate of Deposit     |               |               |                      |                    |                       |
| CIT Bank                              | N/A           | N/A           | <5%                  | 11/19/2019         | 244,446               |
| Investment pools/mutual funds         |               |               |                      |                    |                       |
| MAGIC Fund                            | N/R           | N/A           | 66.5%                | N/A                | \$ 8,142,462          |
| Total investments                     |               |               |                      |                    | \$ 12,250,120         |
| Deposits - primary government         |               |               |                      |                    | 374,043               |
| Deposits - component unit             |               |               |                      |                    | 801,049               |
| Petty cash and change funds           |               |               |                      |                    | 3,550                 |
| Escheat cash                          |               |               |                      |                    | 36,538                |
| Total Cash and Investments            |               |               |                      |                    | \$ 13,465,300         |

N/A - Not Applicable

N/R - Not Rated

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



**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2014, for the County's governmental and business-type activities are as follows:

|                                | Total<br>Receivables | Amounts Not<br>Scheduled for<br>Collection<br>During the<br>Subsequent Year |
|--------------------------------|----------------------|---|
| Governmental Activities        |                      |   |
| Taxes                          | \$ 516,742           | \$ -  |
| Due from other governments     | 6,588,527            | -   |
| Accounts                       | 697,631              | -   |
| Interest                       | 9,560                | -   |
| Loans receivable               | 98,298               | 88,225  |
| Leases receivable              | 330,000              | 280,073   |
| Total Governmental Activities  | \$ 8,240,758         | \$ 368,298  |
| Business-Type Activities       |                      |   |
| Due from other governments     | \$ 6,534,934         | \$ -  |
| Accounts                       | 35,690               | -   |
| Total Business-Type Activities | \$ 6,570,624         | \$ -  |

Loans Receivable

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

Leases Receivable

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

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2014, was as follows:

Governmental Activities

|  | <u>Beginning<br/>Balance</u> | <u>Increase</u>       | <u>Decrease</u>   | <u>Reclassify</u> | <u>Ending<br/>Balance</u> |
|--|------------------------------|-----------------------|-------------------|-------------------|---------------------------|
| Capital assets not depreciated                 |                              |                       |                   |                   |                           |
| Land   | \$ 4,021,386                 | \$ -                  | \$ -              | \$ -              | \$ 4,021,386              |
| Capital assets depreciated                     |                              |                       |                   |                   |                           |
| Buildings                                      | \$ 16,376,308                | \$ 15,854             | \$ -              | \$ 49,914         | \$ 16,442,076             |
| Improvements other than<br>buildings           | 755,268                      | 23,214                | -                 | (67,163)          | 711,319                   |
| Machinery, furniture, and<br>equipment         | 11,817,759                   | 602,004               | 133,219           | 17,249            | 12,303,793                |
| Infrastructure                                 | <u>102,118,207</u>           | <u>704,712</u>        | <u>-</u>          | <u>-</u>          | <u>102,822,919</u>        |
| Total capital assets depreciated               | <u>\$ 131,067,542</u>        | <u>\$ 1,345,784</u>   | <u>\$ 133,219</u> | <u>\$ -</u>       | <u>\$ 132,280,107</u>     |
| Less: accumulated depreciation<br>for          |                              |                       |                   |                   |                           |
| Buildings                                      | \$ 6,581,422                 | \$ 420,801            | \$ -              | \$ -              | \$ 7,002,223              |
| Improvements other than<br>buildings           | 433,744                      | 34,928                | -                 | -                 | 468,672                   |
| Machinery, furniture, and<br>equipment         | 9,480,452                    | 846,941               | 133,219           | -                 | 10,194,174                |
| Infrastructure                                 | <u>25,972,062</u>            | <u>1,964,822</u>      | <u>-</u>          | <u>-</u>          | <u>27,936,884</u>         |
| Total accumulated depreciation                 | <u>\$ 42,467,680</u>         | <u>\$ 3,267,492</u>   | <u>\$ 133,219</u> | <u>\$ -</u>       | <u>\$ 45,601,953</u>      |
| Total capital assets depreciated,<br>net       | <u>\$ 88,599,862</u>         | <u>\$ (1,921,708)</u> | <u>\$ -</u>       | <u>\$ -</u>       | <u>\$ 86,678,154</u>      |
| Governmental Activities<br>Capital Assets, Net | <u>\$ 92,621,248</u>         | <u>\$ (1,921,708)</u> | <u>\$ -</u>       | <u>\$ -</u>       | <u>\$ 90,699,540</u>      |

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

Business-Type Activities

|   | Beginning<br>Balance | Increase      | Decrease | Transfer/<br>Reclassification | Ending<br>Balance |
|---|----------------------|---------------|----------|-------------------------------|-------------------|
| Capital assets not depreciated                  |                      |               |          |                               |                   |
| Construction in progress                        | \$ 22,077,855        | \$ 19,863,752 | \$ -     | \$ (10,422,836)               | \$ 31,518,771     |
| Capital assets depreciated                      |                      |               |          |                               |                   |
| Buildings                                       | \$ 466,787           | \$ 21,716     | \$ -     | \$ -                          | \$ 488,503        |
| Improvements other than buildings               | 979,038              | 57,660        | -        | -                             | 1,036,698         |
| Machinery, furniture, and<br>equipment          | 164,907              | 520,740       | -        | 1,466,146                     | 2,151,793         |
| Infrastructure                                  | -                    | 1,065,805     | -        | 8,956,690                     | 10,022,495        |
| Total capital assets depreciated                | \$ 1,610,732         | \$ 1,665,921  | \$ -     | \$ 10,422,836                 | \$ 13,699,489     |
| Less: accumulated depreciation<br>for           |                      |               |          |                               |                   |
| Buildings                                       | \$ 11,669            | \$ 12,213     | \$ -     | \$ -                          | \$ 23,882         |
| Improvements other than buildings               | 30,122               | 31,563        | -        | -                             | 61,685            |
| Machinery, furniture, and<br>equipment          | 27,780               | 318,889       | -        | -                             | 346,669           |
| Infrastructure                                  | -                    | 504,463       | -        | -                             | 504,463           |
| Total accumulated depreciation                  | \$ 69,571            | \$ 867,128    | \$ -     | \$ -                          | \$ 936,699        |
| Total capital assets depreciated,<br>net        | \$ 1,541,161         | \$ 798,793    | \$ -     | \$ 10,422,836                 | \$ 12,762,790     |
| Business-Type Activities<br>Capital Assets, Net | \$ 23,619,016        | \$ 20,662,545 | \$ -     | \$ -                          | \$ 44,281,561     |

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

|   |              |
|---|--------------|
| Governmental Activities   |              |
| General government  | \$ 227,386   |
| Public safety   | 432,132      |
| Highways and streets, including depreciation of infrastructure assets | 2,294,615    |
| Human services  | 95,186       |
| Sanitation  | 12,150       |
| Culture and recreation  | 178,718      |
| Conservation of natural resources                                     | 27,305       |
|   | <hr/>        |
| Total Depreciation Expense - Governmental Activities                  | \$ 3,267,492 |
| Business-Type Activities  |              |
| Broadband   | \$ 897,128   |
|   | <hr/>        |

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

1. Due To/From Other Funds

The composition of interfund balances as of December 31, 2014, is as follows:

| <u>Receivable Fund</u>            | <u>Payable Fund</u>      | <u>Amount</u>        | <u>Purpose</u>                        |
|-----------------------------------|--------------------------|----------------------|---------------------------------------|
| General                           | Human Services           | \$ 16,700            | Reimbursement for services            |
|                                   | Other governmental funds | 236,092              | Temporary loan, deficit cash balances |
|                                   | Broadband Enterprise     | <u>9,985,415</u>     | Deficit cash balance                  |
| Total due to General Fund         |                          | <u>\$ 10,238,207</u> |                                       |
| Road and Bridge                   | General                  | \$ 9,836             | Reimbursement for services            |
|                                   | Broadband Enterprise     | <u>3,996</u>         | Reimbursement for services            |
| Total due to Road and Bridge Fund |                          | <u>\$ 13,832</u>     |                                       |
| Total Due To/From Other Funds     |                          | <u>\$ 10,252,039</u> |                                       |

2. Due To/From Primary Government and Component Units

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

3. Interfund Transfers

Interfund transfers for the year ended December 31, 2014, consisted of the following:

|   |                     |                            |
|---|---------------------|----------------------------|
| Transfers to Road and Bridge Special Revenue Fund from General Fund | \$ 18,190           | Reimbursement for services |
| Transfer to General Fund from Road and Bridge Special Revenue Fund  | 207,683             | Excess bond money          |
| Transfer to Resource Development Fund from Tax Forfeited Fund       | <u>1,256,771</u>    | Land lease payment         |
| Total Transfers   | <u>\$ 1,482,644</u> |                            |

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Payables

Payables at December 31, 2014, were as follows:

|                          | Governmental<br>Activities | Business-Type<br>Activities |
|--------------------------|----------------------------|-----------------------------|
| Accounts payable         | \$ 282,408                 | \$ 155,913                  |
| Escheat property payable | 36,538                     | -                           |
| Salaries payable         | 329,990                    | -                           |
| Contracts payable        | 159,922                    | 2,188,556                   |
| Retainage payable        | -                          | 2,079,254                   |
| Due to other governments | 207,506                    | 3,421                       |
| Total Payables           | \$ 1,016,364               | \$ 4,427,144                |

2. Long-Term Debt

Governmental Activities

| Types of Indebtedness                                     | Final<br>Maturity | Installment<br>Amounts  | Interest<br>Rate<br>(%) | Original<br>Issue<br>Amount | Outstanding<br>Balance<br>December 31,<br>2014 |
|---|-------------------|-------------------------|-------------------------|-----------------------------|--|
| General Obligation Bonds                                  |                   |                         |                         |                             |  |
| G.O. Capital Improvement Refunding<br>Bonds, Series 2014A | 2030              | \$60,000 -<br>\$355,000 | 2.00 -<br>3.25          | \$ 2,410,000                | \$ 2,410,000                                   |
| Other Long-Term Debt                                      |                   |                         |                         |                             |  |
| Capital lease - Land                                      | 2021              | \$146,667               | 3.25 -<br>5.375         | \$ 2,200,000                | \$ 1,026,665                                   |
| Capital lease - Grader                                    | 2016              | \$4,893 -<br>\$28,719   | 3.75                    | 134,259                     | 33,612   |
| Capital lease - Chieftain                                 | 2020              | \$14,302 -<br>\$27,823  | 3.70                    | 178,065                     | 143,686  |
| Total Other Long-Term Debt                                |                   |                         |                         | \$ 2,512,324                | \$ 1,203,963                                   |

On July 22, 2014, the County issued \$2,410,000 General Obligation Capital Improvement Refunding Bonds to refund \$1,445,000 of General Obligation State Aid Highway Bonds, Series 2005, and to finance additional broadband construction costs through \$965,000 in tax abatement bonds.

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

2. Long-Term Debt (Continued)

Business-Type Activities

| Types of Indebtedness                   | Final Maturity | Installment Amounts        | Interest Rate (%)  | Original Issue Amount | Outstanding Balance December 31, 2014 |
|---|----------------|----------------------------|--------------------|-----------------------|---------------------------------------|
| Rural Utilities Service Broadband Loans | 2029           | \$426,984 -<br>\$1,226,560 | 2.0154 -<br>3.2870 | \$ 36,145,576         | \$ 34,703,063                         |

3. Debt Service Requirements

Debt service requirements at December 31, 2014, were as follows:

Governmental Activities

| Year Ending<br>December 31 | General Obligation Bonds |            | Other Long-Term Debt |            |
|----------------------------|--------------------------|------------|----------------------|------------|
|                            | Principal                | Interest   | Principal            | Interest   |
| 2015                       | \$ 280,000               | \$ 54,216  | \$ 199,387           | \$ 27,499  |
| 2016                       | 340,000                  | 46,625     | 176,464              | 22,732     |
| 2017                       | 340,000                  | 39,825     | 172,508              | 18,655     |
| 2018                       | 350,000                  | 32,925     | 173,481              | 14,566     |
| 2019                       | 355,000                  | 25,875     | 174,490              | 10,440     |
| 2020 - 2024                | 310,000                  | 91,525     | 307,633              | 9,504      |
| 2025 - 2029                | 355,000                  | 41,875     | -                    | -          |
| 2030                       | 80,000                   | 1,300      | -                    | -          |
| Total                      | \$ 2,410,000             | \$ 334,166 | \$ 1,203,963         | \$ 103,396 |

Business-Type Activities

The debt service requirements for the Rural Utilities Service Broadband Loans at December 31, 2014, are not currently available.

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

4. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2014, was as follows:

Governmental Activities

|   | <u>Beginning<br/>Balance</u> | <u>Additions</u>    | <u>Deductions</u>   | <u>Ending<br/>Balance</u> | <u>Due Within<br/>One Year</u> |
|---|------------------------------|---------------------|---------------------|---------------------------|--------------------------------|
| Bonds payable                                     |                              |                     |                     |                           |                                |
| General obligation bonds                          | \$ 1,690,000                 | \$ -                | \$ 1,690,000        | \$ -                      | \$ -                           |
| General obligation improvement<br>refunding bonds | -                            | 2,410,000           | -                   | 2,410,000                 | 280,000                        |
| Capital lease payable                             | 1,401,424                    | -                   | 197,461             | 1,203,963                 | 199,387                        |
| Compensated absences                              | 1,373,034                    | 691,002             | 631,164             | 1,432,872                 | -                              |
|   | <u>\$ 4,464,458</u>          | <u>\$ 3,101,002</u> | <u>\$ 2,518,625</u> | <u>\$ 5,046,835</u>       | <u>\$ 479,387</u>              |
| Governmental Activities<br>Long-Term Liabilities  |                              |                     |                     |                           |                                |

Business-Type Activities

|                 | <u>Beginning<br/>Balance</u> | <u>Additions</u>     | <u>Deductions</u> | <u>Ending<br/>Balance</u> | <u>Due Within<br/>One Year</u> |
|-----------------|------------------------------|----------------------|-------------------|---------------------------|--------------------------------|
| Broadband Loans | <u>\$ 18,584,402</u>         | <u>\$ 17,047,019</u> | <u>\$ 928,358</u> | <u>\$ 34,703,063</u>      | <u>\$ 1,649,519</u>            |

4. Pension Plans

A. Defined Benefit Plan

Plan Description

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

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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4. Pension Plans

A. Defined Benefit Plan

Plan Description (Continued)

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

Police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Fund. Members who are employed in a county correctional institution as a correctional guard or officer, a joint jailer/dispatcher, or as a supervisor of correctional guards or officers or of joint jailer/dispatchers and are directly responsible for the direct security, custody, and control of the county correctional institution and its inmates, are covered by the Public Employees Correctional Fund. For members first eligible for membership after June 30, 2010, benefits vest on a graduated schedule starting with 50 percent after five years and increasing 10 percent for each year of service until fully vested after ten years.

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits are established by state statute. Defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

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



**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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4. Pension Plans

A. Defined Benefit Plan

Plan Description (Continued)

For General Employees Retirement Fund members hired prior to July 1, 1989, whose annuity is calculated using Method 1, and for all Public Employees Police and Fire Fund and Public Employees Correctional Fund members, a full annuity is available when age plus years of service equal 90. Normal retirement age is 55 for Public Employees Police and Fire Fund members and Public Employees Correctional Fund members, and either 65 or 66 (depending on date hired) for General Employees Retirement Fund members. A reduced retirement annuity is also available to eligible members seeking early retirement.

The benefit provisions stated in the previous paragraphs 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 public service.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund. That report may be obtained on the internet at [www.mnpera.org](http://www.mnpera.org); by writing to PERA at 60 Empire Drive, Suite 200, Saint Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

Funding Policy

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. The County makes annual contributions to the pension plans equal to the amount required by state statutes. General Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 and 6.25 percent, respectively, of their annual covered salary in 2014. Public Employees Police and Fire Fund members are required to contribute 10.20 percent of their annual covered salary in 2014. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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4. Pension Plans

A. Defined Benefit Plan

Funding Policy (Continued)

In 2014, the County is required to contribute the following percentages of annual covered payroll:

|                                       |        |
|---------------------------------------|--------|
| General Employees Retirement Fund     |        |
| Basic Plan members                    | 11.78% |
| Coordinated Plan members              | 7.25   |
| Public Employees Police and Fire Fund | 15.30  |
| Public Employees Correctional Fund    | 8.75   |

The County's contributions for the years ending December 31, 2014, 2013, and 2012, for the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

|                                       | <u>2014</u> | <u>2013</u> | <u>2012</u> |
|---------------------------------------|-------------|-------------|-------------|
| General Employees Retirement Fund     | \$ 392,870  | \$ 380,457  | \$ 379,607  |
| Public Employees Police and Fire Fund | 182,849     | 165,533     | 157,623     |
| Public Employees Correctional Fund    | 44,725      | 44,291      | 44,745      |

These contribution amounts are equal to the contractually required contributions for each year as set by state statute. Contribution rates increased on January 1, 2015, in the General Employees Retirement Fund Coordinated Plan (6.50 percent for members and 7.50 percent for employers) and the Public Employees Police and Fire Fund (10.80 percent for members and 16.20 percent for employers).

B. Defined Contribution Plan

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

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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4. Pension Plans

B. Defined Contribution Plan (Continued)

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. For those qualified personnel who elect to participate, Minn. Stat. § 353D.03 specifies plan provisions, including the employee and employer contribution rates. An eligible elected official who decides to participate contributes 5.00 percent of salary, which is matched by the employer. Employees may elect to make member contributions in an amount not to exceed the employer share. Employee and employer contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2.00 percent of employer contributions and 0.25 percent of the assets in each member account annually.

Total contributions by dollar amount and percentage of covered payroll made by the County during the year ended December 31, 2014, were:

|                               | <u>Employee</u> | <u>Employer</u> |
|-------------------------------|-----------------|-----------------|
| Contribution amount           | \$ 5,156        | \$ 5,156        |
| Percentage of covered payroll | 5%              | 5%              |

Required contribution rates were 5.00 percent.

5. Other Postemployment Benefits (OPEB)

A. Plan Description and Funding Policy

Lake County explicitly subsidizes the cost of retiree health insurance coverage for certain retired employees through a sick leave reserve program under a single employer self-insured plan. Highway Department employees with at least 10 years of service who are eligible to receive a retirement benefit from PERA are eligible for up to 2 years of health insurance premiums paid by the County at the single rate. Highway Department employees with 20 or more years of service are eligible for up to 3 years of health insurance premiums. At retirement, each eligible employee's sick leave hours are converted to a dollar amount using the employee's hourly pay rate at retirement. The period of time for which the employee may receive the paid health insurance benefit is limited to the dollar value of the employee's accumulated sick leave at retirement. As of December 31, 2014, there was no retirees using their sick leave balances for insurance premiums.

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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5. Other Postemployment Benefits (OPEB)

A. Plan Description and Funding Policy (Continued)

Active employees who retire from the County when eligible to receive a retirement benefit from PERA, who do not qualify for the aforementioned benefits and do not participate in any other health benefits program providing similar coverage, will be eligible to continue coverage with respect to both themselves and their eligible dependents under the County's health benefits program. These retirees are required to pay 100 percent of the total premium cost. Since the premium is a blended rate determined on the entire active and retiree population, the retirees are receiving an implicit rate subsidy. As of December 31, 2014, four retirees were receiving health benefits from the County's health plan. The authority to provide these benefits is established in Minn. Stat. § 471.61, subd. 2a.

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

B. Annual OPEB Cost and Net OPEB Obligation

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

|                                 |                          |
|---------------------------------|--------------------------|
| ARC                             | \$ 83,523                |
| Interest on net OPEB obligation | 13,985                   |
| Adjustment to ARC               | <u>(19,389)</u>          |
| Annual OPEB cost                | \$ 78,119                |
| Contributions during the year   | <u>(32,161)</u>          |
| Increase in net OPEB obligation | \$ 45,958                |
| Net OPEB - Beginning of Year    | <u>310,779</u>           |
| Net OPEB - End of Year          | <u><u>\$ 356,737</u></u> |

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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5. Other Postemployment Benefits (OPEB)

B. Annual OPEB Cost and Net OPEB (Continued)

The County's annual OPEB cost; the percentage of annual OPEB cost contributed to the plan; and the net OPEB obligation for 2014, 2013, and 2012 were as follows:

|  | <u>2014</u>      | <u>2013</u>      | <u>2012</u>      |
|--|------------------|------------------|------------------|
| Percentage of annual OPEB cost contributed | 41.2%            | 33.2%            | 29.0%            |
| Annual OPEB cost                           | \$ 78,119        | \$ 94,556        | \$ 96,095        |
| Employer contributions                     | <u>(32,161)</u>  | <u>(31,480)</u>  | <u>(27,843)</u>  |
| Net Increase in Net OPEB Obligation        | <u>\$ 45,958</u> | <u>\$ 63,076</u> | <u>\$ 68,252</u> |

C. Funded Status and Funding Progress

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

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and health care cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress - Other Postemployment Benefits, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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5. Other Postemployment Benefits (OPEB)

C. Funded Status and Funding Progress (Continued)

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

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

6. Postemployment Health Care Plans

A. MSRS Health Care Savings Plan

All Lake County employees (except for Highway Department employees) are eligible to participate in a Health Care Savings Plan (HCSP) administered by the Minnesota State Retirement System (MSRS). The plan is authorized under Minn. Stat. § 352.98 and through an Internal Revenue Service (IRS) private letter ruling establishing the HCSP as a tax-exempt benefit as of July 29, 2002. The plan is open to any active public employees in Minnesota if they are covered under certain public service retirement plans.

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

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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6. Postemployment Health Care Plans

A. MSRS Health Care Savings Plan (Continued)

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

B. VEBA Plan

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

In 2014, the maximum County contribution for active employees is \$1,690 for employees with single coverage and \$3,250 for employees with family coverage. Any balance remaining in an employee's account at year-end rolls over into the subsequent year. Upon retirement, any balance remaining in the VEBA account may be used to pay medical expenses.

Eligibility requirements include:

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

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7. Summary of Significant Contingencies and Other Items

A. Risk Management

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

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$480,000 in 2014 and \$490,000 in 2015. 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.



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

A. Risk Management (Continued)

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

|   | Year Ended December 31 |          |
|---|------------------------|----------|
|   | 2014                   | 2013     |
| Unpaid claims, beginning of fiscal year               | \$ -                   | \$ -     |
| Incurred claims (including incurred but not reported) | 98,782                 | 98,746   |
| Claims payments                                       | (98,782)               | (98,746) |
| Unpaid Claims, End of Fiscal Year                     | \$ -                   | \$ -     |

B. Contingent Liabilities

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

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

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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

C. Other Commitments

Lake County has entered into a joint powers agreement with the Town of Silver Creek to assist the Town in financing a wastewater collection, treatment, and disposal system in the Castle Danger area. The County has agreed to contribute \$65,586 per year through the year 2017 to help finance this project. The total amount to be contributed is \$1,035,000, of which \$878,204 has been paid through December 31, 2014. The outstanding commitment at December 31, 2014, is \$156,796. The agreement may be terminated by the mutual agreement of the two parties. This amount has not been recorded as a liability in Lake County's financial statements.

D. Joint Ventures

Arrowhead Regional Corrections

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

The Arrowhead Regional Corrections Board comprises three major divisions: juvenile institutional services, adult institutional services, and court and field services. These divisions are composed of the five participating counties' probation departments, the Arrowhead Juvenile Detention Center, and the Northeast Regional Corrections Center. Arrowhead Regional Corrections is governed by an eight-member Board, composed of one member appointed from each of the participating counties' Boards of Commissioners, except for St. Louis County, which has three members appointed by its Board. In addition, the right to have an additional member is annually rotated among Carlton, Cook, Koochiching, and Lake Counties.

Arrowhead Regional Corrections is financed through state grants and contributions from the participating counties. Lake County provided \$468,758 in funding during 2014.

Separate financial information can be obtained from:

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

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

D. Joint Ventures (Continued)

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 2014.

Separate financial information can be obtained from:

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

Northeast Minnesota Office of Job Training

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

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

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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7. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Northeast Minnesota Office of Job Training (Continued)

Separate financial information can be obtained from:

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

Minnesota Counties Information Systems (MCIS)

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

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

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

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.

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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7. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Northern Counties Land Use Coordinating Board (Continued)

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 2014.

Separate financial information can be obtained from:

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

North Shore Collaborative

The North Shore Collaborative was established in 1995 pursuant to Minn. Stat. § 124D.23. The Collaborative includes Lake County, Cook County, Independent School District 381, Independent School District 166, and the Grand Portage Reservation. The purpose of the Collaborative is to form a coalition of agencies, schools, and communities along the North Shore that will systematically address the mental health and other needs of the whole person for all children and youth; ensure their graduation from high school; and assist them in becoming healthy, happy, productive citizens.

Control of the North Shore Collaborative is vested in a Board of Directors. Financing is provided by state and federal grants, appropriations from Collaborative members, and miscellaneous revenues. Lake County is the fiscal agent for the Collaborative and handles all of the financial transactions for the organization. Financial information for the Collaborative for the fiscal year ended December 31, 2014, is as follows:

|                   |    |         |
|-------------------|----|---------|
| Total Assets      | \$ | 163,160 |
| Total Liabilities |    | 163,160 |

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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7. Summary of Significant Contingencies and Other Items

D. Joint Ventures

North Shore Collaborative (Continued)

Separate financial information can be obtained from:

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

Arrowhead Health Alliance

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

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

Lake County contributed \$78,697 in start-up funds to the Arrowhead Health Alliance in 2007. Lake County provided no further funding in 2014.

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 Councilor from each of the member cities.

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

D. Joint Ventures

Northeast Minnesota Regional Radio Board (Continued)

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 2014.

Separate financial information can be obtained from:

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

Lake Superior Drug and Violent Crime Task Force

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

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

Fiscal agent responsibilities for the Task Force are with St. Louis County. Lake County provided no funding to this organization in 2014.

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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

E. Jointly-Governed Organizations

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

North Shore Management Board

The North Shore Management Board provides Lake Superior Shoreline planning for Cook, Lake, and St. Louis Counties; the Cities of Beaver Bay, Grand Marais, Silver Bay, and Two Harbors; and the Towns of Duluth and Lakewood. The County contributed \$2,500 to the Board in 2014.

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 Lake County Board of Commissioners. St. Louis County is the fiscal agent for the Railroad Authority, and all of its financial transactions are recorded in the Regional Railroad Authority Agency Fund. Financing is obtained through a tax levy, and federal, state, and local grants or participation. The County did not contribute to the Authority during 2014.

Separate financial information can be obtained from:

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



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

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

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

Segog Property

In June 2005, the County entered into an agreement with the Authority to sell 70 acres of land to the Authority for \$250,000. The property will be used for housing development to meet the County's housing needs and to assist in fostering economic development in the County. The purchase price of \$250,000 will be paid to the County as individual lots are sold in the development. This agreement has not been finalized as of December 31, 2014, and no cash payments have been made.

Tax Increment Shortfalls

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

G. Tax-Forfeited Land

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

**LAKE COUNTY  
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8. Component Unit Disclosures

A. Summary of Significant Accounting Policies

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

Reporting Entity

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

Basis of Presentation

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

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

Measurement Focus and Basis of Accounting

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

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TWO HARBORS, MINNESOTA**

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8. Component Unit Disclosures

A. Summary of Significant Accounting Policies

Measurement Focus and Basis of Accounting (Continued)

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

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

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

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

Cash and Cash Equivalents

The Authority's cash and cash equivalents consist of savings and checking accounts, cash on hand, and certificates of deposit, and do not include restricted accounts.

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."

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8. Component Unit Disclosures

A. Summary of Significant Accounting Policies

Receivables and Payables (Continued)

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

Restricted Assets

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

Capital Assets

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

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

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

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

**LAKE COUNTY  
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8. Component Unit Disclosures

A. Summary of Significant Accounting Policies (Continued)

Long-Term Obligations

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

B. Detailed Notes on All Funds

1. Assets

Deposits

The Authority's total deposits are reported as follows:

|   |                       |
|---|-----------------------|
| Government-wide statement of net position                     |                       |
| Cash and pooled investments                                   | \$ 695,026            |
| Cash with management company for operations                   | 91,008                |
| Restricted cash with management company for security deposits | <u>15,015</u>         |
| <br>Total Cash  | <br><u>\$ 801,049</u> |

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

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.

**LAKE COUNTY  
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8. Component Unit Disclosures

B. Detailed Notes on All Funds

1. Assets

Deposits (Continued)

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, 2014, the Authority's deposits were not exposed to custodial credit risk.

Capital Assets

Capital asset activity for the year ended December 31, 2014, was as follows:

Governmental Activities

|   | Beginning<br>Balance | Increase        | Decrease    | Ending<br>Balance |
|---|----------------------|-----------------|-------------|-------------------|
| Capital assets depreciated                      |                      |                 |             |                   |
| Equipment                                       | \$ 1,866             | \$ -            | \$ -        | \$ 1,866          |
| Less: accumulated depreciation for<br>Equipment | 1,335                | 267             | -           | 1,602             |
| Governmental Activities<br>Capital Assets, Net  | <u>\$ 531</u>        | <u>\$ (267)</u> | <u>\$ -</u> | <u>\$ 264</u>     |

Business-Type Activities

|  | Beginning<br>Balance | Increase           | Decrease    | Ending<br>Balance   |
|--|----------------------|--------------------|-------------|---------------------|
| Capital assets depreciated                                     |                      |                    |             |                     |
| Buildings and structures                                       | \$ 1,879,117         | \$ 7,455           | \$ -        | \$ 1,886,572        |
| Equipment  | 14,639               | 5,292              | -           | 19,931              |
| Total capital assets depreciated                               | <u>\$ 1,893,756</u>  | <u>\$ 12,747</u>   | <u>\$ -</u> | <u>\$ 1,906,503</u> |
| Less: accumulated depreciation for<br>Buildings and structures | \$ 779,045           | \$ 48,466          | \$ -        | \$ 827,511          |
| Equipment  | 5,378                | 1,058              | -           | 6,436               |
| Total accumulated depreciation                                 | <u>\$ 784,423</u>    | <u>\$ 49,524</u>   | <u>\$ -</u> | <u>\$ 833,947</u>   |
| Business-Type Activities<br>Capital Assets, Net                | <u>\$ 1,109,333</u>  | <u>\$ (36,777)</u> | <u>\$ -</u> | <u>\$ 1,072,556</u> |

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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8. 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:

|                                |    |               |
|--------------------------------|----|---------------|
| Governmental Activities        | \$ | 267           |
| Urban and economic development |    | <u>267</u>    |
| Business-Type Activities       |    |               |
| Senior housing                 | \$ | <u>49,524</u> |

2. Liabilities

Long-Term Debt

Business-Type Activities

| Type of Indebtedness                            | Final<br>Maturity | Installment<br>Amounts | Interest<br>Rate<br>(%) | Original<br>Issue<br>Amount | Outstanding<br>Balance<br>December 31,<br>2014 |
|---|-------------------|------------------------|-------------------------|-----------------------------|--|
| 2012 General Obligation<br>Senior Housing Bonds | 2028              | Varies                 | 1.0 - 3.5               | \$ 860,000                  | \$ 730,000                                     |

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

8. Component Unit Disclosures

B. Detailed Notes on All Funds

2. Liabilities (Continued)

Debt Service Requirements

Debt service requirements at December 31, 2014, were as follows:

Business-Type Activities

| <u>Year Ending<br/>December 31</u> | <u>Revenue Bonds</u> |                   |
|------------------------------------|----------------------|-------------------|
|                                    | <u>Principal</u>     | <u>Interest</u>   |
| 2015                               | \$ 50,000            | \$ 19,538         |
| 2016                               | 55,000               | 18,788            |
| 2017                               | 55,000               | 17,863            |
| 2018                               | 55,000               | 16,763            |
| 2019                               | 55,000               | 15,594            |
| 2020 - 2024                        | 295,000              | 57,444            |
| 2025 - 2028                        | 165,000              | 14,119            |
| Totals                             | <u>\$ 730,000</u>    | <u>\$ 160,109</u> |

Changes in Long-Term Liabilities

Business-Type Activities

|   | <u>Beginning<br/>Balance</u> | <u>Additions</u> | <u>Deductions</u> | <u>Ending<br/>Balance</u> | <u>Due Within<br/>One Year</u> |
|---|------------------------------|------------------|-------------------|---------------------------|--------------------------------|
| Bonds payable                                   |                              |                  |                   |                           |                                |
| 2012 General Obligation<br>Senior Housing Bonds | \$ 780,000                   | \$ -             | \$ 50,000         | \$ 730,000                | \$ 50,000                      |
| Less: unamortized<br>discount                   | (10,434)                     | -                | (803)             | (9,631)                   | -                              |
| Total Bonds Payable                             | <u>\$ 769,566</u>            | <u>\$ -</u>      | <u>\$ 49,197</u>  | <u>\$ 720,369</u>         | <u>\$ 50,000</u>               |



**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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8. Component Unit Disclosures (Continued)

C. Summary of Significant Contingencies and Other Items

Tax Increment Financing District

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

District Number 2

Blue Water/Superior Shores Project

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

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

Risk Management

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

Related-Party Transactions

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

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**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, 2014**

|                                 | <b>Budgeted Amounts</b> |                      | <b>Actual<br/>Amounts</b> | <b>Variance with<br/>Final Budget</b> |
|---------------------------------|-------------------------|----------------------|---------------------------|---------------------------------------|
|                                 | <b>Original</b>         | <b>Final</b>         |                           |                                       |
| <b>Revenues</b>                 |                         |                      |                           |                                       |
| Taxes                           | \$ 5,533,504            | \$ 5,533,504         | \$ 5,162,335              | \$ (371,169)                          |
| Licenses and permits            | 6,900                   | 6,900                | 14,220                    | 7,320                                 |
| Intergovernmental               | 4,393,176               | 4,393,176            | 5,542,493                 | 1,149,317                             |
| Charges for services            | 484,700                 | 484,700              | 454,273                   | (30,427)                              |
| Fines and forfeits              | 1,500                   | 1,500                | 1,148                     | (352)                                 |
| Investment earnings             | 60,130                  | 60,130               | 354,479                   | 294,349                               |
| Miscellaneous                   | 98,671                  | 98,671               | 326,441                   | 227,770                               |
| <b>Total Revenues</b>           | <b>\$ 10,578,581</b>    | <b>\$ 10,578,581</b> | <b>\$ 11,855,389</b>      | <b>\$ 1,276,808</b>                   |
| <b>Expenditures</b>             |                         |                      |                           |                                       |
| <b>Current</b>                  |                         |                      |                           |                                       |
| <b>General government</b>       |                         |                      |                           |                                       |
| Commissioners                   | \$ 413,214              | \$ 413,214           | \$ 375,256                | \$ 37,958                             |
| Courts                          | 39,500                  | 39,500               | 43,198                    | (3,698)                               |
| Law library                     | 10,000                  | 10,000               | 6,590                     | 3,410                                 |
| County administration           | 254,417                 | 254,417              | 201,286                   | 53,131                                |
| County auditor                  | 535,090                 | 535,090              | 430,466                   | 104,624                               |
| County assessor                 | 458,138                 | 458,138              | 440,685                   | 17,453                                |
| Elections                       | 29,928                  | 29,928               | 30,300                    | (372)                                 |
| Accounting and auditing         | 70,600                  | 70,600               | 91,580                    | (20,980)                              |
| Data processing                 | 897,582                 | 897,582              | 683,237                   | 214,345                               |
| Personnel                       | 206,753                 | 206,753              | 189,881                   | 16,872                                |
| Attorney                        | 396,172                 | 396,172              | 355,236                   | 40,936                                |
| Recorder                        | 300,396                 | 300,396              | 279,248                   | 21,148                                |
| Planning and zoning             | 298,878                 | 298,878              | 264,848                   | 34,030                                |
| Buildings and plant             | 775,084                 | 775,084              | 646,386                   | 128,698                               |
| Veterans service officer        | 77,722                  | 77,722               | 85,280                    | (7,558)                               |
| Training                        | 4,500                   | 4,500                | 241                       | 4,259                                 |
| Motor pool                      | 83,414                  | 72,414               | 52,896                    | 19,518                                |
| Other general government        | -                       | -                    | 11,673                    | (11,673)                              |
| <b>Total general government</b> | <b>\$ 4,851,388</b>     | <b>\$ 4,840,388</b>  | <b>\$ 4,188,287</b>       | <b>\$ 652,101</b>                     |
| <b>Public safety</b>            |                         |                      |                           |                                       |
| Sheriff                         | \$ 2,337,091            | \$ 2,337,091         | \$ 2,191,098              | \$ 145,993                            |
| Ambulance                       | 164,180                 | 164,180              | 163,792                   | 388                                   |
| Emergency services              | 104,675                 | 104,675              | 70,814                    | 33,861                                |
| Coroner                         | 30,000                  | 30,000               | 23,365                    | 6,635                                 |
| County jail                     | 1,018,188               | 1,018,188            | 1,031,286                 | (13,098)                              |
| Community corrections           | 439,783                 | 439,783              | 499,900                   | (60,117)                              |
| Sentence to serve               | 106,238                 | 117,238              | 115,526                   | 1,712                                 |
| Emergency management            | 92,651                  | 92,651               | 249,140                   | (156,489)                             |
| Other public safety             | 125,357                 | 125,357              | 196,081                   | (70,724)                              |
| <b>Total public safety</b>      | <b>\$ 4,418,163</b>     | <b>\$ 4,429,163</b>  | <b>\$ 4,541,002</b>       | <b>\$ (111,839)</b>                   |

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, 2014**

|  | <b>Budgeted Amounts</b> |                      | <b>Actual<br/>Amounts</b> | <b>Variance with<br/>Final Budget</b> |
|--|-------------------------|----------------------|---------------------------|---------------------------------------|
|  | <b>Original</b>         | <b>Final</b>         |                           |                                       |
| <b>Expenditures</b>                            |                         |                      |                           |                                       |
| <b>Current (Continued)</b>                     |                         |                      |                           |                                       |
| <b>Sanitation</b>                              |                         |                      |                           |                                       |
| Solid waste                                    | \$ 203,491              | \$ 203,491           | \$ 145,368                | \$ 58,123                             |
| Recycling                                      | 172,633                 | 172,633              | 129,348                   | 43,285                                |
| Hazardous waste                                | 77,000                  | 77,000               | 53,189                    | 23,811                                |
| <b>Total sanitation</b>                        | <b>\$ 453,124</b>       | <b>\$ 453,124</b>    | <b>\$ 327,905</b>         | <b>\$ 125,219</b>                     |
| <b>Culture and recreation</b>                  |                         |                      |                           |                                       |
| Historical society                             | \$ 35,000               | \$ 35,000            | \$ 35,040                 | \$ (40)                               |
| Arenas   | 146,782                 | 146,782              | 133,780                   | 13,002                                |
| Humane Society                                 | 3,500                   | 3,500                | 3,500                     | -                                     |
| Memorial Day observance                        | 3,000                   | 3,000                | 3,000                     | -                                     |
| Recreation board                               | 159,275                 | 159,275              | 159,275                   | -                                     |
| Trails   | -                       | -                    | 262,192                   | (262,192)                             |
| County/regional library                        | 122,300                 | 122,300              | 122,300                   | -                                     |
| <b>Total culture and recreation</b>            | <b>\$ 469,857</b>       | <b>\$ 469,857</b>    | <b>\$ 719,087</b>         | <b>\$ (249,230)</b>                   |
| <b>Conservation of natural resources</b>       |                         |                      |                           |                                       |
| County extension                               | \$ 61,572               | \$ 61,822            | \$ 59,572                 | \$ 2,250                              |
| Soil and water conservation                    | 56,020                  | 56,020               | 56,898                    | (878)                                 |
| Agricultural society/County fair               | 21,341                  | 21,341               | 24,116                    | (2,775)                               |
| 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                     | -                                     |
| <b>Total conservation of natural resources</b> | <b>\$ 162,992</b>       | <b>\$ 163,242</b>    | <b>\$ 164,893</b>         | <b>\$ (1,651)</b>                     |
| <b>Economic development</b>                    |                         |                      |                           |                                       |
| Information centers                            | \$ 13,000               | \$ 13,000            | \$ 13,000                 | \$ -                                  |
| Airports                                       | 14,000                  | 14,000               | 14,000                    | -                                     |
| Housing and Redevelopment Authority            | -                       | -                    | 246,198                   | (246,198)                             |
| Other economic development                     | -                       | -                    | 66,299                    | (66,299)                              |
| <b>Total economic development</b>              | <b>\$ 27,000</b>        | <b>\$ 27,000</b>     | <b>\$ 339,497</b>         | <b>\$ (312,497)</b>                   |
| <b>Total Expenditures</b>                      | <b>\$ 10,382,524</b>    | <b>\$ 10,382,774</b> | <b>\$ 10,280,671</b>      | <b>\$ 102,103</b>                     |

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

*EXHIBIT A-1  
(Continued)*

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2014**

|   | <u>Budgeted Amounts</u> |                      | <u>Actual<br/>Amounts</u> | <u>Variance with<br/>Final Budget</u> |
|---|-------------------------|----------------------|---------------------------|---------------------------------------|
|   | <u>Original</u>         | <u>Final</u>         |                           |                                       |
| <b>Excess of Revenues Over (Under)<br/>Expenditures</b> | <b>\$ 196,057</b>       | <b>\$ 195,807</b>    | <b>\$ 1,574,718</b>       | <b>\$ 1,378,911</b>                   |
| <b>Other Financing Sources (Uses)</b>                   |                         |                      |                           |                                       |
| Transfers in  | \$ -                    | \$ -                 | \$ 207,683                | \$ 207,683                            |
| Transfers out   | 54,000                  | 54,000               | (18,190)                  | (72,190)                              |
| <b>Total Other Financing Sources<br/>(Uses)</b>         | <b>\$ 54,000</b>        | <b>\$ 54,000</b>     | <b>\$ 189,493</b>         | <b>\$ 135,493</b>                     |
| <b>Net Change in Fund Balance</b>                       | <b>\$ 250,057</b>       | <b>\$ 249,807</b>    | <b>\$ 1,764,211</b>       | <b>\$ 1,514,404</b>                   |
| <b>Fund Balance - January 1</b>                         | <b>12,164,940</b>       | <b>12,164,940</b>    | <b>12,164,940</b>         | <b>-</b>                              |
| <b>Fund Balance - December 31</b>                       | <b>\$ 12,414,997</b>    | <b>\$ 12,414,747</b> | <b>\$ 13,929,151</b>      | <b>\$ 1,514,404</b>                   |

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

*EXHIBIT A-2*

**BUDGETARY COMPARISON SCHEDULE  
ROAD AND BRIDGE SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2014**

|   | <u>Budgeted Amounts</u>         |                                 | <u>Actual<br/>Amounts</u>       | <u>Variance with<br/>Final Budget</u> |
|---|---------------------------------|---------------------------------|---------------------------------|---------------------------------------|
|   | <u>Original</u>                 | <u>Final</u>                    |                                 |                                       |
| <b>Revenues</b>   |                                 |                                 |                                 |                                       |
| Taxes   | \$ 1,561,673                    | \$ 1,561,673                    | \$ 1,769,633                    | \$ 207,960                            |
| Intergovernmental                                       | 5,962,595                       | 5,962,595                       | 5,601,701                       | (360,894)                             |
| Charges for services                                    | 67,500                          | 67,500                          | 74,519                          | 7,019                                 |
| Investment earnings                                     | -                               | -                               | 7                               | 7                                     |
| Miscellaneous   | 10,000                          | 10,000                          | 10,735                          | 735                                   |
| <b>Total Revenues</b>                                   | <b><u>\$ 7,601,768</u></b>      | <b><u>\$ 7,601,768</u></b>      | <b><u>\$ 7,456,595</u></b>      | <b><u>\$ (145,173)</u></b>            |
| <b>Expenditures</b>                                     |                                 |                                 |                                 |                                       |
| <b>Current</b>  |                                 |                                 |                                 |                                       |
| <b>Highways and streets</b>                             |                                 |                                 |                                 |                                       |
| Administration  | \$ 371,557                      | \$ 371,557                      | \$ 462,538                      | \$ (90,981)                           |
| Maintenance   | 2,350,610                       | 2,262,848                       | 1,949,763                       | 313,085                               |
| Construction  | 4,019,244                       | 4,019,244                       | 3,736,960                       | 282,284                               |
| Equipment maintenance and shop                          | 901,496                         | 972,034                         | 937,897                         | 34,137                                |
| <b>Total highways and streets</b>                       | <b><u>\$ 7,642,907</u></b>      | <b><u>\$ 7,625,683</u></b>      | <b><u>\$ 7,087,158</u></b>      | <b><u>\$ 538,525</u></b>              |
| <b>Debt service</b>                                     |                                 |                                 |                                 |                                       |
| Principal   | \$ -                            | \$ -                            | \$ 50,794                       | \$ (50,794)                           |
| Interest  | -                               | -                               | 7,608                           | (7,608)                               |
| <b>Total debt service</b>                               | <b><u>\$ -</u></b>              | <b><u>\$ -</u></b>              | <b><u>\$ 58,402</u></b>         | <b><u>\$ (58,402)</u></b>             |
| <b>Total Expenditures</b>                               | <b><u>\$ 7,642,907</u></b>      | <b><u>\$ 7,625,683</u></b>      | <b><u>\$ 7,145,560</u></b>      | <b><u>\$ 480,123</u></b>              |
| <b>Excess of Revenues Over (Under)<br/>Expenditures</b> | <b><u>\$ (41,139)</u></b>       | <b><u>\$ (23,915)</u></b>       | <b><u>\$ 311,035</u></b>        | <b><u>\$ 334,950</u></b>              |
| <b>Other Financing Sources (Uses)</b>                   |                                 |                                 |                                 |                                       |
| Transfers in  | \$ 20,000                       | \$ 20,000                       | \$ 18,190                       | \$ (1,810)                            |
| Transfers out   | -                               | -                               | (207,683)                       | (207,683)                             |
| <b>Total Other Financing Sources<br/>(Uses)</b>         | <b><u>\$ 20,000</u></b>         | <b><u>\$ 20,000</u></b>         | <b><u>\$ (189,493)</u></b>      | <b><u>\$ (209,493)</u></b>            |
| <b>Net Change in Fund Balance</b>                       | <b><u>\$ (21,139)</u></b>       | <b><u>\$ (3,915)</u></b>        | <b><u>\$ 121,542</u></b>        | <b><u>\$ 125,457</u></b>              |
| <b>Fund Balance - January 1</b>                         | <b>522,328</b>                  | <b>522,328</b>                  | <b>522,328</b>                  | <b>-</b>                              |
| <b>Increase (decrease) in inventories</b>               | <b><u>-</u></b>                 | <b><u>-</u></b>                 | <b><u>(191,058)</u></b>         | <b><u>(191,058)</u></b>               |
| <b>Fund Balance - December 31</b>                       | <b><u><u>\$ 501,189</u></u></b> | <b><u><u>\$ 518,413</u></u></b> | <b><u><u>\$ 452,812</u></u></b> | <b><u><u>\$ (65,601)</u></u></b>      |

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, 2014**

|                                   | <u>Budgeted Amounts</u>    |                            | <u>Actual<br/>Amounts</u>  | <u>Variance with<br/>Final Budget</u> |
|-----------------------------------|----------------------------|----------------------------|----------------------------|---------------------------------------|
|                                   | <u>Original</u>            | <u>Final</u>               |                            |                                       |
| <b>Revenues</b>                   |                            |                            |                            |                                       |
| Taxes                             | \$ 2,057,265               | \$ 2,057,265               | \$ 1,894,969               | \$ (162,296)                          |
| Intergovernmental                 | 4,125,223                  | 4,125,223                  | 3,877,243                  | (247,980)                             |
| Charges for services              | 143,800                    | 143,800                    | 269,468                    | 125,668                               |
| Miscellaneous                     | 30,740                     | 30,740                     | 22,172                     | (8,568)                               |
| <b>Total Revenues</b>             | <b><u>\$ 6,357,028</u></b> | <b><u>\$ 6,357,028</u></b> | <b><u>\$ 6,063,852</u></b> | <b><u>\$ (293,176)</u></b>            |
| <b>Expenditures</b>               |                            |                            |                            |                                       |
| <b>Current</b>                    |                            |                            |                            |                                       |
| <b>Human services</b>             |                            |                            |                            |                                       |
| Income maintenance                | \$ 897,511                 | \$ 897,511                 | \$ 825,205                 | \$ 72,306                             |
| Social services                   | 2,480,352                  | 2,480,352                  | 2,321,181                  | 159,171                               |
| <b>Total human services</b>       | <b><u>\$ 3,377,863</u></b> | <b><u>\$ 3,377,863</u></b> | <b><u>\$ 3,146,386</u></b> | <b><u>\$ 231,477</u></b>              |
| <b>Health</b>                     |                            |                            |                            |                                       |
| Nursing service                   | \$ 99,641                  | \$ 99,641                  | \$ 66,364                  | \$ 33,277                             |
| Transportation                    | 100,682                    | 100,682                    | 87,408                     | 13,274                                |
| Environmental health              | 103,469                    | 103,469                    | 102,891                    | 578                                   |
| Mental health                     | 2,396,614                  | 2,396,614                  | 2,202,354                  | 194,260                               |
| Health education                  | 329,331                    | 329,331                    | 219,832                    | 109,499                               |
| <b>Total health</b>               | <b><u>\$ 3,029,737</u></b> | <b><u>\$ 3,029,737</u></b> | <b><u>\$ 2,678,849</u></b> | <b><u>\$ 350,888</u></b>              |
| <b>Total Expenditures</b>         | <b><u>\$ 6,407,600</u></b> | <b><u>\$ 6,407,600</u></b> | <b><u>\$ 5,825,235</u></b> | <b><u>\$ 582,365</u></b>              |
| <b>Net Change in Fund Balance</b> | <b><u>\$ (50,572)</u></b>  | <b><u>\$ (50,572)</u></b>  | <b><u>\$ 238,617</u></b>   | <b><u>\$ 289,189</u></b>              |
| <b>Fund Balance - January 1</b>   | <b><u>6,868,357</u></b>    | <b><u>6,868,357</u></b>    | <b><u>6,868,357</u></b>    | <b><u>-</u></b>                       |
| <b>Fund Balance - December 31</b> | <b><u>\$ 6,817,785</u></b> | <b><u>\$ 6,817,785</u></b> | <b><u>\$ 7,106,974</u></b> | <b><u>\$ 289,189</u></b>              |

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

**EXHIBIT A-4**

**SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS  
DECEMBER 31, 2014**

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

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED DECEMBER 31, 2014**

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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 fund level.

Encumbrance accounting is employed in governmental funds.

2. Schedule of Funding Progress - Other Postemployment Benefits

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

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

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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, 2014**

|   | <u>Special Revenue</u>          |                                  |                          | <u>Debt<br/>Service</u>    | <u>Total</u>               |
|---|---------------------------------|----------------------------------|--------------------------|----------------------------|----------------------------|
|   | <u>Resource<br/>Development</u> | <u>Unorganized<br/>Townships</u> | <u>Forfeited<br/>Tax</u> |                            |                            |
| <b><u>Assets</u></b>  |                                 |                                  |                          |                            |                            |
| Cash and pooled investments   | \$ 1,047,863                    | \$ 215,304                       | \$ -                     | \$ 1,455,046               | \$ 2,718,213               |
| Petty cash and change funds   | -                               | -                                | 50                       | -                          | 50                         |
| Undistributed cash in agency funds  | -                               | 9,241                            | -                        | 22,926                     | 32,167                     |
| Taxes receivable  |                                 |                                  |                          |                            |                            |
| Prior   | -                               | 6,017                            | -                        | 15,983                     | 22,000                     |
| Accounts receivable   | -                               | -                                | 653,949                  | -                          | 653,949                    |
| Due from other governments  | 100,000                         | -                                | 181,748                  | -                          | 281,748                    |
| Due from component unit   | -                               | -                                | -                        | 196,189                    | 196,189                    |
| <b>Total Assets</b>   | <b><u>\$ 1,147,863</u></b>      | <b><u>\$ 230,562</u></b>         | <b><u>\$ 835,747</u></b> | <b><u>\$ 1,690,144</u></b> | <b><u>\$ 3,904,316</u></b> |
| <b><u>Liabilities, Deferred Inflows of<br/>Resources, and Fund Balances</u></b> |                                 |                                  |                          |                            |                            |
| <b>Liabilities</b>  |                                 |                                  |                          |                            |                            |
| Accounts payable  | \$ -                            | \$ -                             | \$ 2,032                 | \$ -                       | \$ 2,032                   |
| Salaries payable  | -                               | -                                | 13,565                   | -                          | 13,565                     |
| Due to other funds  | -                               | -                                | 130,004                  | 106,088                    | 236,092                    |
| Due to other governments  | -                               | 117,624                          | -                        | -                          | 117,624                    |
| <b>Total Liabilities</b>  | <b><u>\$ -</u></b>              | <b><u>\$ 117,624</u></b>         | <b><u>\$ 145,601</u></b> | <b><u>\$ 106,088</u></b>   | <b><u>\$ 369,313</u></b>   |
| <b>Deferred Inflows of Resources</b>  |                                 |                                  |                          |                            |                            |
| Unavailable revenue - taxes   | \$ -                            | \$ 5,125                         | \$ -                     | \$ 13,770                  | \$ 18,895                  |
| Unavailable revenue - grants  | 100,000                         | -                                | -                        | -                          | 100,000                    |
| Unavailable revenue - long-term<br>receivables                                  | -                               | -                                | 600,069                  | -                          | 600,069                    |
| <b>Total Deferred Inflows of Resources</b>                                      | <b><u>\$ 100,000</u></b>        | <b><u>\$ 5,125</u></b>           | <b><u>\$ 600,069</u></b> | <b><u>\$ 13,770</u></b>    | <b><u>\$ 718,964</u></b>   |
| <b>Fund Balances</b>  |                                 |                                  |                          |                            |                            |
| Restricted for debt service   | \$ -                            | \$ -                             | \$ -                     | \$ 1,570,286               | \$ 1,570,286               |
| Restricted for forestry development   | -                               | -                                | 78,053                   | -                          | \$ 78,053                  |
| Committed forestry road grant   | -                               | -                                | 12,024                   | -                          | 12,024                     |
| Committed to unorganized townships<br>emergency services                        | -                               | 107,813                          | -                        | -                          | 107,813                    |
| Assigned for resource development   | 1,047,863                       | -                                | -                        | -                          | 1,047,863                  |
| <b>Total Fund Balances</b>  | <b><u>\$ 1,047,863</u></b>      | <b><u>\$ 107,813</u></b>         | <b><u>\$ 90,077</u></b>  | <b><u>\$ 1,570,286</u></b> | <b><u>\$ 2,816,039</u></b> |
| <b>Total Liabilities, Deferred Inflows<br/>Resources, and Fund Balances</b>     | <b><u>\$ 1,147,863</u></b>      | <b><u>\$ 230,562</u></b>         | <b><u>\$ 835,747</u></b> | <b><u>\$ 1,690,144</u></b> | <b><u>\$ 3,904,316</u></b> |

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

*EXHIBIT B-2*

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

|   | <u>Special Revenue</u>          |                                  |                          | <u>Debt<br/>Service</u> | <u>Total</u>        |
|---|---------------------------------|----------------------------------|--------------------------|-------------------------|---------------------|
|   | <u>Resource<br/>Development</u> | <u>Unorganized<br/>Townships</u> | <u>Forfeited<br/>Tax</u> |                         |                     |
| <b>Revenues</b>   |                                 |                                  |                          |                         |                     |
| Taxes   | \$ -                            | \$ 112,934                       | \$ -                     | \$ 239,597              | \$ 352,531          |
| Licenses and permits                                    | -                               | 105                              | 1,499                    | -                       | 1,604               |
| Intergovernmental                                       | 366,578                         | 31,397                           | 34,397                   | 21,609                  | 453,981             |
| Charges for services                                    | -                               | -                                | 38,176                   | -                       | 38,176              |
| Investment earnings                                     | -                               | -                                | -                        | 273                     | 273                 |
| Miscellaneous   | 38,552                          | -                                | 1,925,766                | 70,661                  | 2,034,979           |
| <b>Total Revenues</b>                                   | <b>\$ 405,130</b>               | <b>\$ 144,436</b>                | <b>\$ 1,999,838</b>      | <b>\$ 332,140</b>       | <b>\$ 2,881,544</b> |
| <b>Expenditures</b>                                     |                                 |                                  |                          |                         |                     |
| <b>Current</b>  |                                 |                                  |                          |                         |                     |
| General government                                      | \$ -                            | \$ 6,096                         | \$ -                     | \$ -                    | \$ 6,096            |
| Public safety   | -                               | 128,524                          | -                        | -                       | 128,524             |
| Culture and recreation                                  | 69,273                          | -                                | -                        | -                       | 69,273              |
| Conservation of natural resources                       | 6,152                           | -                                | 559,805                  | -                       | 565,957             |
| <b>Capital outlay</b>                                   |                                 |                                  |                          |                         |                     |
| Conservation of natural resources                       | -                               | -                                | 21,609                   | -                       | 21,609              |
| <b>Debt service</b>                                     |                                 |                                  |                          |                         |                     |
| Principal   | 146,667                         | -                                | -                        | 1,690,000               | 1,836,667           |
| Interest  | 31,913                          | -                                | -                        | 57,748                  | 89,661              |
| Administrative (fiscal) charges                         | -                               | -                                | -                        | 425                     | 425                 |
| <b>Total Expenditures</b>                               | <b>\$ 254,005</b>               | <b>\$ 134,620</b>                | <b>\$ 581,414</b>        | <b>\$ 1,748,173</b>     | <b>\$ 2,718,212</b> |
| <b>Excess of Revenues Over (Under)<br/>Expenditures</b> | <b>\$ 151,125</b>               | <b>\$ 9,816</b>                  | <b>\$ 1,418,424</b>      | <b>\$ (1,416,033)</b>   | <b>\$ 163,332</b>   |
| <b>Other Financing Sources (Uses)</b>                   |                                 |                                  |                          |                         |                     |
| Transfers in  | \$ 1,256,771                    | \$ -                             | \$ -                     | \$ -                    | \$ 1,256,771        |
| Transfers out   | -                               | -                                | (1,256,771)              | -                       | (1,256,771)         |
| Proceeds from sale of bonds                             | -                               | -                                | -                        | 2,391,704               | 2,391,704           |
| <b>Total Other Financing Sources<br/>(Uses)</b>         | <b>\$ 1,256,771</b>             | <b>\$ -</b>                      | <b>\$ (1,256,771)</b>    | <b>\$ 2,391,704</b>     | <b>\$ 2,391,704</b> |
| <b>Net Change in Fund Balance</b>                       | <b>\$ 1,407,896</b>             | <b>\$ 9,816</b>                  | <b>\$ 161,653</b>        | <b>\$ 975,671</b>       | <b>\$ 2,555,036</b> |
| <b>Fund Balance - January 1</b>                         | <b>(360,033)</b>                | <b>97,997</b>                    | <b>(71,576)</b>          | <b>594,615</b>          | <b>261,003</b>      |
| <b>Fund Balance - December 31</b>                       | <b>\$ 1,047,863</b>             | <b>\$ 107,813</b>                | <b>\$ 90,077</b>         | <b>\$ 1,570,286</b>     | <b>\$ 2,816,039</b> |

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

*EXHIBIT B-3*

**BUDGETARY COMPARISON SCHEDULE  
RESOURCE DEVELOPMENT SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2014**

|   | <u>Budgeted Amounts</u> |                     | <u>Actual<br/>Amounts</u> | <u>Variance with<br/>Final Budget</u> |
|---|-------------------------|---------------------|---------------------------|---------------------------------------|
|   | <u>Original</u>         | <u>Final</u>        |                           |                                       |
| <b>Revenues</b>   |                         |                     |                           |                                       |
| Intergovernmental                                       | \$ 96,000               | \$ 96,000           | \$ 366,578                | \$ 270,578                            |
| Miscellaneous   | -                       | -                   | 38,552                    | 38,552                                |
| <b>Total Revenues</b>                                   | <b>\$ 96,000</b>        | <b>\$ 96,000</b>    | <b>\$ 405,130</b>         | <b>\$ 309,130</b>                     |
| <b>Expenditures</b>                                     |                         |                     |                           |                                       |
| <b>Current</b>  |                         |                     |                           |                                       |
| <b>Culture and recreation</b>                           |                         |                     |                           |                                       |
| Trails  | -                       | -                   | 69,273                    | (69,273)                              |
| <b>Conservation of natural resources</b>                |                         |                     |                           |                                       |
| Other conservation                                      | -                       | -                   | 6,152                     | (6,152)                               |
| <b>Debt service</b>                                     |                         |                     |                           |                                       |
| Principal   | \$ 146,667              | \$ 146,667          | \$ 146,667                | \$ -                                  |
| Interest  | 42,900                  | 42,900              | 31,913                    | 10,987                                |
| <b>Total debt service</b>                               | <b>\$ 189,567</b>       | <b>\$ 189,567</b>   | <b>\$ 178,580</b>         | <b>\$ 10,987</b>                      |
| <b>Total Expenditures</b>                               | <b>\$ 189,567</b>       | <b>\$ 189,567</b>   | <b>\$ 254,005</b>         | <b>\$ (64,438)</b>                    |
| <b>Excess of Revenues Over (Under)<br/>Expenditures</b> | <b>\$ (93,567)</b>      | <b>\$ (93,567)</b>  | <b>\$ 151,125</b>         | <b>\$ 244,692</b>                     |
| <b>Other Financing Sources (Uses)</b>                   |                         |                     |                           |                                       |
| Transfers in  | -                       | -                   | 1,256,771                 | 1,256,771                             |
| <b>Net Change in Fund Balance</b>                       | <b>\$ (93,567)</b>      | <b>\$ (93,567)</b>  | <b>\$ 1,407,896</b>       | <b>\$ 1,501,463</b>                   |
| <b>Fund Balance - January 1</b>                         | <b>(360,033)</b>        | <b>(360,033)</b>    | <b>(360,033)</b>          | <b>-</b>                              |
| <b>Fund Balance - December 31</b>                       | <b>\$ (453,600)</b>     | <b>\$ (453,600)</b> | <b>\$ 1,047,863</b>       | <b>\$ 1,501,463</b>                   |

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

*EXHIBIT B-4*

**BUDGETARY COMPARISON SCHEDULE  
UNORGANIZED TOWNSHIPS SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2014**

|                                   | <u>Budgeted Amounts</u> |                   | <u>Actual<br/>Amounts</u> | <u>Variance with<br/>Final Budget</u> |
|-----------------------------------|-------------------------|-------------------|---------------------------|---------------------------------------|
|                                   | <u>Original</u>         | <u>Final</u>      |                           |                                       |
| <b>Revenues</b>                   |                         |                   |                           |                                       |
| Taxes                             | \$ 120,555              | \$ 120,555        | \$ 112,934                | \$ (7,621)                            |
| Licenses and permits              | 38                      | 38                | 105                       | 67                                    |
| Intergovernmental                 | 15,000                  | 15,000            | 31,397                    | 16,397                                |
| <b>Total Revenues</b>             | <b>\$ 135,593</b>       | <b>\$ 135,593</b> | <b>\$ 144,436</b>         | <b>\$ 8,843</b>                       |
| <b>Expenditures</b>               |                         |                   |                           |                                       |
| <b>Current</b>                    |                         |                   |                           |                                       |
| <b>General government</b>         |                         |                   |                           |                                       |
| Elections                         | \$ 7,150                | \$ 7,150          | \$ 6,096                  | \$ 1,054                              |
| <b>Public safety</b>              |                         |                   |                           |                                       |
| Emergency services                | 114,000                 | 114,000           | 128,524                   | (14,524)                              |
| <b>Total Expenditures</b>         | <b>\$ 121,150</b>       | <b>\$ 121,150</b> | <b>\$ 134,620</b>         | <b>\$ (13,470)</b>                    |
| <b>Net Change in Fund Balance</b> | <b>\$ 14,443</b>        | <b>\$ 14,443</b>  | <b>\$ 9,816</b>           | <b>\$ (4,627)</b>                     |
| <b>Fund Balance - January 1</b>   | <b>97,997</b>           | <b>97,997</b>     | <b>97,997</b>             | <b>-</b>                              |
| <b>Fund Balance - December 31</b> | <b>\$ 112,440</b>       | <b>\$ 112,440</b> | <b>\$ 107,813</b>         | <b>\$ (4,627)</b>                     |

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

*EXHIBIT B-5*

**BUDGETARY COMPARISON SCHEDULE  
FORFEITED TAX SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2014**

|   | <u>Budgeted Amounts</u> |                    | <u>Actual<br/>Amounts</u> | <u>Variance with<br/>Final Budget</u> |
|---|-------------------------|--------------------|---------------------------|---------------------------------------|
|   | <u>Original</u>         | <u>Final</u>       |                           |                                       |
| <b>Revenues</b>   |                         |                    |                           |                                       |
| Licenses and permits                                    | \$ 1,216                | \$ 1,216           | \$ 1,499                  | \$ 283                                |
| Intergovernmental                                       | 26,241                  | 26,241             | 34,397                    | 8,156                                 |
| Charges for services                                    | 20,000                  | 20,000             | 38,176                    | 18,176                                |
| Miscellaneous   | 584,650                 | 584,650            | 1,925,766                 | 1,341,116                             |
| <b>Total Revenues</b>                                   | <b>\$ 632,107</b>       | <b>\$ 632,107</b>  | <b>\$ 1,999,838</b>       | <b>\$ 1,367,731</b>                   |
| <b>Expenditures</b>                                     |                         |                    |                           |                                       |
| <b>Current</b>  |                         |                    |                           |                                       |
| <b>Conservation of natural resources</b>                |                         |                    |                           |                                       |
| Land use  | \$ 575,929              | \$ 575,929         | \$ 559,805                | \$ 16,124                             |
| <b>Capital outlay</b>                                   |                         |                    |                           |                                       |
| Conservation of natural resources                       | 42,200                  | 42,200             | 21,609                    | 20,591                                |
| <b>Total Expenditures</b>                               | <b>\$ 618,129</b>       | <b>\$ 618,129</b>  | <b>\$ 581,414</b>         | <b>\$ 36,715</b>                      |
| <b>Excess of Revenues Over (Under)<br/>Expenditures</b> | <b>\$ 13,978</b>        | <b>\$ 13,978</b>   | <b>\$ 1,418,424</b>       | <b>\$ 1,404,446</b>                   |
| <b>Other Financing Sources (Uses)</b>                   |                         |                    |                           |                                       |
| Transfers out   | -                       | -                  | (1,256,771)               | (1,256,771)                           |
| <b>Net Change in Fund Balance</b>                       | <b>\$ 13,978</b>        | <b>\$ 13,978</b>   | <b>\$ 161,653</b>         | <b>\$ 147,675</b>                     |
| <b>Fund Balance - January 1</b>                         | <b>(71,576)</b>         | <b>(71,576)</b>    | <b>(71,576)</b>           | <b>-</b>                              |
| <b>Fund Balance - December 31</b>                       | <b>\$ (57,598)</b>      | <b>\$ (57,598)</b> | <b>\$ 90,077</b>          | <b>\$ 147,675</b>                     |

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

*EXHIBIT B-6*

**BUDGETARY COMPARISON SCHEDULE  
DEBT SERVICE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2014**

|   | <u>Budgeted Amounts</u> |                   | <u>Actual<br/>Amounts</u> | <u>Variance with<br/>Final Budget</u> |
|---|-------------------------|-------------------|---------------------------|---------------------------------------|
|   | <u>Original</u>         | <u>Final</u>      |                           |                                       |
| <b>Revenues</b>   |                         |                   |                           |                                       |
| Taxes   | \$ 261,080              | \$ 261,080        | \$ 239,597                | \$ (21,483)                           |
| Intergovernmental                                       | -                       | -                 | 21,609                    | 21,609                                |
| Investment earnings                                     | 145                     | 145               | 273                       | 128                                   |
| Miscellaneous   | 70,337                  | 70,337            | 70,661                    | 324                                   |
|   | <u>          </u>       | <u>          </u> | <u>          </u>         | <u>          </u>                     |
| <b>Total Revenues</b>                                   | <b>\$ 331,562</b>       | <b>\$ 331,562</b> | <b>\$ 332,140</b>         | <b>\$ 578</b>                         |
| <b>Expenditures</b>                                     |                         |                   |                           |                                       |
| <b>Debt service</b>                                     |                         |                   |                           |                                       |
| Principal   | \$ 255,000              | \$ 255,000        | \$ 1,690,000              | \$ (1,435,000)                        |
| Interest  | 57,748                  | 57,748            | 57,748                    | -                                     |
| Administrative (fiscal) charges                         | 405                     | 405               | 425                       | (20)                                  |
|   | <u>          </u>       | <u>          </u> | <u>          </u>         | <u>          </u>                     |
| <b>Total Expenditures</b>                               | <b>\$ 313,153</b>       | <b>\$ 313,153</b> | <b>\$ 1,748,173</b>       | <b>\$ (1,435,020)</b>                 |
| <b>Excess of Revenues Over (Under)<br/>Expenditures</b> | <b>\$ 18,409</b>        | <b>\$ 18,409</b>  | <b>\$ (1,416,033)</b>     | <b>\$ (1,434,442)</b>                 |
| <b>Other Financing Sources (Uses)</b>                   |                         |                   |                           |                                       |
| Bond issuance   | -                       | -                 | 2,391,704                 | 2,391,704                             |
|   | <u>          </u>       | <u>          </u> | <u>          </u>         | <u>          </u>                     |
| <b>Net Change in Fund Balance</b>                       | <b>\$ 18,409</b>        | <b>\$ 18,409</b>  | <b>\$ 975,671</b>         | <b>\$ 957,262</b>                     |
| <b>Fund Balance - January 1</b>                         | <b>594,615</b>          | <b>594,615</b>    | <b>594,615</b>            | <b>-</b>                              |
|   | <u>          </u>       | <u>          </u> | <u>          </u>         | <u>          </u>                     |
| <b>Fund Balance - December 31</b>                       | <b>\$ 613,024</b>       | <b>\$ 613,024</b> | <b>\$ 1,570,286</b>       | <b>\$ 957,262</b>                     |
|   | <u>          </u>       | <u>          </u> | <u>          </u>         | <u>          </u>                     |

**FIDUCIARY FUNDS**

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**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

*EXHIBIT C-1*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

|  | <b>Balance<br/>January 1</b> | <b>Additions</b>            | <b>Deductions</b>           | <b>Balance<br/>December 31</b> |
|--|------------------------------|-----------------------------|-----------------------------|--------------------------------|
| <b><u>CITIES, TOWNS, AND OTHER<br/>GOVERNMENTS</u></b> |                              |                             |                             |                                |
| <b><u>Assets</u></b>                                   |                              |                             |                             |                                |
| Cash and pooled investments                            | \$ <u>3,362</u>              | \$ <u>12,801,323</u>        | \$ <u>12,801,151</u>        | \$ <u>3,534</u>                |
| <b><u>Liabilities</u></b>                              |                              |                             |                             |                                |
| Due to other governments                               | \$ <u>3,362</u>              | \$ <u>12,801,323</u>        | \$ <u>12,801,151</u>        | \$ <u>3,534</u>                |
| <br><b><u>TAXES AND PENALTIES</u></b>                  |                              |                             |                             |                                |
| <b><u>Assets</u></b>                                   |                              |                             |                             |                                |
| Cash and pooled investments                            | \$ <u>671,399</u>            | \$ <u>19,590,553</u>        | \$ <u>19,284,125</u>        | \$ <u>977,827</u>              |
| <b><u>Liabilities</u></b>                              |                              |                             |                             |                                |
| Taxes collected in advance                             | \$ 12,445                    | \$ 10,432                   | \$ 12,445                   | \$ 10,432                      |
| Due to other governments                               | <u>658,954</u>               | <u>19,580,121</u>           | <u>19,271,680</u>           | <u>967,395</u>                 |
| <b>Total Liabilities</b>                               | <b>\$ <u>671,399</u></b>     | <b>\$ <u>19,590,553</u></b> | <b>\$ <u>19,284,125</u></b> | <b>\$ <u>977,827</u></b>       |
| <br><b><u>STATE</u></b>                                |                              |                             |                             |                                |
| <b><u>Assets</u></b>                                   |                              |                             |                             |                                |
| Cash and pooled investments                            | \$ <u>20,960</u>             | \$ <u>239,584</u>           | \$ <u>194,721</u>           | \$ <u>65,823</u>               |
| <b><u>Liabilities</u></b>                              |                              |                             |                             |                                |
| Due to other governments                               | \$ <u>20,960</u>             | \$ <u>239,584</u>           | \$ <u>194,721</u>           | \$ <u>65,823</u>               |

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

*EXHIBIT C-1  
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

|   | <u>Balance<br/>January 1</u> | <u>Additions</u>  | <u>Deductions</u> | <u>Balance<br/>December 31</u> |
|---|------------------------------|-------------------|-------------------|--------------------------------|
| <b><u>SEWER SYSTEM DEPOSITS</u></b>         |                              |                   |                   |                                |
| <b><u>Assets</u></b>                        |                              |                   |                   |                                |
| Cash and pooled investments                 | \$ <u>53,580</u>             | \$ <u>22,000</u>  | \$ <u>18,870</u>  | \$ <u>56,710</u>               |
| <b><u>Liabilities</u></b>                   |                              |                   |                   |                                |
| Customer deposits - current                 | \$ <u>53,580</u>             | \$ <u>22,000</u>  | \$ <u>18,870</u>  | \$ <u>56,710</u>               |
| <br><b><u>NORTH SHORE COLLABORATIVE</u></b> |                              |                   |                   |                                |
| <b><u>Assets</u></b>                        |                              |                   |                   |                                |
| Cash and pooled investments                 | \$ <u>198,509</u>            | \$ <u>45,345</u>  | \$ <u>80,694</u>  | \$ <u>163,160</u>              |
| <b><u>Liabilities</u></b>                   |                              |                   |                   |                                |
| Accounts payable                            | \$ <u>198,509</u>            | \$ <u>45,345</u>  | \$ <u>80,694</u>  | \$ <u>163,160</u>              |
| <br><b><u>ARROWHEAD HEALTH ALLIANCE</u></b> |                              |                   |                   |                                |
| <b><u>Assets</u></b>                        |                              |                   |                   |                                |
| Cash and pooled investments                 | \$ <u>-</u>                  | \$ <u>326,828</u> | \$ <u>129,792</u> | \$ <u>197,036</u>              |
| <b><u>Liabilities</u></b>                   |                              |                   |                   |                                |
| Accounts payable                            | \$ <u>-</u>                  | \$ <u>326,828</u> | \$ <u>129,792</u> | \$ <u>197,036</u>              |

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

*EXHIBIT C-1  
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

|                                      | <b>Balance<br/>January 1</b> | <b>Additions</b>     | <b>Deductions</b>    | <b>Balance<br/>December 31</b> |
|--------------------------------------|------------------------------|----------------------|----------------------|--------------------------------|
| <b><u>TOTAL ALL AGENCY FUNDS</u></b> |                              |                      |                      |                                |
| <b><u>Assets</u></b>                 |                              |                      |                      |                                |
| Cash and pooled investments          | <b>\$ 947,810</b>            | <b>\$ 33,025,633</b> | <b>\$ 32,509,353</b> | <b>\$ 1,464,090</b>            |
| <b><u>Liabilities</u></b>            |                              |                      |                      |                                |
| Accounts payable                     | \$ 198,509                   | \$ 372,173           | \$ 210,486           | \$ 360,196                     |
| Taxes collected in advance           | 12,445                       | 10,432               | 12,445               | 10,432                         |
| Due to other governments             | 683,276                      | 32,621,028           | 32,267,552           | 1,036,752                      |
| Customer deposits - current          | 53,580                       | 22,000               | 18,870               | 56,710                         |
| <b>Total Liabilities</b>             | <b>\$ 947,810</b>            | <b>\$ 33,025,633</b> | <b>\$ 32,509,353</b> | <b>\$ 1,464,090</b>            |

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## **OTHER SCHEDULES**

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**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

**EXHIBIT D-1**

**SCHEDULE OF INTERGOVERNMENTAL REVENUE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

**Appropriations and Shared Revenue**

**State**

|                              |    |           |
|------------------------------|----|-----------|
| Highway users tax            | \$ | 3,053,933 |
| County program aid           |    | 410,674   |
| PERA rate reimbursement      |    | 24,330    |
| Disparity reduction aid      |    | 158,978   |
| Aquatic invasive species aid |    | 74,146    |
| Police aid                   |    | 127,568   |
| Taconite credit              |    | 556,828   |
| Enhanced 911                 |    | 82,317    |
| Market value credit          |    | 3,347     |
|                              |    | 3,347     |

**Total appropriations and shared revenue** **\$ 4,492,121**

**Reimbursement for Services**

**State**

|  |    |         |
|--|----|---------|
| Minnesota Department of Human Services | \$ | 213,843 |
|--|----|---------|

**Payments**

**State**

|                           |    |         |
|---------------------------|----|---------|
| Payments in lieu of taxes | \$ | 904,823 |
|---------------------------|----|---------|

**Local**

28,525

**Total payments** **\$ 933,348**

**Grants**

**State**

|                                    |    |           |
|------------------------------------|----|-----------|
| Minnesota Department of            |    |           |
| Public Safety                      | \$ | 26,996    |
| Health                             |    | 56,042    |
| Natural Resources                  |    | 569,055   |
| Human Services                     |    | 2,483,618 |
| Employment and Economic Security   |    | 41,900    |
| Veterans Affairs                   |    | 10,000    |
| Board of Water and Soil Resources  |    | 118,794   |
| Office of Environmental Assistance |    | 63,803    |
| IRRRB                              |    | 8,755     |
|                                    |    | 8,755     |

**Total state** **\$ 3,378,963**

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

**EXHIBIT D-1  
(Continued)**

**SCHEDULE OF INTERGOVERNMENTAL REVENUE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

**Grants (Continued)**

**Federal**

|                                 |              |
|---------------------------------|--------------|
| Department of                   |              |
| Agriculture                     | \$ 2,858,263 |
| Commerce                        | 20,821       |
| Housing and Urban Development   | 246,198      |
| Interior                        | 260,509      |
| Transportation                  | 2,095,855    |
| Environmental Protection Agency | 7,776        |
| Education                       | 2,289        |
| Health and Human Services       | 828,534      |
| Homeland Security               | 136,898      |

**Total federal** **\$ 6,457,143**

**Total state and federal grants** **\$ 9,836,106**

**Total Intergovernmental Revenue** **\$ 15,475,418**



**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

*EXHIBIT D-2*

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

| <b>Federal Grantor<br/>Pass-Through Agency<br/>Grant Program Title</b>                  | <b>Contract Number/<br/>Pass-Through<br/>Grant Numbers</b> | <b>Federal<br/>CFDA<br/>Number</b> | <b>Expenditures</b>         |
|---|--|------------------------------------|-----------------------------|
| <b>U.S. Department of Agriculture</b>   |  |                                    |                             |
| Direct  |  |                                    |                             |
| U.S. Forest Service Cooperative Agreement   | 11-LE-11090903-022   |                                    | \$ 13,500                   |
| U.S. Forest Service Cooperative Agreement - Aquatic Passages                            | 11-PA-11090903-027   |                                    | 13,793                      |
| Broadband Initiatives Program Cluster   |  |                                    |                             |
| Broadband Initiatives Program Grant - ARRA  |  | 10.787                             | 3,008,298                   |
| Broadband Initiatives Program Loan - ARRA   |  | 10.787                             | 17,047,019                  |
| (Total Broadband Initiatives Program 10.787 \$20,055,317)                               |  |                                    |                             |
| Passed Through Carlton, Cook, Lake, and St. Louis Community Health Board                |  |                                    |                             |
| Special Supplemental Nutrition Program for Women, Infants, and Children                 |  | 10.557                             | 55,689                      |
| Passed Through Minnesota Department of Human Services                                   |  |                                    |                             |
| State Administrative Matching Grants for the Supplemental Nutrition Assistance Program  |  | 10.561                             | 90,769                      |
| Passed Through Minnesota Management and Budget  |  |                                    |                             |
| Schools and Roads - Grants to States  |  | 10.665                             | 2,568,401                   |
| Passed Through Minnesota Department of Natural Resources                                |  |                                    |                             |
| Forest Products Lab: Technology Marketing Unit (TMU)                                    |  | 10.674                             | <u>129,583</u>              |
| <b>Total U.S. Department of Agriculture</b>   |  |                                    | <b><u>\$ 22,927,052</u></b> |
| <b>U.S. Department of Commerce</b>  |  |                                    |                             |
| Passed Through Minnesota Department of Natural Resources                                |  |                                    |                             |
| Coastal Zone Management Administration Awards   |  | 11.419                             | <b><u>\$ 20,821</u></b>     |
| <b>U.S. Department of Housing and Urban Development</b>                                 |  |                                    |                             |
| Passed Through Minnesota Department of Employment and Economic Development              |  |                                    |                             |
| Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii | CDAP-12-0077-0-FY13  | 14.228                             | <b><u>\$ 246,198</u></b>    |
| <b>U.S. Department of the Interior</b>  |  |                                    |                             |
| Direct  |  |                                    |                             |
| Payments in Lieu of Taxes   |  | 15.226                             | <b><u>\$ 260,509</u></b>    |

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

**EXHIBIT D-2  
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

| <b>Federal Grantor<br/>Pass-Through Agency<br/>Grant Program Title</b>   | <b>Contract Number/<br/>Pass-Through<br/>Grant Numbers</b>   | <b>Federal<br/>CFDA<br/>Number</b> | <b>Expenditures</b> |
|--|--|------------------------------------|---------------------|
| <b>U.S. Department of Transportation</b>   |  |                                    |                     |
| Passed Through Minnesota Department of Transportation<br>Highway Planning and Construction   | SP-38-602-32<br>SP-38-090-03<br>SP-38-090-04<br>SP-38-604-17<br>SP-38-604-18<br>SP-38-605-13<br>SP-38-626-05<br>SP-38-627-02 | 20.205                             | <b>\$ 2,100,644</b> |
| <b>U.S. Environmental Protection Agency</b>  |  |                                    |                     |
| Passed Through Minnesota Department of Natural Resources<br>Great Lakes Program  |  | 66.469                             | <b>\$ 7,776</b>     |
| <b>U.S. Department of Education</b>  |  |                                    |                     |
| Passed Through Carlton, Cook, Lake, and St. Louis Community<br>Health Board<br>Special Education - Grants for Infants and Families |  | 84.181                             | <b>\$ 2,289</b>     |
| <b>U.S. Department of Health and Human Services</b>  |  |                                    |                     |
| Passed Through Carlton, Cook, Lake, and St. Louis Community<br>Health Board  |  |                                    |                     |
| Public Health Emergency Preparedness   |  | 93.069                             | \$ 13,884           |
| Immunization Cooperative Agreement   |  | 93.268                             | 600                 |
| Affordable Care Act (ACA) Maternal, Infant, and Early Childhood<br>Home Visiting Program   |  | 93.505                             | 1,968               |
| Temporary Assistance for Needy Families<br>(Total Temporary Assistance for Needy Families 93.558 \$70,644)                         |  | 93.558                             | 7,087               |
| Refugee and Entrant Assistance - State Administered Programs   |  | 93.566                             | 510                 |
| Maternal and Child Health Services Block Grant to the States   |  | 93.994                             | 5,814               |
| Passed Through Minnesota Department of Human Services  |  |                                    |                     |
| Promoting Safe and Stable Families   |  | 93.556                             | 3,385               |
| Temporary Assistance for Needy Families<br>(Total Temporary Assistance for Needy Families 93.558 \$70,644)                         |  | 93.558                             | 63,557              |
| Child Support Enforcement  |  | 93.563                             | 220,679             |
| Child Care and Development Block Grant   |  | 93.575                             | 3,078               |
| Stephanie Tubbs Jones Child Welfare Services Program   |  | 93.645                             | 2,231               |
| Foster Care - Title IV-E   |  | 93.658                             | 35,286              |
| Social Services Block Grant  |  | 93.667                             | 85,200              |
| Chafee Foster Care Independence Program  |  | 93.674                             | 1,436               |
| Children's Health Insurance Program  |  | 93.767                             | 40                  |
| Medical Assistance Program   |  | 93.778                             | 361,845             |

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

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**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

**EXHIBIT D-2  
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

| <b>Federal Grantor<br/>Pass-Through Agency<br/>Grant Program Title</b>  | <b>Contract Number/<br/>Pass-Through<br/>Grant Numbers</b> | <b>Federal<br/>CFDA<br/>Number</b> | <b>Expenditures</b>                |
|---|--|------------------------------------|------------------------------------|
| <b>U.S. Department of Health and Human Services (Continued)</b>   |  |                                    |                                    |
| Passed Through Koochiching County<br>Rural Health Care Services Outreach, Rural Health Network<br>Development and Small Health Care Provider Quality Improvement<br>Program |  | 93.912                             | <u>21,934</u>                      |
| <b>Total U.S. Department of Health and Human Services</b>   |  |                                    | <b><u>\$ 828,534</u></b>           |
| <b>U.S. Department of Homeland Security</b>   |  |                                    |                                    |
| Passed Through Minnesota Department of Natural Resources<br>Boating Safety Financial Assistance   |  | 97.012                             | \$ 3,875                           |
| Passed Through Minnesota Department of Public Safety<br>Hazard Mitigation Grant   |  | 97.039                             | 20,180                             |
| Emergency Management Performance Grants   |  | 97.042                             | 17,956                             |
| Homeland Security Grant Program   |  | 97.067                             | <u>109,065</u>                     |
| <b>Total U.S. Department of Homeland Security</b>   |  |                                    | <b><u>\$ 151,076</u></b>           |
| <b>Total Federal Awards</b>   |  |                                    | <b><u><u>\$ 26,544,899</u></u></b> |

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**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

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1. Reporting Entity

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

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Lake County under programs of the federal government for the year ended December 31, 2014. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. 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 accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

4. Clusters

Clusters of programs are groupings of closely related programs that share common compliance requirements. Total expenditures by cluster are:

|                                       |               |
|---------------------------------------|---------------|
| Broadband Initiatives Program Cluster | \$ 20,055,317 |
|---------------------------------------|---------------|

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

---

5. Reconciliation to Schedule of Intergovernmental Revenue

|  |                      |
|--|----------------------|
| Federal grant revenue per Schedule of Intergovernmental Revenue    | \$ 6,457,143         |
| Grants received more than 90 days after year-end, deferred in 2014 |                      |
| Cooperative Forestry Assistance                                    | 13,472               |
| Hazard Mitigation Grant  | 14,178               |
| Highway Planning and Construction                                  | 151,524              |
| Deferred in 2013, recognized as revenue in 2014                    |                      |
| Highway Planning and Construction                                  | (3,454)              |
| Recreational Trails Program  | (143,281)            |
| Capital grants received in enterprise funds                        |                      |
| Broadband Initiatives Program Grant - ARRA                         | 3,008,298            |
| Broadband Initiatives Program Loan - ARRA                          | <u>17,047,019</u>    |
| Expenditures Per Schedule of Expenditures of Federal Awards        | <u>\$ 26,544,899</u> |

6. Subrecipients

During 2014, the County did not pass any federal money to subrecipients.

7. American Recovery and Reinvestment Act

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



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**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

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

**Financial Statements**

Type of auditor's report issued: **Unmodified**

Internal control over financial reporting:

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

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

**Federal Awards**

Internal control over major programs:

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

Type of auditor's report issued on compliance for major programs: **Unmodified**

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? **No**

The major programs are:

|  |              |
|--|--------------|
| Schools and Roads - Grants to States       | CFDA #10.665 |
| Broadband Initiatives Program Cluster      |              |
| Broadband Initiatives Program Grant - ARRA | CFDA #10.787 |
| Broadband Initiatives Program Loan - ARRA  | CFDA #10.787 |
| Medical Assistance Program                 | CFDA #93.778 |

The threshold for distinguishing between Types A and B programs was \$300,000.

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

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

### INTERNAL CONTROL

#### PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding 1996-011

#### Segregation of Duties

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

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

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

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

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

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

Client's Response:

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

Finding 2003-002

Capital Assets

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

**Condition:** The County Board has not adopted a capital asset policy. There has not been a physical inventory of capital assets since the records were first established in 2003.

**Context:** The County maintains its capital asset records on a capital asset software system. Additions and deletions are entered into this system, and depreciation is calculated by the system. However, the capital asset policies utilized by the County in maintaining this system have not been formally approved by the County Board.

**Effect:** Without a written capitalization policy, the County may capitalize or depreciate assets inconsistently from year to year. Without a physical inventory of capital assets, it is possible that items that were disposed of will not be properly deleted from inventory.

**Cause:** The County Board has not established or approved a capital asset policy, and no one has been assigned the responsibility of setting up a system to do a physical inventory of capital assets.

**Recommendation:** We recommend the County Board establish a capital asset policy to define the County's accounting policies over capital assets. The policy should address procedures to identify capital asset additions and deletions. Also, we recommend a physical inventory of capital assets be performed at least once every five years. This physical inventory can be rotated so that a portion of the capital assets is inventoried each year.

Client's Response:

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

Finding 2006-002

Budgeting

**Criteria:** Written policies and procedures outline the specific authority and responsibilities of County personnel, providing for accountability. Budget policies should address how budgets will be monitored to provide for accountability over spending.

**Condition:** The County Board has adopted a formal budget policy which addresses when budget amendments must be approved by the County Board or County Auditor/Treasurer. However, the budget policy does not address how the budget will be monitored or who will monitor it.

**Context:** To be an effective financial management tool, a budget should be monitored to determine that departments are not overspending their budgets.

**Effect:** There is no formal process for monitoring the budget. This could result in over expenditure of budgets.

**Cause:** The County Board has not determined the procedures to be used for monitoring the budget and has not addressed this in the budget policy.

**Recommendation:** We recommend the budget policy be revised to include budget monitoring procedures. These procedures could include department head or County Budget Officer review of monthly budget to actual reports. Reviewers should indicate their review of budget to actual reports by signing off on them.

Client's Response:

*For 2015, budgets will be forwarded to each Department Head on a quarterly basis for review. The Auditor and Financial Officer will also review all budgets on a quarterly basis and report noticeable deviances to the Department Head(s) and County Administrator for follow-up. Additionally, the Auditor's Office generates a monthly budget summary report that is submitted to the County Administrator for review.*

Finding 2006-003

Audit Adjustments

**Criteria:** A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements of the financial statements on a timely basis. Auditing standards define a material weakness as a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected, on a timely basis.

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

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

**Effect:** The following audit adjustments were reviewed and approved by the County and are reflected in the financial statements:

- Road and Bridge Special Revenue Fund - Advances from other governments increased and revenues decreased by \$561,863 to reverse a prior year entry posted to the trial balance in error. Deferred inflows of resources - unavailable grants increased by \$156,860, unearned revenue increased by \$146,567, and revenues decreased by \$303,427 to record funds received outside the County's period of availability and record an advance of state-aid funds.
- Human Services Special Revenue Fund - Due from other governments increased by \$901,457, deferred inflows of resources - unavailable grants increased by \$557,257, and revenues increased by \$344,200 to record additional receivables.
- Resource Development Special Revenue Fund - Deferred inflows of resources - unavailable grants and a receivable decreased by \$268,175 to record the receipt of state and federal grant funds.

- Broadband Enterprise Fund - Assets increased by \$26,241,592, liabilities increased by \$21,823,098, and net position increased by \$4,418,494 to record a prior year book entry related to capital assets, receivables, and payables. Assets increased by \$6,534,969, revenues increased by \$980,245, and liabilities increased by \$5,554,724 to record additional revenues and liabilities for Broadband. Assets increased and expenditures decreased by \$818,403 to capitalize additional expenditures for Broadband. Liabilities and expenditures decreased by \$928,358 to record principal paid on the Broadband Initiatives Program Loan. Revenues and expenses decreased by \$2,167,413 to eliminate intra-fund activity.

**Cause:** For the special revenue funds, the County provides cash basis financial statements and prepares some of the modified accrual information necessary to adjust the cash basis financial statements to the modified accrual basis. However, the County staff do not have the time nor the technical expertise to ensure that all material adjustments have been made.

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

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

Client's Response:

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

*The County Administrator, Financial Coordinator, and County Auditor/Treasurer will work with the Broadband Chief Financial Officer to ensure information is being provided to the Auditor's office showing the Broadband Fund reconciliation to the County accounting system on a monthly basis.*

Finding 2006-004

Accounting Policies and Procedures Manual

**Criteria:** All governments should document their accounting policies and procedures. Although other methods might suffice, this documentation is traditionally in the form of an accounting policies and procedures manual.

**Condition:** The County does not have a current and comprehensive accounting policies and procedures manual.

**Context:** This manual should be on hand to document the accounting policies and procedures which make up the County's internal control system. It can also help to prevent deterioration of key elements in the County's internal control system and help to avoid circumvention of County policies.

**Effect:** An accounting policies and procedures manual will enhance employees' understanding of their role and function in the internal control system, establish responsibilities, provide guidance for employees, improve efficiency and consistency of transaction processing, and improve compliance with established policies.

**Cause:** Lake County has various policies and procedures documents that have been adopted by the County Board. Some of these policies are accounting-related policies and others are administrative in nature. The policies have not been integrated into a comprehensive accounting policies and procedures manual.

**Recommendation:** We recommend the County establish an accounting policies and procedures manual. The accounting policies and procedures manual should be prepared by appropriate levels of management and be approved by the County Board to emphasize its importance and authority. The documentation should describe procedures as they are intended to be performed, indicate which employees are to perform which procedures, and explain the design and purpose of control-related procedures to increase employee understanding and support for controls.

Client's Response:

*The County Financial Coordinator has begun the process of updating and coordinating the Accounting Policies. The County Financial Coordinator and the County Auditor/Treasurer will strive to have an Accounting Policies and Procedures Manual draft ready for Board consideration by year-end 2015.*

Finding 2006-006

New Vendors

**Criteria:** Before being added to the accounts payable system, all new vendors should be verified as to their validity.

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

**Context:** There are generally a minimum of five to ten new vendors added to the accounts payable system each year.

**Effect:** Without procedures to review and verify new vendors, fictitious vendors could be established.

**Cause:** Formal policies and procedures have never been established and approved to review new vendors created or to establish their validity.

**Recommendation:** We recommend the County Auditor/Treasurer develop written policies and procedures for staff to follow when setting up a new vendor that verifies the validity of the vendor, such as looking up the vendor in the phone book or on the internet or requiring the company to send information about its business. An active vendor's listing should be periodically reviewed by someone independent of the accounts payable processing function. That person should document the review by signing off on the report.

Client's Response:

*The County Auditor/Treasurer will work with the Deputy Auditors to establish a step-by-step verification for new vendor set up. Either the County Auditor/Treasurer or the Financial Coordinator will review the Vendor List periodically to ensure new vendor validity. The new vendor process will be included in the Accounting Policies and Procedures Manual.*

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

#### PREVIOUSLY REPORTED ITEMS RESOLVED

##### **Identification of Federal Awards (CFDA #10.787) (2011-001)**

During the previous audit, it was noted that the County did not adequately identify amounts received and expended for federal awards on the Schedule of Expenditures of Federal Awards (SEFA).

##### **Resolution**

All expenditures of federal awards in the current year were properly identified and reported on the SEFA.

##### **Reporting (Contract No. 11-PA-11090903-027) (2012-003)**

Lake County did not submit the annual performance reports for December 31, 2011, December 31, 2012, and December 31, 2013, as required by the U.S. Forest Service Cooperative Agreements.

##### **Resolution**

In 2014, the County submitted the annual performance report to the grantor.



#### IV. OTHER FINDINGS AND RECOMMENDATIONS

##### A. MINNESOTA LEGAL COMPLIANCE

###### PREVIOUSLY REPORTED ITEM RESOLVED

###### **Publication of the Budget (2013-001)**

The County's 2013 budget was not published in the County's official newspaper or qualified newspaper of general circulation as required by Minn. Stat. § 375.169.

###### **Resolution**

The County's 2014 budget was published in the County's official newspaper or qualified newspaper of general circulation in compliance with Minn. Stat. § 375.169.

##### B. OTHER ITEM FOR CONSIDERATION

###### GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*

The Governmental Accounting Standards Board (GASB) is the independent organization that establishes standards of accounting and financial reporting for state and local governments. Effective for your calendar year 2015 financial statements, the GASB changed those standards as they apply to employers that provide pension benefits.

GASB Statement 68 significantly changes pension accounting and financial reporting for governmental employers that prepare financial statements on the accrual basis by separating pension accounting methodology from pension funding methodology. Statement 68 requires employers to include a portion of the Public Employees Retirement Association (PERA) total employers' unfunded liability, called the "net pension liability" on the face of the County's government-wide statement of financial position. Lake County's financial position will be immediately impacted by its unfunded share of the pension liability.

Statement 68 changes the amount employers report as pension expense and defers some allocations of expenses to future years—deferred outflows or inflows of resources. It requires pension costs to be calculated by an actuary; whereas, in the past pension costs were equal to the amount of employer contributions sent to PERA during the year. Additional footnote disclosures and required supplementary information schedules are also required by Statement 68.

The net pension liability that will be reported in Lake County's financial statements is an accounting estimate of the proportionate share of PERA's unfunded liability at a specific point in time. That number will change from year to year and is based on assumptions about the probability of the occurrence of events far into the future. Those assumptions include how long people will live, how long they will continue to work, projected salary increases, and how well pension trust investments will do. PERA has been proactive in taking steps toward implementation and will be providing most of the information needed by employers to report the net pension liability and deferred outflows/inflows of resources.



REBECCA OTTO  
STATE AUDITOR

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## **REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

### Independent Auditor's Report

Board of County Commissioners  
Lake County  
Two Harbors, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Lake County, Minnesota, as of and for the year ended December 31, 2014, 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 22, 2015.

### **Internal Control Over Financial Reporting**

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

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

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected, on a timely basis. We considered the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2006-003 to be a material weakness.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 1996-011, 2003-002, 2006-002, 2006-004, and 2006-006 to be significant deficiencies.

### **Compliance and Other Matters**

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

### **Minnesota Legal Compliance**

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, 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 Political Subdivisions*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the County's noncompliance with the above referenced provisions.

## **Other Matters**

Also included in the Schedule of Findings and Questioned Costs is an other item for consideration. We believe this information to be of benefit to the County, and it is reported for that purpose.

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

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

## **Purpose of This Report**

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

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

September 22, 2015

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

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

### Independent Auditor's Report

Board of County Commissioners  
Lake County  
Two Harbors, Minnesota

### **Report on Compliance for Each Major Federal Program**

We have audited Lake County's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the County's major federal programs for the year ended December 31, 2014. Lake County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

#### ***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its federal programs.

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Lake County's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Lake County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

***Opinion on Each Major Federal Program***

In our opinion, Lake County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2014.

**Report on Internal Control Over Compliance**

Management of Lake County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit the attention of those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



## **Purpose of This Report**

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

September 22, 2015

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR