STATE OF MINNESOTA
Office of the State Auditor

Rebecca Otto
State Auditor

MILLE LACS COUNTY
MILACA, MINNESOTA

YEAR ENDED DECEMBER 31, 2017

Description of the Office of the State Auditor

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

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

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

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

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

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

Pension - monitors investment, financial, and actuarial reporting for approximately 650 public pension funds; and

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

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

Office of the State Auditor
525 Park Street, Suite 500
Saint Paul, Minnesota 55103
(651) 296-2551
state.auditor@osa.state.mn.us
www.auditor.state.mn.us

This document can be made available in alternative formats upon request. Call 651-296-2551 [voice] or 1-800-627-3529 [relay service] for assistance; or visit the Office of the State Auditor's web site: www.auditor.state.mn.us.

MILLE LACS COUNTY
MILACA, MINNESOTA

Year Ended December 31, 2017

Audit Practice Division
Office of the State Auditor
State of Minnesota

This page was left blank intentionally.

MILLE LACS COUNTY
MILACA, MINNESOTA

TABLE OF CONTENTS

MILLE LACS COUNTY
MILACA, MINNESOTA

TABLE OF CONTENTS

This page was left blank intentionally.

MILLE LACS COUNTY
MILACA, MINNESOTA

ORGANIZATION
2017

Office	Name	Term From	Term To
Commissioners			
1st District	Genny Reynolds	January 2017	January 2021
2nd District	Tim Wilhelm	January 2015	January 2019
3rd District	Phil Peterson	January 2017	January 2021
4th District	Roger Tellinghuisen*	January 2015	January 2019
5th District	David Oslin	January 2017	January 2021
Officers			
Elected			
Attorney	Joe Walsh	January 2015	January 2019
Auditor-Treasurer	Philip Thompson	January 2015	January 2019
Sheriff	Brent Lindgren	January 2015	January 2019
Appointed			
Administrator	Pat Oman	October 2015	Indefinite
Assessor	Al Heim	January 2017	December 2021
Engineer	Bruce Cochran	May 2015	May 2019
Community and Veterans Services Director	Beth Crook	January 2014	Indefinite
Director of County Probation	Ben Davis	August 2015	Indefinite
Land Services Director	Michele McPherson	March 2009	Indefinite
Medical Examiner	Dr. Quinn Strobl	January 2017	December 2017

*Board Chair

This page was left blank intentionally.

Financial Section

This page was left blank intentionally.

STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

REBECCA OTTO
STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Mille Lacs County
Milaca, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mille Lacs County, Minnesota, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the County's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Mille Lacs County as of December 31, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 4, 2018, on our consideration of Mille Lacs County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Mille Lacs County's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Mille Lacs County's internal control over financial reporting and compliance.

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

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

/s/Rebecca Otto — */s/Greg Hierlinger*

REBECCA OTTO
STATE AUDITOR

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 4, 2018

This page was left blank intentionally.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This page was left blank intentionally.

MILLE LACS COUNTY
MILACA, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017
(Unaudited)

Mille Lacs County's Management's Discussion and Analysis (MD&A) provides an overview of the County's financial activities for the fiscal year ended December 31, 2017. We encourage readers to consider the information presented here in conjunction with the County's basic financial statements following this section. All amounts, unless otherwise indicated, are expressed in whole dollars.

FINANCIAL HIGHLIGHTS

- Governmental activities' total net position is $65,578,777, of which $63,939,749 is the net investment in capital assets, and $4,726,524 is restricted to specific purposes/uses by the County.

- The net cost of Mille Lacs County's governmental activities for the year ended December 31, 2017, was $20,418,067; the net cost was funded by general revenues and other items totaling $18,528,789.

- At the close of 2017, Mille Lacs County's governmental funds reported combined ending fund balances of $17,230,194, a decrease of $1,746,019 from the previous year-end balance. At the end of the year, Mille Lacs County's assigned and unassigned fund balance totaled $13,360,958, which is available for spending at the County Board's discretion.

OVERVIEW OF THE FINANCIAL STATEMENTS

Mille Lacs County's MD&A serves as an introduction to the basic financial statements. The County's basic financial statements consist of three parts: government-wide financial statements, fund financial statements, and notes to the financial statements. The MD&A (this section); certain budgetary comparison schedules; the Schedules of Proportionate Share of Net Pension Liability and Schedules of Contributions for the Public Employees Retirement Association of Minnesota (PERA) General Employees Retirement Plan, Public Employees Police and Fire Plan, and Public Employees Correctional Plan; 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. The following chart demonstrates how the different pieces are inter-related.

Management's Discussion and Analysis (Required Supplementary Information)	
Government-Wide Financial Statements	Fund Financial Statements
Notes to the Financial Statements	
Required Supplementary Information (Other than Management's Discussion and Analysis)	

Mille Lacs County presents two government-wide financial statements: the Statement of Net Position and the Statement of Activities. These two government-wide financial statements provide information about the activities of the County as a whole and present a longer-term view of Mille Lacs County's finances. The County's fund financial statements follow these two government-wide financial statements. For governmental activities, these statements tell how Mille Lacs County financed its services in the short term as well as what remains for future spending. Fund financial statements also report the County's operations in more detail than the government-wide statements by providing information about the County's most significant/major funds. 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 Mille Lacs County as a whole and about its activities in a way that helps the reader determine whether Mille Lacs County's financial condition has improved or declined as a result of the current year's activities. These statements include all assets, deferred outflows of resources, liabilities, and deferred inflows of resources using the full accrual basis of accounting, which is similar to the accounting used by most private-sector companies.

These two statements consider all of Mille Lacs County's current year revenues and expenses, regardless of when the County receives the revenue or pays the expenditure, and report the County's net position and changes in it. You can think of the County's net position--the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources--as one way to measure Mille Lacs 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 general economic conditions of the state and County, to assess the overall health of Mille Lacs County.

Governmental activities--Mille Lacs County reports its basic services in the "Governmental Activities" column of these statements. The activities reported by the County include general government, public safety, highways and streets, sanitation, human services, health, culture and recreation, conservation of natural resources, economic development, and interest expense on long-term debt. Mille Lacs County finances the majority of these activities with local property taxes, state-paid aids, fees, charges for services, and federal and state grants.

Fund Financial Statements

Mille Lacs County's fund financial statements provide detailed information about the significant funds--not the County as a whole. Significant governmental, proprietary, and fiduciary funds may be established by the County to meet requirements of a specific state law; to help control and manage money for a particular purpose/project; or to show that it is meeting specific legal responsibilities and obligations when expending property tax revenues, grants, and/or other funds designated for a specific purpose.

Governmental funds--Most of Mille Lacs 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 in the financial statements using modified accrual accounting, which measures cash and other financial assets that the County can readily convert 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 determine whether financial resources are available that can be spent in the near future to finance various programs within Mille Lacs County. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in a reconciliation statement following each governmental fund financial statement.

Proprietary funds--The County maintains one proprietary fund type, an internal service fund, which is an accounting device used to accumulate and allocate costs internally. Mille Lacs County uses an internal service fund to account for its self-insurance activities. These services benefit governmental functions and have been allocated to governmental activities in the government-wide financial statements.

Reporting the County's Fiduciary Responsibilities

Mille Lacs County is the trustee, or fiduciary, over assets that can be used only for the trust beneficiaries based on the trust arrangement. The County reports all of its fiduciary activities in separate Statements of Fiduciary Net Position and Changes in Fiduciary Net Position. These activities have been excluded from the County's other financial statements because the County cannot use these assets to finance its operations. Mille Lacs County is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

THE COUNTY AS A WHOLE

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

Table 1
Net Position

	2017	2016
Assets		
Current and other assets	$ 21,490,989	$ 26,316,733
Capital assets	70,719,749	69,437,482
Total Assets	$ 92,210,738	$ 95,754,215
Deferred Outflows of Resources		
Deferred pension outflows	$ 9,099,022	$ 13,150,186
Liabilities		
Long-term liabilities outstanding	$ 25,335,563	$ 33,890,447
Other liabilities	2,551,532	5,253,249
Total Liabilities	$ 27,887,095	$ 39,143,696
Deferred Inflows of Resources		
Deferred pension inflows	$ 7,491,498	$ 2,292,650
Prepaid property taxes	352,390	-
Total Deferred Inflows of Resources	$ 7,843,888	$ 2,292,650
Net Position		
Net investment in capital assets	$ 63,786,246	$ 62,313,778
Restricted	4,726,524	4,503,253
Unrestricted	(2,933,993)	651,024
Total Net Position	$ 65,578,777	$ 67,468,055

A large portion of Mille Lacs County's net position, $63,786,246 (97.27 percent), reflects the County's investment in capital assets, less any related debt used to acquire those assets. The County uses these capital assets to provide services to citizens. However, it should be noted that these assets are not available for future spending or for liquidating any remaining debt. The portion of the County's net position subject to external restrictions on how they are used is $4,726,524 (7.21 percent). The unrestricted net position instead is ($2,933,993) or (4.47) percent) for 2017.

Table 2
Changes in Net Position

		2017		2016
Program revenues				
Fees, charges, fines, and other	$	3,484,231	$	3,698,202
Operating grants and contributions		15,621,869		12,972,019
Capital grants and contributions		-		80,710
General revenues				
Property taxes		14,554,429		13,876,855
Other		3,974,360		3,064,162
Total Revenues	$	37,634,889	$	33,691,948
Expenses				
General government	$	6,863,029	$	6,768,857
Public safety		11,149,781		11,642,027
Highways and streets		5,517,554		7,471,223
Sanitation		102,896		91,269
Human services		10,622,014		10,621,018
Health		712,325		921,542
Culture and recreation		385,510		323,284
Conservation of natural resources		349,850		299,302
Economic development		3,627,613		282,296
Interest		193,595		175,094
Total Expenses	$	39,524,167	$	38,595,912
Change in Net Position	$	(1,889,278)	$	(4,903,964)
Net Position - January 1		67,468,055		72,372,019
Net Position - December 31	$	65,578,777	$	67,468,055

Governmental Activities

Revenues for Mille Lacs County's governmental activities for the year ended December 31, 2017, were $37,634,889. The County's cost for all governmental activities for the year ended December 31, 2017, was $39,524,167. The net position for the County's governmental activities decreased by $1,889,278 in 2017.

As shown in the Statement of Activities, the amount that Mille Lacs County taxpayers ultimately financed for these governmental activities through local property taxation was $14,554,429, because $3,484,231 of the costs were paid by those who directly benefited from the programs, and $15,621,869 was paid by other governments and organizations that subsidized certain programs with grants and contributions. Mille Lacs County paid for the remaining "public benefit" portion of governmental activities with $2,011,550 in grants and contributions not restricted to specific programs and $1,962,810 in other revenues, such as investment income, local option sales tax, mortgage registry tax, and state deed tax.

County Revenues for Fiscal Year 2017

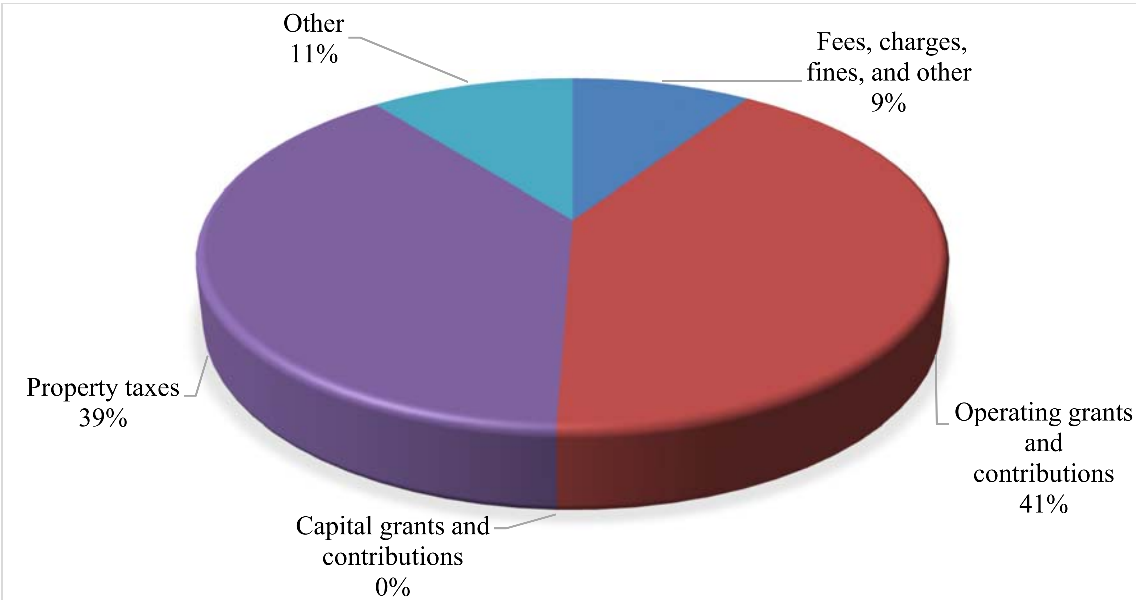
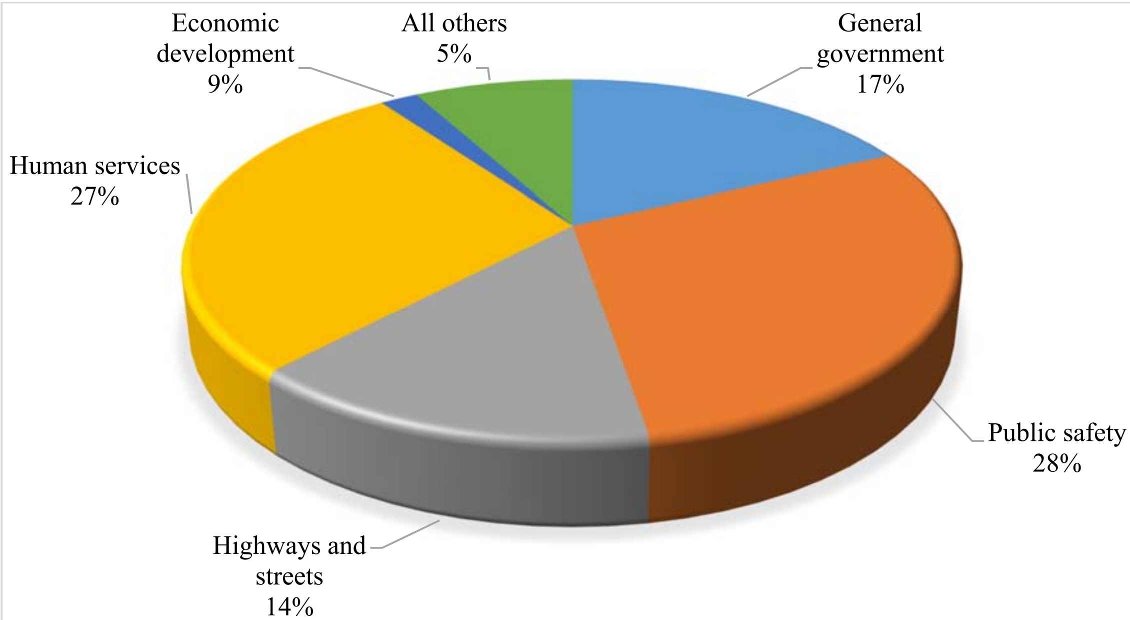


Table 3 presents the cost of each of Mille Lacs County's five largest program functions as well as each function's net cost (total cost, less revenues generated by the activities). The net cost shows the financial burden placed on Mille Lacs County's taxpayers by each of these functions.

Table 3
Governmental Activities

	2017	
	Total Cost of Services	Net Cost of Services
Program expenses		
General government	$ 6,863,029	$ (5,736,742)
Public safety	11,149,781	(9,118,792)
Highways and streets	5,517,554	(571,947)
Human services	10,622,014	(4,243,168)
Economic development	3,627,613	(58,030)
All others	1,744,176	(689,388)
Total Program Expenses	$ 39,524,167	$ (20,418,067)

County Expenses for Fiscal Year 2017



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

Governmental Funds

The focus of the County's governmental funds is to provide information on short-term inflows, outflows, and the balances left at year-end that are available for spending. Such information is useful in assessing the County's financing requirements. In particular, committed, assigned, and unassigned fund balance may serve as a useful measure of net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, governmental funds reported combined ending fund balances of $17,230,194, a decrease of $1,746,019 in comparison with the prior year. Of the combined ending fund balances, $13,697,190 represents unrestricted (committed, assigned, and unassigned) fund balance, which is available for spending at the County's discretion. The remainder of fund balance, $3,533,004 is not available for general spending due to restrictions for specific purposes or is considered nonspendable.

The General Fund is the main operating fund of the County. At the end of the 2017, the General Fund's fund balance was $7,403,713, of which $5,654,373 was committed, assigned, or unassigned. As a measure of the General Fund's liquidity, it may be useful to compare unrestricted fund balance to total expenditures. The General Fund's unrestricted fund balance represents 28.71 percent of total General Fund expenditures. During 2017, the ending fund balance increased by $94,976.

The Road and Bridge Special Revenue Fund had total fund balance of $2,277,796 at the end of 2017. The fund balance decreased $174,178 during 2017, which can be attributed to less intergovernmental revenue received.

The Community and Veteran Services Special Revenue Fund had total fund balance of $5,868,694 at the end of 2017. The fund balance increased $675,335, in part, due to higher federal revenue and more services rendered than the prior year.

The Debt Service Fund had total fund balance of $820,826 at the end of 2017. The fund balance decreased $1,070,033 during 2017 due, in part, to an increase in scheduled debt service expenditures.

The Capital Projects Fund had total fund balance of $857,247 at the end of 2017. The fund balance decreased $1,279,271 during 2017 due to planned capital improvements during the year.

General Fund Budgetary Highlights

The Mille Lacs County Board of Commissioners, over the course of a budget year, may amend/revise the County's General Fund budget. Budget amendments/revisions fall into one of three categories: new information changing original budget estimations, greater than anticipated revenues or costs, and final agreement reached on employee contracts.

In 2017, the General Fund's actual revenues exceeded expected revenues by $4,293,356, and actual expenditures were less than budgeted expenditures by $47,682. During the year, the County spent $159,936 for land records and information, $4,119 for communications, and $102,675 for snowmobile trails; not all of these expenditures were budgeted. In addition, expenditures in the County Jail were higher than anticipated.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2017, Mille Lacs County had $70,719,749 invested in a broad range of capital assets, net of depreciation. This investment in capital assets includes land, land improvements, buildings, highways and streets, equipment, and software (see Table 4 below).

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

	2017	2016
Land	$ 2,719,024	$ 2,565,759
Construction in progress	3,172,411	107,082
Land improvements	302,244	345,566
Buildings	17,291,653	18,030,164
Machinery and equipment	3,614,341	3,426,157
Infrastructure	43,544,772	44,894,105
Software	75,304	68,649
Total	$ 70,719,749	$ 69,437,482

Debt Administration

At December 31, 2017, Mille Lacs County had $6,780,000 in bonds outstanding, compared with $7,290,000 as of December 31, 2016, a decrease of 7.0 percent, as shown in Table 5.

Table 5
Outstanding Debt at Year-End

Bonds and Notes Payable	Governmental Activities 2017	Governmental Activities 2016	Percent (%) Change
2010A G.O. Capital Improvement Plan Bonds	$ 240,000	$ 355,000	(32.4)
2010B Taxable Capital Improvement Bonds - Recovery Zone Economic Development Bonds	920,000	920,000	-
2014 G.O. Capital Improvement Plan Refunding Bonds	5,620,000	6,015,000	(6.6)
Total	$ 6,780,000	$ 7,290,000	(7.0)

Other long-term obligations include compensated absences, the other postemployment benefits liability, and the net pension liability. Mille Lacs County's notes to the financial statements provide detailed information about the County's long-term liabilities.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The County's elected and appointed officials considered many factors when setting the fiscal year 2018 budget and tax rates.

- Major revenue sources for the County are state-paid aids, credits, and grants. The County is anticipating no significant changes to these programs in 2018.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

Mille Lacs County's financial report provides citizens, taxpayers, customers, investors, and creditors with a general overview of Mille Lacs County's finances and shows the County's accountability for the money it receives and spends. If you have questions about this report, or need additional financial information, contact Pat Oman, Mille Lacs County Administrator, (320-983-8218), Mille Lacs County Courthouse, 635 - 2nd Street Southeast, Milaca, Minnesota 56353.

This page was left blank intentionally.

BASIC FINANCIAL STATEMENTS

This page was left blank intentionally.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

This page was left blank intentionally.

MILLE LACS COUNTY
MILACA, MINNESOTA

EXHIBIT 1

STATEMENT OF NET POSITION
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2017

Assets		
Cash and pooled investments	$	17,508,259
Petty cash and change funds		850
Departmental cash		27,887
Taxes receivable		
Delinquent		603,205
Special assessments receivable		
Delinquent		1,399
Accounts receivable		287,251
Accrued interest receivable		26,584
Due from other governments		2,643,251
Inventories		369,587
Prepaid items		22,716
Capital assets		
Non-depreciable		5,891,435
Depreciable - net of accumulated depreciation		64,828,314
Total Assets	**$**	**92,210,738**
Deferred Outflows of Resources		
Deferred pension outflows	**$**	**9,099,022**
Liabilities		
Accounts payable	$	875,358
Salaries payable		716,121
Claims payable		10,712
Contracts payable		93,682
Due to other governments		73,343
Accrued interest payable		84,799
Unearned revenue		710
Long-term liabilities		
Due within one year		696,807
Due in more than one year		8,519,984
Net pension liability		15,031,934
Other postemployment benefits liability		1,783,645
Total Liabilities	**$**	**27,887,095**

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

MILLE LACS COUNTY

EXHIBIT 1
(Continued)

STATEMENT OF NET POSITION
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2017

Deferred Inflows of Resources		
Deferred pension inflows	$	7,491,498
Prepaid property taxes		352,390
Total Deferred Inflows of Resources	**$**	**7,843,888**
Net Position		
Net investment in capital assets	$	63,786,246
Restricted for		
General government		173,063
Public safety		1,152,449
Highways and streets		2,174,761
Conservation of natural resources		285,111
Sanitation		120,314
Debt service		820,826
Unrestricted		(2,933,993)
Total Net Position	**$**	**65,578,777**

MILLE LACS COUNTY
MILACA, MINNESOTA

EXHIBIT 2

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017

		Program Revenues			Net (Expense)
	Expenses	Fees, Charges, Fines, and Other	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Position
Functions/Programs					
Governmental activities					
General government	$ 6,863,029	$ 922,798	$ 203,489	$ -	$ (5,736,742)
Public safety	11,149,781	1,123,975	907,014	-	(9,118,792)
Highways and streets	5,517,554	39,959	4,905,648	-	(571,947)
Sanitation	102,896	26,887	74,862	-	(1,147)
Human services	10,622,014	1,166,211	5,212,635	-	(4,243,168)
Health	712,325	149,672	541,656	-	(20,997)
Culture and recreation	385,510	-	99,971	-	(285,539)
Conservation of natural resources	349,850	50,146	96,263	-	(203,441)
Economic development	3,627,613	4,583	3,565,000	-	(58,030)
Interest expense on long-term debt	193,595	-	15,331	-	(178,264)
Total Governmental Activities	**$ 39,524,167**	**$ 3,484,231**	**$ 15,621,869**	**$ -**	**$ (20,418,067)**

General Revenues	
Property taxes	$ 14,554,429
Gravel tax	56,847
Mortgage registry and deed tax	23,312
Wheelage tax	271,368
Local option sales tax	843,848
Payments in lieu of tax	219,182
Grants and contributions not restricted to specific programs	2,011,550
Unrestricted investment earnings	190,677
Miscellaneous	260,496
Gain on sale of capital assets	97,080
Total general revenues	**$ 18,528,789**
Change in net position	**$ (1,889,278)**
Net Position - January 1	**67,468,055**
Net Position - December 31	**$ 65,578,777**

This page was left blank intentionally.

FUND FINANCIAL STATEMENTS

This page was left blank intentionally.

GOVERNMENTAL FUNDS

MILLE LACS COUNTY
MILACA, MINNESOTA

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2017

	General	Road and Bridge
Assets		
Cash and pooled investments	$ 7,879,234	$ 2,144,468
Petty cash and change funds	800	-
Departmental cash	27,887	-
Taxes receivable		
Delinquent	383,223	10,671
Special assessments receivable		
Delinquent	1,399	-
Accounts receivable	51,826	-
Accrued interest receivable	26,584	-
Due from other funds	16,181	-
Due from other governments	323,744	1,337,910
Inventories	-	369,587
Prepaid items	14,326	2,303
Advances to other funds	93,764	-
Total Assets	**$ 8,818,968**	**$ 3,864,939**
Liabilities, Deferred Inflows of Resources, and Fund Balances		
Liabilities		
Accounts payable	$ 197,573	$ 113,461
Salaries payable	457,956	66,543
Contracts payable	-	93,682
Due to other funds	-	-
Due to other governments	58,005	875
Unearned revenue	710	-
Advances from other funds	-	-
Total Liabilities	**$ 714,244**	**$ 274,561**
Deferred Inflows of Resources		
Unavailable revenue	$ 473,261	$ 1,312,582
Prepaid property taxes	227,750	-
Total Deferred Inflows of Resources	**$ 701,011**	**$ 1,312,582**

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

EXHIBIT 3

Community and Veteran Services	Debt Service	Capital Projects	Nonmajor Ditch	Total
$ 5,664,322	$ 831,100	$ 860,860	$ 95,882	$ 17,475,866
50	-	-	-	850
-	-	-	-	27,887
176,176	32,849	286	-	603,205
-	-	-	-	1,399
235,425	-	-	-	287,251
-	-	-	-	26,584
-	-	-	-	16,181
981,597	-	-	-	2,643,251
-	-	-	-	369,587
6,087	-	-	-	22,716
-	-	-	-	93,764
$ 7,063,657	**$ 863,949**	**$ 861,146**	**$ 95,882**	**$ 21,568,541**
$ 564,124	$ -	$ -	$ 200	$ 875,358
191,622	-	-	-	716,121
-	-	-	-	93,682
16,181	-	-	-	16,181
14,463	-	-	-	73,343
-	-	-	-	710
-	-	-	93,764	93,764
$ 786,390	**$ -**	**$ -**	**$ 93,964**	**$ 1,869,159**
$ 304,717	$ 25,962	$ 276	$ -	$ 2,116,798
103,856	17,161	3,623	-	352,390
$ 408,573	**$ 43,123**	**$ 3,899**	**$ -**	**$ 2,469,188**

MILLE LACS COUNTY
MILACA, MINNESOTA

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2017

	General	Road and Bridge
Liabilities, Deferred Inflows of Resources, and Fund Balances (Continued)		
Fund Balances		
Nonspendable		
Inventories	$ -	$ 369,587
Prepaid items	14,326	2,303
Advances to other funds	93,764	-
Restricted for		
Debt service	-	-
Law library	72,999	-
Recorder's technology and equipment	23,051	-
Administering the carrying of weapons	222,066	-
Law enforcement	200,315	-
Highway construction projects	-	495,174
Gravel pit restoration	83,604	-
DARE program	54,889	-
Prisoner account	675,179	-
Prosecutorial purposes	77,013	-
Aquatic invasive species	111,820	-
Ditch maintenance and repairs	-	-
SCORE	120,314	-
Committed to		
Broadband grant	24,000	-
Gravel pit restoration	-	312,232
Assigned to		
General government	169,249	-
Public safety	285,988	-
Highways and streets	-	1,098,500
Community and veteran services programs	-	-
Capital projects	-	-
Unassigned	5,175,136	-
Total Fund Balances	**$ 7,403,713**	**$ 2,277,796**
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	**$ 8,818,968**	**$ 3,864,939**

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

EXHIBIT 3
(Continued)

Community and Veteran Services	Debt Service	Capital Projects	Nonmajor Ditch	Total
$ -	$ -	$ -	$ -	$ 369,587
6,087	-	-	-	22,716
-	-	-	-	93,764
-	820,826	-	-	820,826
-	-	-	-	72,999
-	-	-	-	23,051
-	-	-	-	222,066
-	-	-	-	200,315
-	-	-	-	495,174
-	-	-	-	83,604
-	-	-	-	54,889
-	-	-	-	675,179
-	-	-	-	77,013
-	-	-	-	111,820
-	-	-	89,687	89,687
-	-	-	-	120,314
-	-	-	-	24,000
-	-	-	-	312,232
-	-	-	-	169,249
-	-	-	-	285,988
-	-	-	-	1,098,500
5,862,607	-	-	-	5,862,607
-	-	857,247	-	857,247
-	-	-	(87,769)	5,087,367
$ 5,868,694	**$ 820,826**	**$ 857,247**	**$ 1,918**	**$ 17,230,194**
$ 7,063,657	**$ 863,949**	**$ 861,146**	**$ 95,882**	**$ 21,568,541**

This page was left blank intentionally.

MILLE LACS COUNTY
MILACA, MINNESOTA

EXHIBIT 4

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2017

Fund balances - total governmental funds (Exhibit 3)		**$ 17,230,194**
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.		70,719,749
Revenues in the statement of activities that do not provide current financial resources are not reported in the governmental funds.		2,116,798
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	$ (6,780,000)	
Unamortized premium on bonds	(153,503)	
Compensated absences	(2,283,288)	
Net pension liability	(15,031,934)	
Other postemployment benefits liability	(1,783,645)	(26,032,370)
Deferred outflows of resources and deferred inflows of resources are the result of various differences related to pension obligations that are not recognized in the governmental funds.		
Deferred pension outflows		9,099,022
Deferred pension inflows		(7,491,498)
Accrued interest payable is not due and payable in the current period and, therefore, is not reported in the governmental funds.		(84,799)
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position.		21,681
Net Position of Governmental Activities (Exhibit 1)		**$ 65,578,777**

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

MILLE LACS COUNTY
MILACA, MINNESOTA

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

	General	Road and Bridge
Revenues		
Taxes	$ 9,336,245	$ 1,211,416
Special assessments	15,295	-
Licenses and permits	267,131	13,050
Intergovernmental	6,714,567	4,845,736
Charges for services	1,377,585	3,184
Fines and forfeits	61,947	-
Gifts and contributions	18,812	-
Investment earnings	190,675	-
Miscellaneous	554,699	23,725
Total Revenues	**$ 18,536,956**	**$ 6,097,111**
Expenditures		
Current		
General government	$ 5,492,612	$ -
Public safety	9,786,178	-
Highways and streets	-	6,748,105
Sanitation	102,896	-
Human services	-	-
Health	-	-
Culture and recreation	111,675	-
Conservation of natural resources	305,242	-
Economic development	3,624,095	-
Intergovernmental		
Highways and streets	-	246,641
Culture and recreation	273,835	-
Capital outlay		
Highways and streets	-	-
Debt service		
Principal	-	-
Interest	-	-
Administrative (fiscal) charges	-	-
Total Expenditures	**$ 19,696,533**	**$ 6,994,746**
Excess of Revenues Over (Under) Expenditures	**$ (1,159,577)**	**$ (897,635)**

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

EXHIBIT 5

Community and Veteran Services	Debt Service	Capital Projects	Nonmajor Ditch	Total
$ 4,599,567	$ 718,927	$ 870	$ -	$ 15,867,025
-	-	-	48,046	63,341
-	-	-	-	280,181
6,124,995	27,161	-	-	17,712,459
816,659	-	-	-	2,197,428
-	-	-	-	61,947
17,537	-	-	-	36,349
-	-	-	-	190,675
502,157	-	-	-	1,080,581
$ 12,060,915	**$ 746,088**	**$ 870**	**$ 48,046**	**$ 37,489,986**
$ 132,738	$ -	$ -	$ -	$ 5,625,350
-	-	-	-	9,786,178
-	-	-	-	6,748,105
-	-	-	-	102,896
10,388,502	-	-	-	10,388,502
680,261	-	-	-	680,261
-	-	-	-	111,675
-	-	-	40,894	346,136
-	-	-	-	3,624,095
-	-	-	-	246,641
-	-	-	-	273,835
-	-	716,554	-	716,554
-	510,000	-	-	510,000
-	210,535	-	-	210,535
-	1,700	-	-	1,700
$ 11,201,501	**$ 722,235**	**$ 716,554**	**$ 40,894**	**$ 39,372,463**
$ 859,414	**$ 23,853**	**$ (715,684)**	**$ 7,152**	**$ (1,882,477)**

MILLE LACS COUNTY

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

	General	Road and Bridge
Other Financing Sources (Uses)		
Transfers in	$ 1,246,093	$ 684,079
Transfers out	-	-
Proceeds from sale of capital assets	8,460	-
Total Other Financing Sources (Uses)	**$ 1,254,553**	**$ 684,079**
Net Change in Fund Balance	**$ 94,976**	**$ (213,556)**
Fund Balance - January 1	**7,308,737**	**2,451,974**
Increase (decrease) in inventories	**-**	**39,378**
Fund Balance - December 31	**$ 7,403,713**	**$ 2,277,796**

EXHIBIT 5
(Continued)

Community and Veteran Services	Debt Service	Capital Projects	Nonmajor Ditch	Total
$ -	$ -	$ -	$ -	$ 1,930,172
(184,079)	(1,093,886)	(652,207)	-	(1,930,172)
-	-	88,620	-	97,080
$ (184,079)	**$ (1,093,886)**	**$ (563,587)**	**$ -**	**$ 97,080**
$ 675,335	**$ (1,070,033)**	**$ (1,279,271)**	**$ 7,152**	**$ (1,785,397)**
5,193,359	**1,890,859**	**2,136,518**	**(5,234)**	**18,976,213**
-	**-**	**-**	**-**	**39,378**
$ 5,868,694	**$ 820,826**	**$ 857,247**	**$ 1,918**	**$ 17,230,194**

MILLE LACS COUNTY
MILACA, MINNESOTA

EXHIBIT 6

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2017

Net change in fund balance - total governmental funds (Exhibit 5)		**$ (1,785,397)**
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 unavailable revenue.		
Unavailable revenue - December 31	$ 2,116,798	
Unavailable revenue - January 1	(2,152,566)	(35,768)
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. Also, in the statement of activities, only the gain or loss on the disposal of assets is reported; whereas, in the governmental funds, the proceeds from the sale increase financial resources. Therefore, the change in net position differs from the change in fund balance by the net book value of the assets sold.		
Expenditures for general capital assets and infrastructure and other related capital asset adjustments	$ 4,116,389	
Current year depreciation	(2,834,122)	1,282,267
Issuing long-term debt provides current financial resources to governmental funds, while the repayment of debt consumes current financial resources. Neither transaction, however, has any effect on net position.		
Principal repayments		
General obligation bonds		510,000
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	$ 5,848	
Change in compensated absences	147,659	
Change in other postemployment benefits liability	(177,397)	
Change in net pension liability	7,365,021	
Change in deferred pension outflows	(4,051,164)	
Change in deferred pension inflows	(5,198,848)	
Change in inventories	39,378	
Current year amortization of bond discounts and premiums	12,794	(1,856,709)
The increase or decrease in net position of the internal service fund is reported in the statement of activities as governmental activities.		(3,671)
Change in Net Position of Governmental Activities (Exhibit 2)		**$ (1,889,278)**

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

SELF-INSURANCE INTERNAL SERVICE FUND

This page was left blank intentionally.

MILLE LACS COUNTY
MILACA, MINNESOTA

EXHIBIT 7

STATEMENT OF FUND NET POSITION
SELF-INSURANCE INTERNAL SERVICE FUND
DECEMBER 31, 2017

	Governmental Activities
Assets	
Cash and pooled investments	$ 32,393
Liabilities	
Claims payable	10,712
Net Position	
Unrestricted	**$ 21,681**

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

EXHIBIT 8

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
SELF-INSURANCE INTERNAL SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Governmental Activities
Operating Revenues	
Insurance fees	$ 142,359
Operating Expenses	
Insurance	146,030
Operating Income (Loss)	**$ (3,671)**
Net Position - January 1	**25,352**
Net Position - December 31	**$ 21,681**

MILLE LACS COUNTY
MILACA, MINNESOTA

EXHIBIT 9

STATEMENT OF CASH FLOWS
SELF-INSURANCE INTERNAL SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2017
Increase (Decrease) in Cash and Cash Equivalents

		Governmental Activities
Cash Flows From Operating Activities		
Insurance fees	$	142,359
Insurance		(144,976)
Net Cash Provided by (Used in) Operating Activities	**$**	**(2,617)**
Cash and Cash Equivalents at January 1		**35,010**
Cash and Cash Equivalents at December 31	**$**	**32,393**
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities		
Operating income (loss)	$	(3,671)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities		
Increase (decrease) in claims payable		1,054
Net Cash Provided by (Used in) Operating Activities	**$**	**(2,617)**

This page was left blank intentionally.

FIDUCIARY FUNDS

This page was left blank intentionally.

MILLE LACS COUNTY
MILACA, MINNESOTA

EXHIBIT 10

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
DECEMBER 31, 2017

	Private-Purpose Trust	Agency
Assets		
Cash and pooled investments	$ 31,922	$ 1,206,042
Accrued interest receivable	14	-
Total Assets	**$ 31,936**	**$ 1,206,042**
Liabilities		
Due to other governments	-	**$ 1,206,042**
Net Position		
Restricted for other purposes	**$ 31,936**	

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

MILLE LACS COUNTY
MILACA, MINNESOTA

EXHIBIT 11

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
PRIVATE-PURPOSE TRUST FUND
FOR THE YEAR ENDED DECEMBER 31, 2017

Additions		
Investment income	$	80
Deductions		
Payments in accordance with trust agreements		80
Change in net position	**$**	**-**
Net Position - January 1		**31,936**
Net Position - December 31	**$**	**31,936**

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

1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as of and for the year ended December 31, 2017. The Governmental Accounting Standards Board (GASB) is responsible for establishing generally accepted accounting principles 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

Mille Lacs County was established May 23, 1857, and is an organized county having the powers, duties, and privileges granted counties by Minn. Stat. ch. 373. 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. The County Administrator, who is an appointed officer, serves as the Clerk of the Board of Commissioners but does not vote in its decisions.

For financial reporting purposes, Mille Lacs County has included all funds, organizations, account groups, agencies, boards, commissions, and authorities, and has considered all potential component units for which the County is financially accountable, and other organizations for which the nature and significance of their relationship with the County are such that exclusion would cause Mille Lacs County's financial statements to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the County to impose its will on that organization; or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the County.

As required by GAAP, these financial statements present Mille Lacs County (the primary government) and its component unit for which the County is financially accountable.

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Blended Component Unit

The Mille Lacs County Housing and Redevelopment Authority (HRA), a blended component unit of Mille Lacs County, is governed by a five-member Board consisting of the Mille Lacs County Board of Commissioners and has the power to levy taxes, issue bonds, and enter into contracts. The HRA was established to assist with the implementation of a redevelopment plan to promote economic development within Mille Lacs County. Although it is legally separate from the County, the activity of the HRA is included in the Mille Lacs County General Fund because the HRA's governing body is the same as the governing body of the County, and Mille Lacs County has operational responsibility for the HRA. Separate financial statements are not prepared for the HRA. The Mille Lacs County HRA had no financial activity in 2017.

Joint Ventures

The County participates in several joint ventures described in Note 5.D.

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 revenue, are reported in a single column.

In the government-wide statement of net position, the governmental activities column is presented: (a) on a consolidated basis; 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.

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 activities are offset by program revenues. Direct expenses are those clearly identifiable with a specific function or activity. Program revenues include: (1) fees, fines, and charges paid by the recipients of goods, services, or privileges provided by a given function or activity; and (2) grants and contributions restricted to meeting the operational or capital requirements of a particular function or activity. Revenues not classified as program revenues, including all taxes, are presented as general revenues.

      2. Fund Financial Statements

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations.

The principal operating revenues of the County's internal service fund include insurance fees, and the principal operating expenses include insurance payments. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

1. Summary of Significant Accounting Policies

   B. Basic Financial Statements

      2. Fund Financial Statements (Continued)

         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 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 Community and Veteran Services Special Revenue Fund is used to account for economic assistance and community social services programs.

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

            The Capital Projects Fund is used to account for the financial resources to be used for capital acquisition, construction, or improvement of capital assets, exclusive of infrastructure (roads, bridges, etc.).

         Additionally, the County reports the following fund types:

            The Self-Insurance Internal Service Fund accounts for the County's self-insurance activities.

            The Private-Purpose Trust Fund accounts for funds that the County Auditor-Treasurer is holding for the cemetery, missing heirs, and Court Administrator.

            The Agency Fund is custodial in nature and does not present results of operations or have a measurement focus. This fund accounts for assets that the County holds for others in an agent capacity.

1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Mille Lacs County considers all revenues as available if collected within 60 days after the end of the current period. Property and other taxes, licenses, and interest are all considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

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. 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, 2017. All investments are measured at the net asset value per share. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments of governmental and fiduciary funds are credited to the General Fund. Other funds received investment earnings based on other statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2017 were $187,982.

1. Summary of Significant Accounting Policies

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

      1. Deposits and Investments (Continued)

         Cash and cash equivalents are identified only for the purpose of the statement of cash flows for the proprietary fund. Pooled investments, which have the characteristics of demand deposits, are considered to be cash and cash equivalents on the statement of cash flows.

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

      2. Receivables and Payables

         Activities between funds representative of lending/borrowing arrangements outstanding at the end of the fiscal year are 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."

         Advances between funds, as reported in the fund financial statements, are offset by nonspendable fund balance in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources. This treatment is available for the General Fund only.

         Property taxes are levied as of January 1 on property values assessed as of January 1 of the previous year. 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 delinquent taxes receivable. Special assessments receivable consist of delinquent special assessments payable in the years 2011 through 2017.

1. Summary of Significant Accounting Policies

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

3. Inventories and Prepaid Items

All inventories are valued at cost using the first in/first out method. Inventories in governmental funds are recorded as expenditures when purchased rather than when consumed. Reported inventories are equally offset by nonspendable fund balance to indicate that they do not constitute available spendable resources. 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.

4. Capital Assets

Capital assets, including property, plant, equipment, and infrastructure assets (for example, roads, bridges, and similar items), are reported in the government-wide financial statements. The County defines capital assets as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition 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.

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

Assets	Years
Land improvements	20 - 35
Buildings	25 - 40
Machinery and equipment	3 - 15
Infrastructure	15 - 75
Software	5

1. Summary of Significant Accounting Policies

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

5. Unearned Revenue

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

6. Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated annual vacation 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. 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. Compensated absences are accrued when incurred in the government-wide financial statements. The government-wide statement of net position reports both current and noncurrent portions of compensated absences. The current portion consists of an amount based on a three-year average of terminated employees. The noncurrent portion consists of the remaining amount of vacation and vested sick leave. Compensated absences are liquidated by the General Fund, the Road and Bridge Special Revenue Fund, and the Community and Veteran Services Special Revenue Fund.

7. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities 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. Bond issuance costs are expensed entirely in the year the debt was issued.

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 an other financing source. Premiums

1. Summary of Significant Accounting Policies

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

7. Long-Term Obligations (Continued)

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.

8. Deferred Outflows/Inflows of Resources

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

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Currently, the County has three types of deferred inflows, unavailable revenue, prepaid property taxes, and deferred pension inflows, that qualify for reporting in this category. The governmental funds report unavailable revenue from delinquent property taxes and special assessments receivable, and grants receivable, for amounts that are not considered to be available to liquidate liabilities of the current period. Unavailable revenue arises only under the modified accrual basis of accounting and, accordingly, is reported only in the governmental funds balance sheet. The unavailable revenue amount is deferred and recognized as an inflow of resources in the period that the amounts become available. Prepaid

1. Summary of Significant Accounting Policies

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

8. Deferred Outflows/Inflows of Resources (Continued)

property taxes arise under both the modified accrual and the full accrual basis of accounting and, accordingly, are reported in the governmental funds balance sheet and the statement of net position. The County also has deferred pension inflows. These inflows arise only under the full accrual basis of accounting and consist of differences between expected and actual pension plan economic experience, changes in actuarial assumptions, the differences between projected and actual earnings on pension plan investments, and pension plan changes in proportionate share and, accordingly, are reported only in the statement of net position.

9. Pension Plan

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

10. Classification of Net Position

Net position in the government-wide financial 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.

1. Summary of Significant Accounting Policies

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

10. Classification of Net Position (Continued)

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, or are legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash.

Restricted - amounts for which constraints have been placed on the use of resources either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Committed - amounts that can be used only for the specific purposes imposed by formal action (resolution) of the County Board. Those committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit these amounts.

Assigned - amounts the County intends to use for specific purposes that do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the County Board or the County Administrator.

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)

Unassigned - spendable amounts not contained in the other fund balance classifications for the General Fund. 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 has adopted a minimum fund balance policy for the General Fund and the Road and Bridge and Community and Veteran Services Special Revenue Funds. All three funds are heavily reliant on property tax revenues to fund current operations. However, current property tax revenues are not available for distribution until June. Therefore, the County Board has determined it needs to maintain a minimum unrestricted (committed, assigned, and unassigned) fund balance in these funds to meet operating needs until those tax revenues are distributed. The County Board has set the minimum year-end unrestricted fund balance amounts as follows: for the General Fund, 30 to 40 percent of the following year's operating budget; for the Road and Bridge Special Revenue Fund, 25 to 35 percent of the following year's operating budget; and for the Community and Veteran Services Special Revenue Fund, 35 to 45 percent of the following year's operating budget.

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.

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, deferred outflows of resources, liabilities, and deferred inflows of resources, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

MILLE LACS COUNTY

2. Stewardship, Compliance, and Accountability

A. Deficit Fund Equity

The Ditch Special Revenue Fund had a positive fund balance of $1,918 as of December 31, 2017, although four individual ditch systems had deficit fund balances. These deficits will be eliminated with future special assessment levies against the benefited properties. The following is a summary of the individual ditch systems:

6 ditches with positive fund balances	$	89,690
4 ditches with deficit fund balances		(87,772)
Total Fund Balance	$	1,918

B. Tax Abatements

The County is subject to tax abatements granted by cities within the County, pursuant to Minn. Stat. §§ 469.174 to 469.1794 through a pay-as-you-go note program. Tax increment financing (TIF) can be used to encourage private development, redevelopment, renovation and renewal, growth in low-to-moderate-income housing, and economic development within a city. TIF captures the increase in tax capacity and property taxes (of all taxing jurisdictions, including the County) from development or redevelopment to provide funding for the related project.

The pay-as-you-go note provides for payment to the developer of a percentage of all tax increment received in the prior six months. The payment reimburses the developer for certain public improvements. During 2017, there were ten pay-as-you-go notes within the County. The TIF funds collected during 2017 totaled $217,522. The County's portion of the captured tax capacity and related property taxes was approximately 44 percent, or $95,710.

3. Detailed Notes on All Funds

   A. Assets

      1. Deposits and Investments

Reconciliation of Mille Lacs County's total cash and investments to the basic financial statements follows:

Government-wide statement of net position	
Governmental activities	
Cash and pooled investments	$ 17,508,259
Petty cash and change funds	850
Departmental cash	27,887
Statement of fiduciary net position	
Cash and pooled investments	
Private-purpose trust fund	31,922
Agency fund	1,206,042
Total Cash and Investments	$ 18,774,960

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 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.

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. It is the County's policy to minimize custodial credit risk by obtaining collateral for all uninsured amounts on deposit. As of December 31, 2017, the County's deposits were not exposed to custodial credit risk.

b. Investments

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

(1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as "high risk" by Minn. Stat. § 118A.04, subd. 6;

(2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;

(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

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 does not have a policy regarding interest rate risk.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the 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. It is the County's policy to minimize investment custodial credit risk by permitting brokers that obtain investments for the County to hold them only to the extent there is Securities Investor Protection Corporation (SIPC) Insurance and excess SIPC coverage available. At December 31, 2017, none of the County's investments were subject to custodial credit risk.

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the County's investment in a single issuer. It is the County's policy that U.S. Treasury securities, U.S. agency securities, and obligations backed by U.S. Treasury and/or U.S. agency securities may be held without limit.

The following table presents the County's deposit and investment balances at December 31, 2017, and information relating to potential investment risks:

	Credit Risk		Concentration Risk	Interest Rate Risk	
Investment Type	Credit Rating	Rating Agency	Over 5 Percent of Portfolio	Maturity Date	Carrying (Fair) Value
Investment pools/mutual funds					
MAGIC Fund	N/R	N/A	100.0%	N/A	$ 11,592,597
Deposits					7,153,626
Petty cash and change funds					850
Departmental cash					27,887
Total Cash and Investments					$ 18,774,960

N/A - Not Applicable; N/R - Not Rated

c. Fair Value Measurements

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

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

c. Fair Value Measurements (Continued)

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

Shares of the MAGIC Term Series are purchased to mature upon pre-determined maturity dates selected by the County at the time of purchase. Should the County need to redeem shares in the MAGIC Term Series prematurely, it must provide notice at least seven days prior to the premature redemption date. The value of a premature redemption is equal to the original price for such share, plus dividends thereon, at the projected yield, less such share's allocation of any losses incurred by the series, less a premature redemption penalty, if any.

	Investments Measured at NAV
	As of December 31, 2017
Investments	
MAGIC Portfolio	$ 6,342,597
MAGIC Term Series	5,250,000
Total Investments Measured at NAV	$ 11,592,597

MILLE LACS COUNTY

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Property taxes and special assessments which remain unpaid at December 31 are delinquent. No allowance for uncollectible receivables has been provided because such amounts are not expected to be material.

The County had no receivables scheduled to be collected beyond one year.

3. Capital Assets

Capital asset activity for the year ended December 31, 2017, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	$ 2,565,759	$ 153,265	$ -	$ 2,719,024
Construction in progress	107,082	3,065,329	-	3,172,411
Total capital assets not depreciated	$ 2,672,841	$ 3,218,594	$ -	$ 5,891,435
Capital assets depreciated				
Land improvements	$ 968,190	$ -	$ -	$ 968,190
Buildings	26,234,347	-	-	26,234,347
Machinery and equipment	9,624,725	861,605	442,130	10,044,200
Infrastructure	67,466,519	-	-	67,466,519
Software	330,933	36,190	-	367,123
Total capital assets depreciated	$ 104,624,714	$ 897,795	$ 442,130	$ 105,080,379
Less: accumulated depreciation for				
Land improvements	$ 622,624	$ 43,322	$ -	$ 665,946
Buildings	8,204,183	738,511	-	8,942,694
Machinery and equipment	6,198,568	673,421	442,130	6,429,859
Infrastructure	22,572,414	1,349,333	-	23,921,747
Software	262,284	29,535	-	291,819
Total accumulated depreciation	$ 37,860,073	$ 2,834,122	$ 442,130	$ 40,252,065
Total capital assets depreciated, net	$ 66,764,641	$ (1,936,327)	$ -	$ 64,828,314
Governmental Activities Capital Assets, Net	$ 69,437,482	$ 1,282,267	$ -	$ 70,719,749

MILLE LACS COUNTY

3. <u>Detailed Notes on All Funds</u>

A. <u>Assets</u>

3. <u>Capital Assets</u> (Continued)

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

Governmental Activities	
General government	$ 896,780
Public safety	230,144
Highways and streets, including depreciation of infrastructure assets	1,676,584
Human services	26,900
Conservation of natural resources	3,714
Total Depreciation Expense - Governmental Activities	$ 2,834,122

B. <u>Interfund Receivables, Payables, and Transfers</u>

The composition of interfund balances as of December 31, 2017, was as follows:

1. <u>Due To/From Other Funds</u>

	Receivable	Payable
Major governmental funds		
General Fund	$ 16,181	$ -
Community and Veteran Services Special Revenue Fund	-	16,181
Total Due To/From Other Funds	$ 16,181	$ 16,181

The interfund balances above represent Community and Veteran Services Fund payments to the General Fund for attorney and operating expenditures.

MILLE LACS COUNTY

3. Detailed Notes on All Funds

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

2. Advances From/To Other Funds

The General Fund advanced the Ditch Special Revenue Fund $93,764 for cash flow purposes.

3. Transfers

Interfund transfers at December 31, 2017, were as follows:

	Transfers In	Description
Transfers to General Fund from		
Capital Projects Fund	$ 152,207	Reimburse project costs
Debt Service Fund	1,093,886	Debt service payment
Total transfers to General Fund	$ 1,246,093	
Transfers to Road and Bridge Special Revenue Fund from		
Capital Projects Fund	$ 500,000	Reimburse project costs
Community and Veteran Services Special Revenue Fund	184,079	Fund transfer
Total transfers to Road and Bridge Special Revenue Fund	$ 684,079	
Total Interfund Transfers	$ 1,930,172	

C. Liabilities and Deferred Inflows of Resources

1. Construction and Other Commitments

The County has active construction projects as of December 31, 2017. The remaining commitment for highway projects are state-funded and, therefore, not obligations of the County at December 31, 2017.

MILLE LACS COUNTY

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources (Continued)

2. Unearned Revenues/Deferred Inflows of Resources

Deferred inflows of resources consist of taxes, special assessments, and state and federal grants receivable not collected soon enough after year-end to pay liabilities of the current period. Unearned revenues consist of state and federal grants received but not yet earned. Unearned revenues and deferred inflows of resources at December 31, 2017, are summarized below by fund:

	Taxes	Special Assessments	Grants and Highway Allotments	Other	Total
Major governmental funds					
General	$ 524,441	$ 1,231	$ 7,962	$ 168,087	$ 701,721
Special Revenue					
Road and Bridge	9,900	-	1,302,682	-	1,312,582
Community and Veteran Services	236,987	-	171,586	-	408,573
Debt Service	43,123	-	-	-	43,123
Capital Projects	3,899	-	-	-	3,899
Total	$ 818,350	$ 1,231	$ 1,482,230	$ 168,087	$ 2,469,898
Liability					
Unearned revenue	$ -	$ -	$ 710	$ -	$ 710
Deferred inflows of resources					
Unavailable revenue	465,960	1,231	1,481,520	168,087	2,116,798
Prepaid property taxes	352,390	-	-	-	352,390
Total	$ 818,350	$ 1,231	$ 1,482,230	$ 168,087	$ 2,469,898

MILLE LACS COUNTY

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources (Continued)

3. Long-Term Debt

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2017
2010A G.O. Capital Improvement Plan Bonds	02/01/2019	$100,000 - $120,000	0.70 - 2.40	$ 900,000	$ 240,000
2010B Taxable Capital Improvement Bonds - Recovery Zone Economic Development Bonds	02/01/2026	$125,000 - $140,000	3.30 - 4.45	920,000	920,000
2014 G.O. Capital Improvement Plan Refunding Bonds	02/01/2029	$395,000 - $540,000	2.50 - 3.00	6,015,000	5,620,000
Total				$ 7,835,000	$ 6,780,000

4. Debt Service Requirements

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

Year Ending December 31	General Obligation Bonds Principal	Interest
2018	$ 520,000	$ 159,633
2019	535,000	144,677
2020	425,000	130,638
2021	435,000	117,737
2022	450,000	104,463
2023 - 2027	2,430,000	333,631
2028 - 2029	1,065,000	32,175
Total	$ 5,860,000	$ 1,022,954

3. Detailed Notes on All Funds

   C. Liabilities and Deferred Inflows of Resources

      4. Debt Service Requirements (Continued)

Year Ending	Taxable General Obligation Bonds		Total	
December 31	Principal	Interest	Principal	Interest
2018	$ -	$ 36,595	$ 520,000	$ 196,228
2019	-	36,595	535,000	181,272
2020	125,000	34,533	550,000	165,171
2021	125,000	30,189	560,000	147,926
2022	130,000	25,372	580,000	129,835
2023 - 2027	540,000	47,321	2,970,000	380,952
2028 - 2029	-	-	1,065,000	32,175
Total	$ 920,000	$ 210,605	$ 6,780,000	$ 1,233,559

As part of the American Recovery and Reinvestment Act of 2009 (ARRA), Mille Lacs County issued $920,000 of Recovery Zone Economic Development Bonds (RZEDBs), which were issued for the Historical Courthouse Square remodel project. The Series 2010B Bonds are direct pay tax credit RZEDBs, in which the County will receive a payment from the federal government equal to 45 percent of the amount of interest payable on each interest payment date. The County has complied with all requirements of ARRA to be eligible for the RZEDB interest credit. Pursuant to the requirements of the Balanced Budget and Emergency Deficit Control Act of 1985, the refundable credit has been increased by 6.8 percent from sequestration through September 30, 2016, and 6.9 percent for the remainder of the year. The Series 2010B Bonds were issued as taxable obligations, which the County will elect to irrevocably designate as qualified RZEDBs. The entire County has been designated as a recovery zone pursuant to a resolution adopted by the Board of Commissioners of the County on July 20, 2010.

MILLE LACS COUNTY

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources

4. Debt Service Requirements (Continued)

Taking into consideration the aforementioned RZEDB interest credit, as of December 31, 2017, the County's net annual debt service requirements to amortize all taxable general obligation bonds outstanding, including interest of $122,372 on the governmental activities debt, is as follows:

Year Ending December 31	Principal	Interest	Federal Subsidy	Net Interest	Total Payment
2018	$ -	$ 36,595	$ (15,332)	$ 21,263	$ 21,263
2019	-	36,595	(15,332)	21,263	21,263
2020	125,000	34,533	(14,468)	20,065	145,065
2021	125,000	30,189	(12,648)	17,541	142,541
2022	130,000	25,372	(10,629)	14,743	144,743
2023 - 2027	540,000	47,321	(19,824)	27,497	567,497
Total	$ 920,000	$ 210,605	$ (88,233)	$ 122,372	$ 1,042,372

5. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2017, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General obligation bonds	$ 6,370,000	$ -	$ 510,000	$ 5,860,000	$ 520,000
Taxable general obligation bonds	920,000	-	-	920,000	-
Add: premium on bonds	166,297	-	12,794	153,503	-
Compensated absences	2,430,947	141,711	289,370	2,283,288	176,807
Long-Term Liabilities	$ 9,887,244	$ 141,711	$ 812,164	$ 9,216,791	$ 696,807

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

1. Plan Description

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

The General Employees Retirement Plan (accounted for in the General Employees Fund) has multiple benefit structures with members belonging to the Coordinated Plan, the Basic Plan, or the Minneapolis Employees Retirement Fund. Coordinated Plan members are covered by Social Security and Basic Plan and Minneapolis Employees Retirement Fund members are not. The Basic Plan was closed to new members in 1967. The Minneapolis Employees Retirement Fund was closed to new members during 1978 and merged into the General Employees Retirement Plan in 2015. All new members must participate in the Coordinated Plan, for which benefits vest after five years of credited service.

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

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

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans (Continued)

2. Benefits Provided

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

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

Benefits are based on a member’s highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for General Employees Retirement Plan Coordinated and Basic Plan members. Members hired prior to July 1, 1989, receive the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years of service and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. Only Method 2 is used for members hired after June 30, 1989. Minneapolis Employees Retirement Fund

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

2. Benefits Provided (Continued)

members have an annuity accrual rate of 2.0 percent of average salary for each of the first ten years of service and 2.5 percent for each remaining year. For Public Employees Police and Fire Plan members, the annuity accrual rate is 3.0 percent of average salary for each year of service. For Public Employees Correctional Plan members, the annuity accrual rate is 1.9 percent of average salary for each year of service.

For General Employees Retirement Plan members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90, and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66. For Public Employees Police and Fire Plan and Public Employees Correctional Plan members, normal retirement age is 55, and for members who were hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90. Disability benefits are available for vested members and are based on years of service and average high-five salary.

3. Contributions

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the state legislature. General Employees Retirement Plan Basic members, Coordinated members, and Minneapolis Employees Retirement Fund members were required to contribute 9.10 percent, 6.50 percent, and 9.75 percent, respectively, of their annual covered salary in 2017. Public Employees Police and Fire Plan members were required to contribute 10.80 percent of their annual covered salary in 2017. Public Employees Correctional Plan members were required to contribute 5.83 percent of their annual covered salary in 2017.

MILLE LACS COUNTY

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

3. Contributions (Continued)

In 2017, the County was required to contribute the following percentages of annual covered salary:

General Employees Retirement Plan	
Basic Plan members	11.78%
Coordinated Plan members	7.50
Minneapolis Employees Retirement Fund members	9.75
Public Employees Police and Fire Plan	16.20
Public Employees Correctional Plan	8.75

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

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

General Employees Retirement Plan	$ 696,444
Public Employees Police and Fire Plan	396,476
Public Employees Correctional Plan	177,245

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

4. Pension Costs

General Employees Retirement Plan

At December 31, 2017, the County reported a liability of $8,956,659 for its proportionate share of the General Employees Retirement Plan's net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the County's proportion was

MILLE LACS COUNTY

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

4. Pension Costs

General Employees Retirement Plan (Continued)

0.1403 percent. It was 0.1350 percent measured as of June 30, 2016. The County recognized pension expense of $1,199,013 for its proportionate share of the General Employees Retirement Plan's pension expense.

The County also recognized $3,252 as revenue, which results in a reduction of the net pension liability, for its proportionate share of the State of Minnesota's contribution to the General Employees Retirement Plan, which qualifies as a special funding situation. Legislation required the State of Minnesota to contribute $6 million to the General Employees Retirement Plan for the fiscal year ended June 30, 2017.

The County's proportionate share of the net pension liability	$ 8,956,659
State of Minnesota's proportionate share of the net pension liability associated with the County	112,592
Total	$ 9,069,251

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 295,184	$ 558,530
Changes in actuarial assumptions	1,430,822	897,906
Difference between projected and actual investment earnings	9,743	-
Changes in proportion	322,750	281,504
Contributions paid to PERA subsequent to the measurement date	356,349	-
Total	$ 2,414,848	$ 1,737,940

MILLE LACS COUNTY

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

4. Pension Costs

General Employees Retirement Plan (Continued)

The $356,349 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	Pension Expense Amount
2018	$ 248,472
2019	529,860
2020	(77,573)
2021	(380,200)

Public Employees Police and Fire Plan

At December 31, 2017, the County reported a liability of $2,997,264 for its proportionate share of the Public Employees Police and Fire Plan's net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the County's proportion was 0.222 percent. It was 0.1830 percent measured as of June 30, 2016. The County recognized pension expense of $817,489 for its proportionate share of the Public Employees Police and Fire Plan's pension expense.

The County also recognized $19,980 as revenue, which results in a reduction of the net pension liability, for its proportionate share of the State of Minnesota's on-behalf contribution to the Public Employees Police and Fire Plan. Legislation requires the State of Minnesota to contribute $9 million to the Public Employees Police and Fire Plan each year, starting in fiscal year 2014, until the plan is 90 percent funded.

MILLE LACS COUNTY

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

4. Pension Costs

Public Employees Police and Fire Plan (Continued)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 68,991	$ 658,308
Changes in actuarial assumptions	3,233,427	4,255,371
Difference between projected and actual investment earnings	-	135,126
Changes in proportion	1,346,432	-
Contributions paid to PERA subsequent to the measurement date	208,957	-
Total	$ 4,857,807	$ 5,048,805

The $208,957 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	Pension Expense Amount
2018	$ 127,547
2019	127,547
2020	37,966
2021	(116,595)
2022	(576,420)

MILLE LACS COUNTY

4. Pension Plans and Other Postemployment Benefits

   A. Defined Benefit Pension Plans

      4. Pension Costs (Continued)

Public Employees Correctional Plan

At December 31, 2017, the County reported a liability of $3,078,011 for its proportionate share of the Public Employees Correctional Plan's net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the County's proportion was 1.080 percent. It was 1.120 percent measured as of June 30, 2016. The County recognized pension expense of $1,161,889 for its proportionate share of the Public Employees Correctional Plan's pension expense.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 2,135	$ 51,564
Changes in actuarial assumptions	1,737,859	535,788
Difference between projected and actual investment earnings	-	3,753
Changes in proportion	-	113,648
Contributions paid to PERA subsequent to the measurement date	86,373	-
Total	$ 1,826,367	$ 704,753

MILLE LACS COUNTY

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

4. Pension Costs

Public Employees Correctional Plan (Continued)

The $86,373 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	Pension Expense Amount
2018	$ 660,043
2019	683,316
2020	(222,444)
2021	(85,674)

Total Pension Expense

The total pension expense for all plans recognized by the County for the year ended December 31, 2017, was $3,178,391.

5. Actuarial Assumptions

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

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

MILLE LACS COUNTY

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

5. Actuarial Assumptions (Continued)

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants for all plans were based on RP-2014 tables for males or females, as appropriate, with slight adjustments. For the General Employees Retirement Plan and the Public Employees Police and Fire Plan, cost of living benefit increases for retirees are assumed to be 1.0 percent through 2044 and 2064, respectively, and 2.5 percent thereafter. Cost of living benefit increases for retirees are assumed to be 2.5 percent for the Public Employees Correctional Plan.

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

The long-term expected rate of return on pension plan investments is 7.50 percent. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

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

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans (Continued)

6. Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent in 2017, which remained consistent with 2016. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, the fiduciary net position of the General Employees Retirement Plan and the Public Employees Police and Fire Plan were projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

7. Changes in Actuarial Assumptions

The following changes in actuarial assumptions occurred in 2017:

General Employees Retirement Plan

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

4. Pension Plans and Other Postemployment Benefits

   A. Defined Benefit Pension Plans

      7. Changes in Actuarial Assumptions

General Employees Retirement Plan (Continued)

- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044 and 2.5 percent per year thereafter.

- Minneapolis Employees Retirement Fund plan provisions change the employer supplemental contribution to $21,000,000 in PERA's calendar years 2017 and 2018 and returns to $31,000,000 through calendar year 2031. The state's required contribution is $16,000,000 in PERA's fiscal years 2018 and 2019 and returns to $6,000,000 annually through calendar year 2031.

Public Employees Police and Fire Plan

- The assumed salary increases were changed as recommended in the June 30, 2016, experience study. The net effect is proposed rates that average 0.34 percent lower than the previous rates.

- The assumed rates of retirement were changed, resulting in fewer retirements.

- The CSA load was 30 percent for vested and non-vested, deferred members. The CSA has been changed to 33 percent for vested members and 2.0 percent for non-vested members.

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

- The assumed termination rates were decreased to 3.0 percent for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall.

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

7. Changes in Actuarial Assumptions

Public Employees Police and Fire Plan (Continued)

- The assumed percentage of married female members was decreased from 65 percent to 60 percent.

- The assumed age difference was changed from separate assumptions for male members (wives assumed to be three years younger) and female members (husbands assumed to be four years older) to the assumption that males are two years older than females.

- The assumed percentage of female members electing joint and survivor annuities was increased.

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

- The single discount rate was changed from 5.60 percent per annum to 7.50 percent per annum.

Public Employees Correctional Plan

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

- The CSA load was 30 percent for vested and non-vested, deferred members. The CSA has been changed to 35 percent for vested members and 1.0 percent for non-vested members.

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

7. Changes in Actuarial Assumptions

Public Employees Correctional Plan (Continued)

- The single discount rate was changed from 5.31 percent per annum to 5.96 percent per annum.

8. Pension Liability Sensitivity

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

	Proportionate Share of the					
	General Employees Retirement Plan		Public Employees Police and Fire Plan		Public Employees Correctional Plan	
	Discount Rate	Net Pension Liability	Discount Rate	Net Pension Liability	Discount Rate	Net Pension Liability
1% Decrease	6.50%	$ 13,892,444	6.50%	$ 5,644,723	4.96%	$ 5,072,177
Current	7.50	8,956,659	7.50	2,997,264	5.96	3,078,011
1% Increase	8.50	4,915,823	8.50	811,642	6.96	1,521,536

9. Pension Plan Fiduciary Net Position

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

B. Other Postemployment Benefits (OPEB)

Plan Description

Mille Lacs County provides a single-employer defined benefit health care plan to eligible retirees and their spouses. The plan offers medical and dental insurance benefits. The County provides benefits for retirees as required by Minn. Stat. § 471.61, subd. 2b.

4. Pension Plans and Other Postemployment Benefits

B. Other Postemployment Benefits (OPEB) (Continued)

Funding Policy

The contribution requirements of the plan members and the County are established and may be amended by the Mille Lacs County Board of Commissioners. The required contribution is based on projected pay-as-you-go financing requirements. Retirees and their spouses contribute to the health care plan at the same rate as County employees. This results in the retirees receiving an implicit rate subsidy. For fiscal year 2017, the County contributed $65,821 to the plan; there were 245 participants in the plan. The OPEB liability is liquidated through the General Fund, the Road and Bridge Special Revenue Fund, and the Community and Veteran Services Special Revenue Fund.

Annual OPEB Cost and Net OPEB Obligation

The County's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs 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 to the plan.

ARC	$	272,843
Interest on net OPEB obligation		56,219
Adjustment to ARC		(85,844)
Annual OPEB cost (expense)	$	243,218
Contributions made - indirect implicit subsidy		(65,821)
Increase in net OPEB obligation	$	177,397
Net OPEB Obligation - January 1		1,606,248
Net OPEB Obligation - December 31	$	1,783,645

MILLE LACS COUNTY

4. Pension Plans and Other Postemployment Benefits

B. Other Postemployment Benefits (OPEB)

Annual OPEB Cost and Net OPEB Obligation (Continued)

The County's annual OPEB cost; the percentage of annual OPEB cost contributed to the plan; and the net OPEB obligation for the years ended December 31, 2015, 2016, and 2017, were as follows:

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Percentage Contributed	Net OPEB Obligation
December 31, 2015	$ 284,582	$ 76,574	26.91%	$ 1,404,565
December 31, 2016	246,937	45,254	18.33	1,606,248
December 31, 2017	243,218	65,821	27.06	1,783,645

Funded Status and Funding Progress

As of January 1, 2016, the most recent actuarial valuation date, the County had no assets to fund the plan. The actuarial accrued liability for benefits was $1,842,536, and the actuarial valuation of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of $1,842,536. The covered payroll (annual payroll of active employees covered by the plan) was $11,997,949, and the ratio of the UAAL to the covered payroll was 15.4 percent.

Actuarial valuations of an ongoing plan 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 the health care cost trend. 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.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of the benefit cost between the employer and plan members to that point.

4. Pension Plans and Other Postemployment Benefits

B. Other Postemployment Benefits (OPEB)

Actuarial Methods and Assumptions (Continued)

The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2016, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 3.5 percent investment rate of return (net of administrative expenses), which is Mille Lacs County's implicit rate of return on the General Fund, and an annual health care cost trend rate of 6.75 percent initially, reduced by the decrements to an ultimate rate of 5.0 percent after ten years. Both rates included a 2.5 percent inflation assumption. The actuarial value of assets was set equal to the market value of assets. The UAAL is being amortized over 30 years on a closed basis. The remaining amortization period at December 31, 2017, was 20 years.

5. 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 these 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. For other risk, the County carries commercial insurance. There were no significant reductions in insurance coverage from the previous year or settlements in excess of insurance coverage for any of the past three fiscal years.

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at $500,000 per claim in 2017 and 2018. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

5. Summary of Significant Contingencies and Other Items

A. Risk Management (Continued)

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.

On January 1, 2010, the County contracted with Delta Dental of Minnesota to administer the County's dental benefit plan for its employees as provided by the plan accepted from Delta Dental. The County sets annual premiums for the plan based on the recommendation of the plan administration and accumulates premiums collected from all participating funds in the Self-Insurance Internal Service Fund.

At the beginning of each month, the County is billed by Delta Dental of Minnesota for the previous month's claims processed and the per-employee administrative fee. The payment is made to Delta Dental from the premiums accumulated in the Self-Insurance Internal Service Fund.

Changes in the balance of claims payable during the year are as follows:

Claims payable - January 1	$ 9,658
Current year claims	142,359
Claim payments	(141,305)
Claims payable - December 31	$ 10,712

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.

5. Summary of Significant Contingencies and Other Items

B. Contingent Liabilities (Continued)

The County, in connection with the normal conduct of its affairs, is involved in various claims, judgments, and litigation. 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 County.

C. Mille Lacs Lake Area Economic Relief Loan Program

Mille Lacs County initiated the Mille Lacs Lake Area Economic Relief Loan Program in partnership with the Minnesota Department of Employment and Economic Development; the program was approved during the 2016 state legislative session. The purpose is to stimulate private investment and economic relief by providing financing to new and expanding businesses in the Mille Lacs Lake area. The program seeks to enhance local business' ability to create and preserve jobs, increase property tax revenue, and promote continued community development.

The maximum loan request that will be considered under this program is $100,000. The loan terms and amortization schedule will be considered to a maximum of 20 years. Loans with deferred or forgivable options must remain in the local community for a minimum of five years after the closing date of the loan.

The maximum loan deferral period must not exceed five years from the date the loan is approved. The maximum amount of the loan that may be forgiven must not exceed 50 percent of the principal amount, and may be forgiven only if the business has remained in operation in the community for at least ten years after the loan was approved.

D. Joint Ventures

East Central Solid Waste Commission

The East Central Solid Waste Commission was established in March 1988 by a joint powers agreement among Chisago, Isanti, Kanabec, Mille Lacs, and Pine Counties to conduct a solid waste management program on behalf of the participating counties. The Commission is an organized joint venture having the powers, duties, and privileges granted joint powers by Minn. Stat. § 471.59. The Commission has five voting members, one from each county. At its annual meeting, the Board of County Commissioners of

MILLE LACS COUNTY

5. Summary of Significant Contingencies and Other Items

D. Joint Ventures

East Central Solid Waste Commission (Continued)

each county chooses a member and an alternate, both County Commissioners, as representatives of the county. Each county has one voting member and, in the absence of the voting member, the alternate votes.

Each county's proportionate share of the total operating costs is based on the most recent census data available and is to be adjusted upon the admission of additional counties or the withdrawal of present counties. The Commission will remain in existence as long as two or more counties remain as parties to the agreement. Upon dissolution of the Commission, there will be an accounting to determine assets and liabilities. The assets of the Commission will be liquidated and, after payment of liabilities, the proceeds will be distributed to the counties based on their respective ratios set by the most recent census data. Each county's share of the Commission's assets, liabilities, and equities cannot be accurately determined since it will fluctuate with census data rather than ownership interest.

Following is a summary of the financial information as of and for the year ended December 31, 2016 (most recent figures available):

Total assets and deferred outflows of resources	$ 17,365,730
Total liabilities and deferred inflows of resources	(6,121,140)
Total Net Position	$ 11,244,590

Operating and nonoperating revenues	$ 6,376,606
Operating and nonoperating expenses	(5,550,061)
Change in Net Position	$ 826,545

Complete financial statements of the East Central Solid Waste Commission can be obtained from:

East Central Solid Waste Commission
1756 - 180th Avenue
Mora, Minnesota 55051

5. Summary of Significant Contingencies and Other Items

D. Joint Ventures (Continued)

East Central Regional Library

The East Central Regional Library was established by a joint powers agreement among Aitkin, Chisago, Isanti, Kanabec, Mille Lacs, and Pine Counties to provide an efficient and improved regional public library service. The Library Board comprises 18 members: one County Board member and two appointees from each member county. Mille Lacs County's contribution for 2017 was $273,835.

Complete financial statements of the East Central Regional Library can be obtained from:

East Central Regional Library
244 South Birch
Cambridge, Minnesota 55008

Snake River Watershed Management Board

The Snake River Watershed Management Board (SRWMB) was established in April 1983 by Aitkin, Kanabec, Mille Lacs, and Pine Counties, pursuant to the provisions of Minn. Stat. § 471.59. The purpose of the Board is to coordinate the member counties' water plans and to develop objectives to promote sound hydrologic management of water and related land resources.

The four-member Board consists of one County Commissioner from each of the participating counties. The Kanabec County Auditor/Treasurer is the fiscal agent for the Board. The Board is funded through an annual budget, and participation in the administrative costs are in the following percentages:

Aitkin County	20.8%
Kanabec County	49.5
Mille Lacs County	9.2
Pine County	20.5

Mille Lacs County provided $4,379 in funding to the SRWMB during 2017. Upon dissolution, the personal property shall be returned to the member county contributing the same.

5. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Snake River Watershed Management Board (Continued)

Complete financial statements of the SRWMB can be obtained from:

Snake River Watershed Management Board
Kanabec County Courthouse
18 North Vine Street
Mora, Minnesota 55051

Central Minnesota Emergency Medical Services Region

The Central Minnesota Emergency Medical Services Region was established in 2001 under Minn. Stat. § 471.59, to improve access, delivery, and effectiveness of the emergency medical services system; promote systematic and cost-effective delivery of services; and identify and address system needs within the member counties. The member counties are Benton, Cass, Chisago, Crow Wing, Isanti, Kanabec, Mille Lacs, Morrison, Pine, Sherburne, Stearns, Todd, Wadena, and Wright. The Region established a Board comprising one Commissioner from each member county. The Region's Board has financial responsibility, and Stearns County is the fiscal agent.

Complete financial information can be obtained from:

Central Minnesota Emergency Medical Services Region
Administration Center
705 Courthouse Square
St. Cloud, Minnesota 56303-4701

Central Minnesota Emergency Services Board

The Central Minnesota Regional Radio Board was established in 2007 under the authority conferred upon the member parties by Minn. Stat. §§ 471.59 and 403.39. As of June 1, 2011, the Central Minnesota Regional Radio Board changed its name to the Central Minnesota Emergency Services Board. Members include the City of St. Cloud and the Counties of Benton, Big Stone, Douglas, Grant, Kandiyohi, Meeker, Mille Lacs, Morrison, Otter Tail, Pope, Sherburne, Stearns, Stevens, Swift, Todd, Traverse, Wadena, Wilkin, and Wright.

5. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Central Minnesota Emergency Services Board (Continued)

The purpose of the Central Minnesota Emergency Services Board is to provide for regional administration of enhancements to the Statewide Public Safety Radio and Communication System (ARMER) owned and operated by the State of Minnesota.

The Central Minnesota Emergency Services Board is composed of one Commissioner of each county appointed by their respective County Board and one City Council member appointed by the City Council, as provided in the Central Minnesota Emergency Services Board's by-laws.

In the event of dissolution of the Central Minnesota Emergency Services Board, all property, assets, and funds of the Board shall be distributed to the parties of the agreement upon termination in direct proportion to their participation and contribution. Any city or county that has withdrawn from the agreement prior to termination of the Board shall share in the distribution of property, assets, and funds of the Board only to the extent they shared in the original expense.

The Central Minnesota Emergency Services Board has no long-term debt. Financing is provided by the appropriations from member parties and by state and federal grants. During 2017, Mille Lacs County contributed $13,056 to the Central Minnesota Emergency Services Board.

Complete financial information can be obtained from:

Central Minnesota Emergency Services Board
City of St. Cloud
Office of the Mayor
City Hall
400 Second Street South
St. Cloud, Minnesota 56303

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

   E. Subsequent Event

   On June 5, 2018, the County Board gave preliminary approval to the issuance of general obligation bonds in the maximum principal amount of $15,000,000 for the accelerated completion of four County roads. The bond will be repaid with local option sales tax revenues.

This page was left blank intentionally.

REQUIRED SUPPLEMENTARY INFORMATION

This page was left blank intentionally.

MILLE LACS COUNTY
MILACA, MINNESOTA

EXHIBIT A-1

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

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 9,249,420	$ 9,249,420	$ 9,336,245	$ 86,825
Special assessments	16,000	16,000	15,295	(705)
Licenses and permits	204,372	204,372	267,131	62,759
Intergovernmental	2,848,082	2,848,082	6,714,567	3,866,485
Charges for services	1,306,481	1,306,481	1,377,585	71,104
Fines and forfeits	52,300	52,300	61,947	9,647
Gifts and contributions	2,640	2,640	18,812	16,172
Investment earnings	48,000	48,000	190,675	142,675
Miscellaneous	516,305	516,305	554,699	38,394
Total Revenues	**$ 14,243,600**	**$ 14,243,600**	**$ 18,536,956**	**$ 4,293,356**
Expenditures				
Current				
General government				
Commissioners	$ 209,028	$ 209,028	$ 210,562	$ (1,534)
Court administrator	84,000	84,000	92,071	(8,071)
Law library	30,800	30,800	18,180	12,620
County administrator	1,105,872	1,105,872	1,128,796	(22,924)
Auditor-treasurer	416,898	416,898	401,821	15,077
Auditing	45,000	45,000	35,846	9,154
General administration	413,556	413,556	430,240	(16,684)
Information services	148,200	148,200	146,402	1,798
Data processing	80,654	80,654	81,591	(937)
Elections	20,850	20,850	14,445	6,405
County attorney	1,429,094	1,429,094	1,399,294	29,800
Victim emergency grant	79,536	79,536	70,212	9,324
Assessor	458,172	458,172	448,210	9,962
Land records and information	61,500	61,500	159,936	(98,436)
Zoning and environmental services	445,648	445,648	526,232	(80,584)
Building maintenance	347,280	347,280	314,863	32,417
Other general government	165,000	165,000	13,911	151,089
Total general government	**$ 5,541,088**	**$ 5,541,088**	**$ 5,492,612**	**$ 48,476**

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

MILLE LACS COUNTY

EXHIBIT A-1
(Continued)

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

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Expenditures				
Current (Continued)				
Public safety				
Sheriff	$ 3,734,384	$ 3,734,384	$ 3,698,399	$ 35,985
Court security	524,991	524,991	496,862	28,129
Drug and alcohol contingency	1,000	1,000	-	1,000
Boat and water safety	55,767	55,767	65,840	(10,073)
Snowmobile safety enforcement	3,500	3,500	-	3,500
ATV grant	3,500	3,500	3,052	448
DARE program	2,500	2,500	3,640	(1,140)
Hooked on fishing account	1,500	1,500	1,130	370
Chaplaincy	100	100	155	(55)
DWI forfeiture	200	200	1,047	(847)
DWI assessment	39,281	39,281	39,281	-
Drug forfeiture	1,000	1,000	87,062	(86,062)
Fleeing an officer forfeiture	100	100	-	100
Communications	-	-	4,119	(4,119)
Records system	52,500	52,500	58,443	(5,943)
Permit to carry	10,000	10,000	34,609	(24,609)
Animal control	15,600	15,600	16,757	(1,157)
Coroner	63,566	63,566	63,566	-
County jail	2,851,623	2,851,623	3,212,505	(360,882)
Prisoner account	438,000	438,000	193,662	244,338
Probation	840,351	840,351	784,435	55,916
Case load reduction account	145,250	145,250	140,709	4,541
911 services and civil defense	121,662	121,662	118,252	3,410
E-911	127,700	127,700	28,646	99,054
Public safety answering point	762,826	762,826	734,007	28,819
Total public safety	**$ 9,796,901**	**$ 9,796,901**	**$ 9,786,178**	**$ 10,723**
Sanitation				
Solid waste	**$ 96,000**	**$ 96,000**	**$ 102,896**	**$ (6,896)**
Culture and recreation				
Historical society	$ 9,000	$ 9,000	$ 9,000	$ -
Snowmobile trails	-	-	102,675	(102,675)
Total culture and recreation	**$ 9,000**	**$ 9,000**	**$ 111,675**	**$ (102,675)**

MILLE LACS COUNTY
MILACA, MINNESOTA

EXHIBIT A-1
(Continued)

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

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Expenditures				
Current (Continued)				
Conservation of natural resources				
County agricultural society	$ 17,000	$ 17,000	$ 17,000	$ -
County extension service	93,602	93,602	81,730	11,872
Soil and water conservation	85,000	85,000	102,750	(17,750)
Aquatic invasive species aid	142,525	142,525	69,865	72,660
Environmental resources	-	-	29,518	(29,518)
Other conservation	4,379	4,379	4,379	-
Total conservation of natural resources	**$ 342,506**	**$ 342,506**	**$ 305,242**	**$ 37,264**
Economic development				
Community development	$ 69,885	$ 69,885	$ 54,511	$ 15,374
Economic development	3,615,000	3,615,000	3,569,584	45,416
Total economic development	**$ 3,684,885**	**$ 3,684,885**	**$ 3,624,095**	**$ 60,790**
Intergovernmental				
Culture and recreation				
Library	**$ 273,835**	**$ 273,835**	**$ 273,835**	**$ -**
Total Expenditures	**$ 19,744,215**	**$ 19,744,215**	**$ 19,696,533**	**$ 47,682**
Excess of Revenues Over (Under) Expenditures	**$ (5,500,615)**	**$ (5,500,615)**	**$ (1,159,577)**	**$ 4,341,038**
Other Financing Sources (Uses)				
Transfers in	$ 1,354,808	$ 1,354,808	$ 1,246,093	$ (108,715)
Proceeds from sale of capital assets	-	-	8,460	8,460
Total Other Financing Sources (Uses)	**$ 1,354,808**	**$ 1,354,808**	**$ 1,254,553**	**$ (100,255)**
Net Change in Fund Balance	**$ (4,145,807)**	**$ (4,145,807)**	**$ 94,976**	**$ 4,240,783**
Fund Balance - January 1	**7,308,737**	**7,308,737**	**7,308,737**	**-**
Fund Balance - December 31	**$ 3,162,930**	**$ 3,162,930**	**$ 7,403,713**	**$ 4,240,783**

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

MILLE LACS COUNTY
MILACA, MINNESOTA

EXHIBIT A-2

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

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 1,295,949	$ 1,295,949	$ 1,211,416	$ (84,533)
Licenses and permits	9,700	9,700	13,050	3,350
Intergovernmental	6,174,440	6,174,440	4,845,736	(1,328,704)
Charges for services	490,960	490,960	3,184	(487,776)
Miscellaneous	11,000	11,000	23,725	12,725
Total Revenues	**$ 7,982,049**	**$ 7,982,049**	**$ 6,097,111**	**$ (1,884,938)**
Expenditures				
Current				
Highways and streets				
Administration	$ 666,731	$ 666,731	$ 607,789	$ 58,942
Construction	5,892,228	5,892,228	4,183,031	1,709,197
Maintenance	1,977,782	1,977,782	1,376,117	601,665
Equipment maintenance and shop	595,334	595,334	514,288	81,046
Summer help	-	-	4,772	(4,772)
Public works surveyor	102,974	102,974	62,108	40,866
Total highways and streets	**$ 9,235,049**	**$ 9,235,049**	**$ 6,748,105**	**$ 2,486,944**
Intergovernmental				
Highways and streets	247,000	247,000	246,641	359
Total Expenditures	**$ 9,482,049**	**$ 9,482,049**	**$ 6,994,746**	**$ 2,487,303**
Excess of Revenues Over (Under) Expenditures	**$ (1,500,000)**	**$ (1,500,000)**	**$ (897,635)**	**$ 602,365**
Other Financing Sources (Uses)				
Transfers in	500,000	500,000	684,079	184,079
Net Change in Fund Balance	**$ (1,000,000)**	**$ (1,000,000)**	**$ (213,556)**	**$ 786,444**
Fund Balance - January 1	**2,451,974**	**2,451,974**	**2,451,974**	**-**
Increase (decrease) in inventories	**-**	**-**	**39,378**	**39,378**
Fund Balance - December 31	**$ 1,451,974**	**$ 1,451,974**	**$ 2,277,796**	**$ 825,822**

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

MILLE LACS COUNTY
MILACA, MINNESOTA

EXHIBIT A-3

BUDGETARY COMPARISON SCHEDULE
COMMUNITY AND VETERAN SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2017

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 4,645,337	$ 4,645,337	$ 4,599,567	$ (45,770)
Intergovernmental	6,193,118	6,193,118	6,124,995	(68,123)
Charges for services	656,342	656,342	816,659	160,317
Gifts and contributions	550	550	17,537	16,987
Miscellaneous	208,586	208,586	502,157	293,571
Total Revenues	**$ 11,703,933**	**$ 11,703,933**	**$ 12,060,915**	**$ 356,982**
Expenditures				
Current				
General government				
Veteran services	**$ 163,130**	**$ 163,130**	**$ 132,738**	**$ 30,392**
Human services				
Income maintenance	$ 2,491,074	$ 2,491,074	$ 2,149,835	$ 341,239
Social services	8,347,713	8,347,713	8,238,667	109,046
Total human services	**$ 10,838,787**	**$ 10,838,787**	**$ 10,388,502**	**$ 450,285**
Health				
Public health	**$ 902,016**	**$ 902,016**	**$ 680,261**	**$ 221,755**
Total Expenditures	**$ 11,903,933**	**$ 11,903,933**	**$ 11,201,501**	**$ 702,432**
Excess of Revenues Over (Under) Expenditures	**$ (200,000)**	**$ (200,000)**	**$ 859,414**	**$ 1,059,414**
Other Financing Sources (Uses)				
Transfers out	-	-	(184,079)	(184,079)
Net Change in Fund Balance	**$ (200,000)**	**$ (200,000)**	**$ 675,335**	**$ 875,335**
Fund Balance - January 1	**5,193,359**	**5,193,359**	**5,193,359**	**-**
Fund Balance - December 31	**$ 4,993,359**	**$ 4,993,359**	**$ 5,868,694**	**$ 875,335**

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

MILLE LACS COUNTY
MILACA, MINNESOTA

EXHIBIT A-4

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

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	State's Proportionate Share of the Net Pension Liability Associated with Mille Lacs County (b)	Employer's Proportionate Share of the Net Pension Liability and the State's Related Share of the Net Pension Liability (Asset) (a + b)	Covered Payroll (c)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2017	0.1403%	$ 8,956,659	$ 112,592	$ 9,069,251	$ 9,035,988	99.12%	75.90%
2016	0.1350	10,961,330	143,093	11,104,423	8,375,446	130.87	68.91
2015	0.1397	7,239,979	N/A	7,239,979	8,211,771	88.17	78.20

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.
The measurement date for each year is June 30.
N/A - Not Applicable

MILLE LACS COUNTY
MILACA, MINNESOTA

EXHIBIT A-5

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

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b - a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
2017	$ 696,444	$ 696,444	$ -	$ 9,285,923	7.50%
2016	655,672	655,672	-	8,742,282	7.50
2015	621,767	621,767	-	8,290,223	7.50

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

MILLE LACS COUNTY
MILACA, MINNESOTA

EXHIBIT A-6

SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA PUBLIC EMPLOYEES POLICE AND FIRE PLAN
DECEMBER 31, 2017

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	Covered Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2017	0.222%	$ 2,997,264	$ 2,280,498	131.43%	85.43%
2016	0.183	7,344,108	1,760,704	417.11	63.88
2015	0.181	2,056,584	1,662,624	123.70	86.60

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

MILLE LACS COUNTY
MILACA, MINNESOTA

EXHIBIT A-7

SCHEDULE OF CONTRIBUTIONS
PERA PUBLIC EMPLOYEES POLICE AND FIRE PLAN
DECEMBER 31, 2017

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b - a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
2017	$ 396,476	$ 396,476	$ -	$ 2,447,381	16.20%
2016	321,902	321,902	-	1,987,052	16.20
2015	275,247	275,247	-	1,699,054	16.20

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

The notes to the required supplementary information are an integral part of these schedules.

MILLE LACS COUNTY
MILACA, MINNESOTA

EXHIBIT A-8

SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA PUBLIC EMPLOYEES CORRECTIONAL PLAN
DECEMBER 31, 2017

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	Covered Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2017	1.080%	$ 3,078,011	$ 2,153,767	142.91%	67.89%
2016	1.120	4,091,517	2,111,303	193.79	58.16
2015	1.168	180,882	2,098,927	8.62	96.95

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

MILLE LACS COUNTY
MILACA, MINNESOTA

EXHIBIT A-9

SCHEDULE OF CONTRIBUTIONS
PERA PUBLIC EMPLOYEES CORRECTIONAL PLAN
DECEMBER 31, 2017

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b - a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
2017	$ 177,245	$ 177,245	$ -	$ 2,025,659	8.75%
2016	187,202	187,202	-	2,139,451	8.75
2015	185,187	185,187	-	2,116,421	8.75

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

The notes to the required supplementary information are an integral part of these schedules.

MILLE LACS COUNTY

EXHIBIT A-10

SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS
FOR THE YEAR ENDED DECEMBER 31, 2017

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
January 1, 2012	$ -	$ 1,783,533	$ 1,783,533	0.00%	$ 10,968,844	16.26%
January 1, 2014	-	2,001,833	2,001,833	0.00	11,399,191	17.56
January 1, 2016	-	1,842,536	1,842,536	0.00	11,997,949	15.36

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

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

1. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds, except for the Ditch Special Revenue Fund, the Debt Service Fund, and the Capital Projects Fund. All annual appropriations lapse at fiscal year-end unless specifically carried over to the next budget year by Board action.

On or before mid-June of each year, all departments and agencies submit requests for appropriations to the Administrative Services Offices so that a budget can be prepared. Before September 31, the proposed budget is presented to the County Board for review. The Board holds public hearings, and a final budget must be prepared and adopted no later than December 31.

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

2. Excess of Expenditures Over Appropriations

The following major governmental fund had expenditures in excess of budget at the function level for the year ended December 31, 2017:

	Expenditures	Final Budget	Excess
General Fund			
Current			
Sanitation	$ 102,896	$ 96,000	$ 6,896
Culture and recreation	111,675	9,000	102,675

3. Other Postemployment Benefits Funding Status

Beginning in 2008, Mille Lacs 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

3. Other Postemployment Benefits Funding Status (Continued)

deposited funds in a trust for future health benefits, the actuarial value of the assets is zero. See Note 4.B. in the notes to the financial statements for additional information regarding the County's other postemployment benefits.

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

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

General Employees Retirement Plan

2017

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

- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044 and 2.5 percent per year thereafter.

- Minneapolis Employees Retirement Fund plan provisions change the employer supplemental contribution to $21,000,000 in calendar years 2017 and 2018 and returns to $31,000,000 through calendar year 2031. The state's required contribution is $16,000,000 in PERA's fiscal years 2018 and 2019 and returns to $6,000,000 annually through calendar year 2031.

2016

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2035 and 2.50 percent per year thereafter, to 1.00 percent for all future years.

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

General Employees Retirement Plan

2016 (Continued)

- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was also changed from 7.90 percent to 7.50 percent.

- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

Public Employees Police and Fire Plan

2017

- The assumed salary increases were changed as recommended in the June 30, 2016, experience study. The net effect is proposed rates that average 0.34 percent lower than the previous rates.

- The assumed rates of retirement were changed, resulting in fewer retirements.

- The CSA load was 30 percent for vested and non-vested, deferred members. The CSA has been changed to 33 percent for vested members and 2.0 percent for non-vested members.

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

- The assumed termination rates were decreased to 3.0 percent for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall.

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

Public Employees Police and Fire Plan

2017 (Continued)

- The assumed percentage of married female members was decreased from 65 percent to 60 percent.

- The assumed age difference was changed from separate assumptions for male members (wives assumed to be three years younger) and female members (husbands assumed to be four years older) to the assumption that males are two years older than females.

- The assumed percentage of female members electing joint and survivor annuities was increased.

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

- The single discount rate was changed from 5.60 percent per annum to 7.50 percent per annum.

2016

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2037 and 2.50 percent per year thereafter, to 1.00 percent for all future years.

- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was changed from 7.90 percent to 5.60 percent.

- The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

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

Public Employees Correctional Plan

2017

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

- The CSA load was 30 percent for vested and non-vested, deferred members. The CSA has been changed to 35 percent for vested members and 1.0 percent for non-vested members.

- The single discount rate was changed from 5.31 percent per annum to 5.96 percent per annum.

2016

- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was changed from 7.90 percent to 5.31 percent.

- The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

This page was left blank intentionally.

SUPPLEMENTARY INFORMATION

This page was left blank intentionally.

MILLELACS COUNTY
MILACA, MINNESOTA

FIDUCIARY FUND

Agency Fund - to account for assets held by the County as an agent for other governmental units, individuals, private organizations, or other funds.

This page was left blank intentionally.

MILLE LACS COUNTY
MILACA, MINNESOTA

EXHIBIT B-1

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUND
FOR THE YEAR ENDED DECEMBER 31, 2017

	Balance January 1	Additions	Deductions	Balance December 31
Assets				
Cash and pooled investments	$ 737,775	$ 20,296,048	$ 19,827,781	$ 1,206,042
Liabilities				
Due to other governments	$ 737,775	$ 20,296,048	$ 19,827,781	$ 1,206,042

This page was left blank intentionally.

OTHER SCHEDULES

MILLE LACS COUNTY
MILACA, MINNESOTA

BALANCE SHEET - BY DITCH
DITCH SPECIAL REVENUE FUND
DECEMBER 31, 2017

	Assets		Liabilities
	Cash and Pooled Investments	Accounts Payable	Advances From Other Funds
County Ditch			
1	$ 845	$ 32	$ -
2	5,941	37	19,581
3	44,172	37	-
4	32,280	22	-
5	6,835	13	-
6	491	2	-
7	-	7	142
11	5,187	14	-
14	192	36	74,041
Judicial Ditch			
3	(61)	-	-
Total	**$ 95,882**	**$ 200**	**$ 93,764**

EXHIBIT C-1

	Fund Balance			
Total Liabilities	Restricted for Ditch Maintenance and Repairs	Unassigned	Total Fund Balance	Total Liabilities and Fund Balance
$ 32	$ 813	$ -	$ 813	$ 845
19,618	-	(13,677)	(13,677)	5,941
37	44,132	3	44,135	44,172
22	32,258	-	32,258	32,280
13	6,822	-	6,822	6,835
2	489	-	489	491
149	-	(149)	(149)	-
14	5,173	-	5,173	5,187
74,077	-	(73,885)	(73,885)	192
-	-	(61)	(61)	(61)
$ 93,964	**$ 89,687**	**$ (87,769)**	**$ 1,918**	**$ 95,882**

MILLE LACS COUNTY
MILACA, MINNESOTA

EXHIBIT C-2

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

Appropriations and Shared Revenue		
State		
Highway users tax	$	4,844,984
County program aid		1,585,043
Riparian buffer aid		40,000
PERA rate reimbursement		30,786
Disparity reduction aid		24,711
Police aid		228,826
Indian casino aid		88,666
Enhanced 911		101,935
SCORE		74,862
Aquatic invasive species aid		96,263
Market value credit		215,334
Total appropriations and shared revenue	**$**	**7,331,410**
Reimbursement for Services		
State		
Minnesota Department of Human Services	**$**	**1,521,220**
Payments		
Local		
Payments in lieu of taxes	$	219,182
Other		3,778
Total payments	**$**	**222,960**
Grants		
State		
Minnesota Department/Board of		
Commerce	$	123,451
Education and Economic Development		3,565,000
Health		107,670
Natural Resources		111,761
Human Services		1,400,957
Veterans Affairs		10,000
Corrections		207,304
Water and Soil Resources		66,374
Peace Officer Standards and Training Board		10,492
Total state	**$**	**5,603,009**

MILLE LACS COUNTY
MILACA, MINNESOTA

EXHIBIT C-2
(Continued)

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

Grants (Continued)		
Federal		
Department of		
Agriculture	$	267,742
Justice		121,957
Transportation		11,694
Education		1,933
Health and Human Services		2,552,958
Homeland Security		62,245
Total federal	**$**	**3,018,529**
Total state and federal grants	**$**	**8,621,538**
Build America Bonds interest subsidy	**$**	**15,331**
Total Intergovernmental Revenue	**$**	**17,712,459**

MILLE LACS COUNTY
MILACA, MINNESOTA

EXHIBIT C-3

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

Federal Grantor Pass-Through Agency Program or Cluster Title	Federal CFDA Number	Pass-Through Grant Numbers	Expenditures
U.S. Department of Agriculture			
Passed Through Minnesota Department of Health			
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	16162MN004W1003	$ 95,638
Passed Through Minnesota Department of Human Services			
SNAP Cluster			
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	172MN101S2514	172,104
Total U.S. Department of Agriculture			**$ 267,742**
U.S. Department of Justice			
Direct			
Public Safety Partnership and Community Policing Grants	16.710		**$ 121,957**
U.S. Department of Transportation			
Passed Through Minnesota Department of Public Safety			
Highway Safety Cluster			
State and Community Highway Safety	20.600	A-ENFRC17-2017-MILLACSO-035	$ 5,522
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	A-ENFRC17-2017-MILLACSO-035	2,804
Highway Safety Cluster			
National Priority Safety Programs	20.616	A-ENFRC17-2017-MILLACSO-035	3,368
Total U.S. Department of Transportation			**$ 11,694**
U.S. Department of Education			
Passed Through Minnesota Department of Health			
Special Education - Grants for Infants and Families	84.181	H181A150029	**$ 1,933**
U.S. Department of Health and Human Services			
Passed Through Minnesota Department of Health			
Public Health Emergency Preparedness	93.069	NU90TP921911-01-00	$ 37,842
Universal Newborn Hearing Screening	93.251	H61MC00035	975
Early Hearing Detection and Intervention Information System (EHDI-IS) Surveillance Program	93.314	6NUR3DD000842-05-01	150
Maternal, Infant, and Early Childhood Home Visiting Cluster			
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	93.505	1D89MC28263-01-01	109,445
TANF Cluster			
Temporary Assistance for Needy Families	93.558	2017G996115	57,408
(Total Temporary Assistance for Needy Families 93.558 $370,901)			
Maternal and Child Health Services Block Grant to the States	93.994	B04MC3621	7,779

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

MILLE LACS COUNTY

EXHIBIT C-3
(Continued)

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

Federal Grantor Pass-Through Agency Program or Cluster Title	Federal CFDA Number	Pass-Through Grant Numbers	Expenditures
U.S. Department of Health and Human Services (Continued)			
Passed Through Minnesota Department of Human Services			
Promoting Safe and Stable Families	93.556	G-1601MNFPSS	8,700
TANF Cluster			
Temporary Assistance for Needy Families	93.558	1601MNTANF	313,493
(Total Temporary Assistance for Needy Families 93.558 $370,901)			
Child Support Enforcement	93.563	1704MNCSES	492,008
Refugee and Entrant Assistance - State Administered Programs	93.566	1701MNRCMA	429
CCDF Cluster			
Child Care and Development Block Grant	93.575	G1701MNCCDF	10,476
Community-Based Child Abuse Prevention Grants	93.590	G-1502MNFRPG	25,816
Stephanie Tubbs Jones Child Welfare Services Program	93.645	G-1601MNCWSS	8,578
Foster Care Title IV-E	93.658	1701MNFOST	430,934
Social Services Block Grant	93.667	G-1701MNSOSR	201,133
Chafee Foster Care Independence Program	93.674	G-1601MNCILP	9,600
Children's Health Insurance Program	93.767	05-1705MN0301	205
Medicaid Cluster			
Medical Assistance Program	93.778	05-1705MN5MAP	9,479
Medical Assistance Program	93.778	05-1705MN5ADM	880,895
(Total Medical Assistance Program 93.778 $892,309)			
Passed Through Chisago County, Minnesota			
Medicaid Cluster			
Medical Assistance Program	93.778	SH23IP000737	1,935
(Total Medical Assistance Program 93.778 $892,309)			
Total U.S. Department of Health and Human Services			**$ 2,607,280**
U.S. Department of Homeland Security			
Passed Through Minnesota Department of Natural Resources			
Boating Safety Financial Assistance	97.012	Not provided	$ 5,071
Passed Through Minnesota Department of Public Safety			
Emergency Management Performance Grants	97.042	Not provided	55,974
Passed Through City of St. Cloud, Minnesota			
Homeland Security Grant Program	97.067	2016 HSEM4WC-003	1,200
Total U.S. Department of Homeland Security			**$ 62,245**
Total Federal Awards			**$ 3,072,851**

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

MILLE LACS COUNTY
MILACA, MINNESOTA

EXHIBIT C-3
(Continued)

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

Federal Grantor Pass-Through Agency Program or Cluster Title	Federal CFDA Number	Pass-Through Grant Numbers	Expenditures
Totals by Cluster			
Total expenditures for SNAP Cluster			$ 172,104
Total expenditures for Highway Safety Cluster			8,890
Total expenditures for Maternal, Infant, and Early Childhood Home Home Visiting Cluster			109,445
Total expenditures for TANF Cluster			370,901
Total expenditures for CCDF Cluster			10,476
Total expenditures for Medicaid Cluster			892,309

The County did not pass any federal awards through to subrecipients during the year ended December 31, 2017.

MILLE LACS COUNTY
MILACA, MINNESOTA

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

1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by Mille Lacs 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 Mille Lacs County under programs of the federal government for the year ended December 31, 2017. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of Mille Lacs County, it is not intended to and does not present the financial position, changes in net position, or cash flows of Mille Lacs 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 Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Mille Lacs County has elected to not use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

MILLE LACS COUNTY

4. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	$	3,018,529
Grants received more than 60 days after year-end, unavailable in 2017		
Promoting Safe and Stable Families		2,777
Temporary Assistance for Needy Families		112,651
Child Support Enforcement		19,500
Community-Based Child Abuse Prevention Grants		4,492
Stephanie Tubbs Jones Child Welfare Services Program		2,730
Chafee Foster Care Independence Program		3,953
Unavailable in 2016, recognized as revenue in 2017		
Promoting Safe and Stable Families		(517)
Temporary Assistance for Needy Families		(80,165)
Community-Based Child Abuse Prevention Grants		(3,796)
Stephanie Tubbs Jones Child Welfare Services Program		(1,099)
Foster Care Title IV-E		(598)
Chafee Foster Care Independence Program		(4,123)
Maternal and Child Health Services Block Grant to the States		(1,483)
Expenditures Per Schedule of Expenditures of Federal Awards	$	3,072,851

Management and Compliance Section

This page was left blank intentionally.

STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

REBECCA OTTO
STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

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
Mille Lacs County
Milaca, 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, each major fund, and the aggregate remaining fund information of Mille Lacs County, Minnesota, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 4, 2018.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as item 1996-001, that we consider to be a significant deficiency.

Compliance and Other Matters

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

Minnesota Legal Compliance

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

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

Mille Lacs County's Response to Finding

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

Purpose of This Report

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

/s/Rebecca Otto	*/s/Greg Hierlinger*
REBECCA OTTO STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

September 4, 2018

This page was left blank intentionally.

STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

REBECCA OTTO
STATE AUDITOR

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

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

Independent Auditor's Report

Board of County Commissioners
Mille Lacs County
Milaca, Minnesota

Report on Compliance for Each Major Federal Program

We have audited Mille Lacs County's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of the County's major federal programs for the year ended December 31, 2017. Mille Lacs County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

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

Auditor's Responsibility
Our responsibility is to express an opinion on compliance for each of Mille Lacs County's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Mille Lacs 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, Mille Lacs County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2017.

Report on Internal Control Over Compliance

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

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

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

Purpose of This Report

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

/s/Rebecca Otto	*/s/Greg Hierlinger*
REBECCA OTTO STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

September 4, 2018

This page was left blank intentionally.

MILLE LACS COUNTY
MILACA, MINNESOTA

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

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Internal control over financial reporting:
- Material weaknesses identified? **No**
- Significant deficiencies identified? **Yes**

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

Federal Awards

Internal control over major programs:
- Material weaknesses identified? **No**
- Significant deficiencies identified? **None reported**

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

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

The major federal programs are:

Child Support Enforcement	CFDA No. 93.563
Foster Care - Title IV-E	CFDA No. 93.658

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

Mille Lacs County qualified as a low-risk auditee? **Yes**

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding Number 1996-001

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. Responsibilities should be separated among employees so that a single employee is not able to authorize a transaction, record the transaction in accounts, and be responsible for custody of the asset resulting from the transaction.

Condition: Several of the County's departments that collect fees, including Sheriff/Jail and Land Services, lack proper segregation of duties. These departments generally have one staff person who is responsible for billing, collecting, recording, and depositing receipts; preparing reports; and, if applicable, reconciling bank accounts.

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 Mille Lacs 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 a timely period by employees in the normal course of performing their assigned functions.

Cause: The County informed us that, due to the available resources, it would not be able to hire additional qualified accounting staff to segregate duties in every department.

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

View of Responsible Official: Concur

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

This page was left blank intentionally.

MILLE LACS COUNTY EST. 1857

Administrative Services Office
635 2nd Street SE
Milaca, MN 56353

Phone: (320) 983-8218
Fax: (320) 983-8382

REPRESENTATION OF MILLE LACS COUNTY
MILACA, MINNESOTA

CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED DECEMBER 31, 2017

Finding Number: 1996-001
Finding Title: Segregation of Duties

Name of Contact Person Responsible for Corrective Action:

Pat Oman, Mille Lacs County Administrator

Corrective Action Planned:

County officials and management are fully aware of this finding and the situation. Over the past few years we have written policies and procedures which make us aware of our areas of opportunity to improve and what can be done to make adjustments. The issue will be brought to the Management Team meeting so all department heads are aware of this issue. In addition, each department's billing, collecting, recording, and depositing receipts processes will be reviewed to determine any areas which can be approved upon.

Anticipated Completion Date:

This will be discussed at a Management Team meeting within the next few months; the billing, collecting, recording, and depositing receipts processes in all offices/departments will be reviewed by January 2019.

This page was left blank intentionally.

Administrative Services Office
635 2nd Street SE
Milaca, MN 56353

Phone: (320) 983-8218
Fax: (320) 983-8382

REPRESENTATION OF MILLE LACS COUNTY
MILACA, MINNESOTA

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

Finding Number: 1996-001
Finding Title: Segregation of Duties

Summary of Condition: Several County departments that collect fees lack proper segregation of duties. These departments generally have one staff person who is responsible for billing, collecting, recording, and depositing receipts; preparing reports; and reconciling bank accounts.

Summary of Corrective Action Previously Reported: Mille Lacs County management is aware of this situation and will continue to periodically review and modify procedures to address issues related to the lack of segregation of duties.

Status: Not Corrected. The County's limited staff in many departments prevents complete segregation of duties. The County periodically reviews its internal control processes and implements compensating controls as needed to address the lack of segregation of duties. Please see corrective action plan for further information.

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