

State of Minnesota



Office of the State Auditor

Julie Blaha
State Auditor

**Lake County
Two Harbors, Minnesota**

Year Ended December 31, 2019

Description of the Office of the State Auditor

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

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

The State Auditor performs approximately 100 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

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

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

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

Pension – monitors investment, financial, and actuarial reporting for Minnesota’s local public pension funds; and

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

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

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Lake County Two Harbors, Minnesota

Year Ended December 31, 2019



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

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**LAKE COUNTY
TWO HARBORS, MINNESOTA**

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TWO HARBORS, MINNESOTA**

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**LAKE COUNTY
TWO HARBORS, MINNESOTA**

ORGANIZATION
DECEMBER 31, 2019

			<u>Term Expires</u>
Elected			
Commissioner	Peter Walsh	District 1	January 2023
Commissioner	Derrick Goutermont	District 2	January 2021
Commissioner	Rick Hogenson	District 3	January 2021
Commissioner	Jeremy Hurd	District 4	January 2023
Commissioner	Rich Sve	District 5	January 2021
Attorney	Russ Conrow		January 2023
Auditor/Treasurer	Linda Libal		January 2023
Recorder	Lori Ekstrom		January 2023
Sheriff	Carey Johnson		January 2023
Appointed			
Assessor	Gregg Swartwoudt		December 2020
Examiner of Titles	David Adams (St. Louis County)		Indefinite
Health Officer	Harold B. Leppink, M.D.		Indefinite
Highway Engineer	Krysten Foster*		May 2022
Veterans Service Officer	Nazareth V. Sando**		January 2023
Clerk of the Board	Laurel Buchanan		Indefinite
County Administrator	Matthew Huddleston		Indefinite

*Krysten Foster resigned in May 2020. She was replaced with Jason DiPiazza.

**Nazareth V. Sando resigned in May 2020. She was replaced with Brad Anderson.

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JULIE BLAHA
STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Lake County
Two Harbors, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Lake County, Minnesota, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control

relevant to the County's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Lake County as of December 31, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter – Subsequent Event

As discussed in Note 6 to the financial statements, subsequent to year-end, the World Health Organization declared the outbreak of the coronavirus (COVID-19) a pandemic, resulting in reduced revenue sources. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Supplementary Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2020, on our consideration of Lake County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Lake County's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Lake County's internal control over financial reporting and compliance.

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

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

/s/Julie Blaha

/s/Dianne Syverson

JULIE BLAHA
STATE AUDITOR

DIANNE SYVERSON, CPA
DEPUTY STATE AUDITOR

November 16, 2020

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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**LAKE COUNTY
TWO HARBORS, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2019
(Unaudited)**

Lake County's Management's Discussion and Analysis (MD&A) provides an overview of the County's financial activities for the fiscal year ended December 31, 2019. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the County's financial statements.

FINANCIAL HIGHLIGHTS

- Governmental activities have a total net position of \$103,959,562, of which \$90,137,914 is the net investment in capital assets and \$8,904,529 is restricted to specific purposes.
- Lake County's governmental activities' net position decreased by \$11,546,754 for the year ended December 31, 2019. The Lake County Housing and Redevelopment Authority is shown as the "Discretely Presented Component Unit." The net position of the County's discretely presented component unit increased by \$63,526.
- The net cost of governmental activities was \$8,238,918 for the current fiscal year. The net cost was funded by general revenues and other items totaling \$15,760,029. This is offset by the sale of the business-type activity in 2019 and absorbing the loss.
- Governmental funds' fund balances decreased by \$18,131,802. Most of this is due to the sale of business-type activity and absorbing the loss.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

Fund Financial Statements

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

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

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

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

Proprietary fund financial statements may be found in Exhibits 7 and 8.

Reporting the County’s Fiduciary Responsibilities

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

The fiduciary funds financial statement is presented on Exhibit 9.

LAKE COUNTY AS A WHOLE

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

Table 1
Net Position
(in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2019	2018	2019	2018	2019	2018
Assets						
Current and other assets	\$ 34,490	\$ 48,786	\$ -	\$ (16,953)	\$ 34,490	\$ 31,833
Capital assets	95,241	92,416	-	65,803	95,241	158,219
Total Assets	\$ 129,731	\$ 141,202	\$ -	\$ 48,850	\$ 129,731	\$ 190,052
Deferred Outflows of Resources	\$ 1,695	\$ 2,906	\$ -	\$ -	\$ 1,695	\$ 2,906
Liabilities						
Long-term liabilities outstanding	\$ 19,855	\$ 19,688	\$ -	\$ 48,501	\$ 19,855	\$ 68,189
Other liabilities	3,997	4,252	-	1,860	3,997	6,112
Total Liabilities	\$ 23,852	\$ 23,940	\$ -	\$ 50,361	\$ 23,852	\$ 74,301
Deferred Inflows of Resources	\$ 3,615	\$ 4,662	\$ -	\$ -	\$ 3,615	\$ 4,662
Net Position						
Net investment in capital assets	\$ 90,138	\$ 88,069	\$ -	\$ 17,302	\$ 90,138	\$ 105,371
Restricted	8,904	5,412	-	-	8,904	5,412
Unrestricted	4,917	22,025	-	(18,813)	4,917	3,212
Total Net Position, as reported	\$ 103,959	\$ 115,506	\$ -	\$ (1,511)	\$ 103,959	\$ 113,995

Table 2
Changes in Net Position
(in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2019	2018	2019	2018	2019	2018
Revenues						
Program revenues						
Fees, fines, charges, and other	\$ 2,248	\$ 2,379	\$ 1,646	\$ 4,045	\$ 3,894	\$ 6,424
Operating grants and contributions	16,028	15,907	-	-	16,028	15,907
Capital grants and contributions	334	34	-	-	334	34
General revenues						
Property taxes	10,269	9,554	31	504	10,300	10,058
Other taxes	3,006	2,881	-	-	3,006	2,881
Unrestricted grants and contributions	1,346	1,349	-	-	1,346	1,349
Investment earnings	486	368	33	7	519	375
Gain on sale of capital assets	58	71	-	-	58	71
Special item: Loss on sale of broadband	-	-	(16,407)	-	(16,407)	-
Miscellaneous	595	968	-	-	595	968
Transfers	(19,068)	(7,108)	19,068	7,108	-	-
Total Revenues	\$ 15,302	\$ 26,403	\$ 4,371	\$ 11,664	\$ 19,673	\$ 38,067
Expenses						
General government	\$ 4,948	\$ 4,859	\$ -	\$ -	\$ 4,948	\$ 4,859
Public safety	5,432	5,151	-	-	5,432	5,151
Highways and streets	6,026	5,414	-	-	6,026	5,414
Sanitation	402	374	-	-	402	374
Human services	3,470	3,729	-	-	3,470	3,729
Health	3,373	3,770	-	-	3,373	3,770
Culture and recreation	1,817	1,037	-	-	1,817	1,037
Conservation of natural resources	776	1,019	-	-	776	1,019
Economic development	159	86	-	-	159	86
Interest	446	525	-	-	446	525
Broadband	-	-	2,860	5,547	2,860	5,547
Total Expenses	\$ 26,849	\$ 25,964	\$ 2,860	\$ 5,547	\$ 29,709	\$ 31,511
Increase (Decrease) in Net Position	\$ (11,547)	\$ 439	\$ 1,511	\$ 6,117	\$ (10,036)	\$ 6,556
Net Position, January 1, as restated (Note 1.E.)	115,506	*115,067	(1,511)	(7,628)	113,995	107,439
Net Position, December 31, as reported	\$ 103,959	\$ 115,506	\$ -	\$ (1,511)	\$ 103,959	\$ 113,995

*Amount includes a change in accounting principles.

Lake County's business-type activities consist of the broadband project that started in 2012. This is primarily funded by capital grants and contributions that included a Broadband Initiatives Program Grant and a Broadband Initiatives Program Loan. The business-type activity was sold in 2019.

Governmental Activities

The cost of all governmental activities this year was \$26,849,043. However, as shown in the statement of activities, the amount that our taxpayers ultimately financed for these activities through County taxes and other general revenues was (\$3,307,836), because some of the cost was paid by those who directly benefited from the programs (\$2,247,888) or by other governments and organizations that subsidized certain programs with grants and contributions (\$16,362,237). The loss is attributed to the sale of the business-type activity and absorbing the loss into the General Fund. Table 3 presents the cost of each of the County’s five largest program functions, as well as each function’s net cost (total cost, less revenues generated by the activities). The net cost shows the financial burden that was placed on the County’s taxpayers by each of these functions.

Table 3
Governmental Activities
(in Thousands)

	Total Cost of Services		Net Cost of Services	
	2019	2018	2019	2018
General government	\$ 4,948	\$ 4,859	\$ 209	\$ (228)
Public safety	5,432	5,151	4,850	4,451
Highways and streets	6,026	5,414	843	442
Human services	3,470	3,729	1,742	2,003
Health	3,373	3,770	(220)	(222)
All others	3,600	3,041	815	1,198
Total	\$ 26,849	\$ 25,964	\$ 8,239	\$ 7,644

FINANCIAL ANALYSIS OF THE GOVERNMENT’S FUNDS

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

Governmental Funds

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

The County’s governmental funds reported a combined fund balance of \$22,563,482 in 2019, compared with \$40,695,284 in 2018, a decrease of \$18,131,802. Fund balances that are classified as restricted are either nonspendable or restricted and have specific (usually external) constraints placed on their use. Fund balances that are classified as unrestricted are either committed, assigned, or unassigned fund balances. Committed and assigned fund balances are fund balances for which the County has identified a specific purpose. Unassigned fund balances do not have a specific use identified, but generally support cash flows of the County.

Governmental funds reported nonspendable and restricted fund balance for 2019 of \$5,252,633, or 23.28 percent, of total fund balance. Nonspendable fund balance was \$321,629, and restricted fund balance was \$4,931,004. Unrestricted fund balance was \$17,310,849, or 76.72 percent, of total fund balance. Unrestricted fund balance was \$1,289,791 committed, \$12,806,101 assigned, and \$3,214,957 unassigned. Committed fund balances are approved by the County Board. Assigned fund balances are amounts that are to be used for specific purposes, but are neither restricted nor committed. Unassigned fund balance is fund balance that has not been reported in any other classification and is only used in the General Fund unless there are deficit fund balances in other funds.

The General Fund is the main operating fund of the County. At December 31, 2019, unrestricted fund balance for the General Fund was \$3,337,801, compared to \$19,741,788 in 2018. This decrease in the fund balance of the General Fund is due to an unbudgeted increase in intergovernmental revenues and the loss on the sale of the business-type activity. Unrestricted fund balance at the end of the year represented 23.58 percent of the General Fund's operating revenues and 28.89 percent of operating expenditures.

The Road and Bridge Special Revenue Fund's unrestricted fund balance decreased to \$3,987,408 in 2019, compared to unrestricted fund balance of \$6,371,329 in 2018. In 2019, there was a decrease in state revenues received for construction projects undertaken by the Road and Bridge Department, as well as some expenditures for the new highway facility. Unrestricted fund balance at the end of the year represented 62.88 percent of the fund's operating revenues and 43.81 percent of operating expenditures.

The Human Services Special Revenue Fund's unrestricted fund balance was \$9,325,780 in 2019, compared to \$8,851,492 in 2018. The increase in the fund balance of the Human Services Special Revenue Fund is attributed to higher revenues than what was budgeted. Unrestricted fund balance at the end of the year represented 127.73 percent of the fund's operating revenues and 136.60 percent of operating expenditures.

The Resource Development Special Revenue Fund's unrestricted fund balance was \$477,047 in 2019, compared to \$1,434,716 in 2018. The decrease in the fund balance of the Resource Development Special Revenue Fund is due to the construction of a new trail. Unrestricted fund balance at the end of the year represented 3.74 percent of the fund's operating revenues and 42.90 percent of operating expenditures.

Proprietary Fund

The County's proprietary fund for broadband provides the same type of information found in the government-wide financial statements, only in more detail. In 2014, the County's Broadband Enterprise Fund began operations, collecting operating revenues and incurring operating expenditures. The Broadband Enterprise Fund was originally started in 2012 to track the construction and related expenses of the County's broadband project. The Broadband Enterprise

Fund’s net position was \$0 in 2019, compared to (\$1,511,421) in 2018. Net position increased due to the sale of the business-type activity in June 2019. This transferred any remaining amounts to the General Fund.

General Fund Budgetary Highlights

Over the course of the year, the County Board reviews the County’s General Fund budget and may make budget amendments. These budget amendments fall into three categories: new information changing original budget estimations, greater than anticipated revenues or costs, and final agreement reached on employee contracts. There were no budget amendments in the General Fund budget in 2019.

In the General Fund, the actual charges to appropriations (expenditures) were \$182,897 over the final budget amounts. Unbudgeted expenditures included \$287,807 of unbudgeted trail expenditures, \$144,695 of unbudgeted small cities development program expenditures, and \$103,564 of unbudgeted other public safety expenditures. These were offset by savings in various other General Fund departments.

Resources available for appropriation were also above the final budgeted amount by \$2,178,414. This was primarily due to greater than expected collections in intergovernmental revenues.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2019, the County had \$95,240,547 invested in a broad range of capital assets, including land, buildings, highways and streets, and equipment. (See Table 4.)

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

	Governmental Activities		Business-Type Activities		Totals	
	2019	2018	2019	2018	2019	2018
Land	\$ 3,968	\$ 3,968	\$ -	\$ -	\$ 3,968	\$ 3,968
Buildings and improvements	16,206	12,763	-	1,595	16,206	14,358
Machinery, vehicles, furniture, and equipment	2,008	1,485	-	926	2,008	2,411
Infrastructure	73,058	74,200	-	63,282	73,058	137,482
Totals	\$ 95,240	\$ 92,416	\$ -	\$ 65,803	\$ 95,240	\$ 158,219

The County’s fiscal year 2020 capital budget calls for it to spend another \$52,000 for miscellaneous improvements at various buildings, \$470,000 on vehicles for various departments, \$884,645 on equipment for various departments, and \$5,428,516 for road construction. The road construction will be funded by state-aid construction funds.

Debt

At year-end, the County had \$11,640,000 in bonds and notes outstanding, versus \$11,100,000 last year—an increase of 4.86 percent—as shown in Table 5. The increase is attributed to general obligation bonds to aid in rebuilding the highway garage due to a fire in 2016. Capital leases payable decreased by \$174,490. The Rural Utilities Service Broadband Loan on the business-type activities portion has a balance of \$0 due to the sale of the business-type activity.

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

	Governmental Activities		Business-Type Activities		Totals	
	2019	2018	2019	2018	2019	2018
General obligation bonds	\$ 11,640	\$ 11,100	\$ -	\$ -	\$ 11,640	\$ 11,100
Capital leases	308	482	-	-	308	482
Loans payable	-	-	-	48,501	-	48,501
Compensated absences	1,518	1,533	-	-	1,518	1,533
Net pension liability	5,736	5,898	-	-	5,736	5,898
Net other postemployment benefits	453	540	-	-	453	540
Unamortized premium	200	135	-	-	200	135
Total	\$ 19,855	\$ 19,688	\$ -	\$ 48,501	\$ 19,855	\$ 68,189

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

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The County's elected and appointed officials considered many factors when setting the fiscal year 2020 budget and tax rates.

- County General Fund expenditures for 2020 are budgeted to increase 0.77 percent over 2019.
- Property tax levies increased 6.00 percent for 2020.

CONTACTING LAKE COUNTY'S FINANCIAL MANAGEMENT

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

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET POSITION
DECEMBER 31, 2019**

	Primary Government Governmental Activities	Discretely Presented Component Unit
<u>Assets</u>		
Cash and pooled investments	\$ 21,397,524	\$ 859,976
Receivables	12,844,619	3,276
Inventories	235,091	-
Prepaid items	13,096	-
Restricted assets		
Security deposits	-	18,029
Capital assets		
Non-depreciable capital assets	3,968,383	-
Depreciable capital assets – net of accumulated depreciation	91,272,164	901,776
	\$ 129,730,877	\$ 1,783,057
<u>Deferred Outflows of Resources</u>		
Deferred other postemployment benefits outflows	\$ 22,766	\$ -
Deferred pension outflows	1,672,447	-
	\$ 1,695,213	\$ -
<u>Liabilities</u>		
Accounts payable and other current liabilities	\$ 3,958,372	\$ 3,829
Accrued interest payable	38,985	-
Unearned revenue	-	1,495
Security deposits payable	-	18,172
Long-term liabilities		
Due within one year	840,970	55,000
Due in more than one year	12,824,757	399,384
Other postemployment benefits liability	452,529	-
Net pension liability	5,736,403	-
	\$ 23,852,016	\$ 477,880
<u>Deferred Inflows of Resources</u>		
Deferred other postemployment benefits inflows	\$ 88,468	\$ -
Deferred pension inflows	3,526,044	-
	\$ 3,614,512	\$ -

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

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**LAKE COUNTY
TWO HARBORS, MINNESOTA**

***EXHIBIT 1
(Continued)***

**STATEMENT OF NET POSITION
DECEMBER 31, 2019**

	Primary Government Governmental Activities	Discretely Presented Component Unit
<u>Net Position</u>		
Net investment in capital assets	\$ 90,137,914	\$ 447,392
Restricted for		
General government	822,706	-
Public safety	541,679	-
Highways and streets	6,188,902	-
Conservation of natural resources	485,904	-
Debt service	865,338	-
Unrestricted	4,917,119	857,785
Total Net Position	\$ 103,959,562	\$ 1,305,177

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2019**

	<u>Expenses</u>	<u>Fees, Charges, Fines, and Other</u>	<u>Program Revenues Operating Grants and Contributions</u>
<u>Functions/Programs</u>			
Primary government			
Governmental activities			
General government	\$ 4,947,943	\$ 566,526	\$ 4,172,605
Public safety	5,432,148	126,567	455,468
Highways and streets	6,026,488	281,982	4,717,564
Sanitation	401,744	18,961	45,889
Human services	3,470,326	48,986	1,679,076
Health	3,372,620	281,944	3,310,486
Culture and recreation	1,816,601	-	14,098
Conservation of natural resources	776,470	922,922	1,488,430
Economic development	158,695	-	144,695
Interest	446,008	-	-
Total governmental activities	\$ 26,849,043	\$ 2,247,888	\$ 16,028,311
Business-type activities			
Broadband	2,859,333	1,646,099	-
Total Primary Government	\$ 29,708,376	\$ 3,893,987	\$ 16,028,311
Component unit			
Housing and Redevelopment Authority	\$ 370,051	\$ 291,978	\$ -

General Revenues

Property taxes
Mortgage registry and deed tax
Transportation sales tax
Payments in lieu of tax
Taxes – other
Grants and contributions not restricted to specific programs
Intergovernmental
Unrestricted investment earnings
Gain (loss) on sale of capital assets
Miscellaneous

Special Item (Note 5)

Loss on sale of broadband

Transfers

Total general revenues, special item, and transfers

Change in net position

Net Position – Beginning

Net Position – Ending

EXHIBIT 2

Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position			
	Primary Government			Discretely Presented Component Unit
	Governmental Activities	Business-Type Activities	Total	
\$ -	\$ (208,812)	\$ -	\$ (208,812)	
-	(4,850,113)	-	(4,850,113)	
183,926	(843,016)	-	(843,016)	
-	(336,894)	-	(336,894)	
-	(1,742,264)	-	(1,742,264)	
-	219,810	-	219,810	
150,000	(1,652,503)	-	(1,652,503)	
-	1,634,882	-	1,634,882	
-	(14,000)	-	(14,000)	
-	(446,008)	-	(446,008)	
\$ 333,926	\$ (8,238,918)	\$ -	\$ (8,238,918)	
-	-	(1,213,234)	(1,213,234)	
\$ 333,926	\$ (8,238,918)	\$ (1,213,234)	\$ (9,452,152)	
\$ 2,500				\$ (75,573)
	\$ 10,269,364	\$ 30,978	\$ 10,300,342	\$ 113,358
	663,242	-	663,242	-
	1,015,748	-	1,015,748	-
	988,903	-	988,903	-
	338,296	-	338,296	-
	1,345,790	-	1,345,790	-
	-	-	-	6,954
	485,905	32,781	518,686	10,161
	58,116	-	58,116	-
	594,665	-	594,665	8,626
	-	(16,406,969)	(16,406,969)	-
	(19,067,865)	19,067,865	-	-
	\$ (3,307,836)	\$ 2,724,655	\$ (583,181)	\$ 139,099
	\$ (11,546,754)	\$ 1,511,421	\$ (10,035,333)	\$ 63,526
	115,506,316	(1,511,421)	113,994,895	1,241,651
	\$ 103,959,562	\$ -	\$ 103,959,562	\$ 1,305,177

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2019**

	General	Road and Bridge
<u>Assets</u>		
Cash and pooled investments	\$ 3,983,392	\$ 6,544,037
Escheat cash	36,538	-
Petty cash and change funds	1,050	1,000
Undistributed cash in agency funds	472,679	115,139
Taxes receivable – delinquent	162,191	36,132
Accounts receivable	8,418	179
Accrued interest receivable	32,745	-
Loans receivable	50,000	-
Due from other funds	142,480	-
Due from other governments	2,576,295	4,611,865
Prepaid items	-	-
Inventories	-	235,091
Leases receivable	1,750,000	-
	\$ 9,215,788	\$ 11,543,443
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>		
Liabilities		
Accounts payable	\$ 115,615	\$ 181,013
Salaries payable	282,709	125,977
Contracts payable	-	420,361
Retainage payable	-	235,414
Due to other funds	54	2,150
Due to other governments	1,690,499	41,760
	\$ 2,088,877	\$ 1,006,675
Deferred Inflows of Resources		
Unavailable revenue – taxes	\$ 106,659	\$ 24,744
Unavailable revenue – grants	5,624	4,074,148
Unavailable revenue – long-term receivables	1,740,000	-
	\$ 1,852,283	\$ 4,098,892

EXHIBIT 3

<u>Human Services</u>	<u>Resource Development</u>	<u>Nonmajor Funds</u>	<u>Total</u>
\$ 8,059,090	\$ 853,704	\$ 1,086,956	\$ 20,527,179
-	-	-	36,538
1,000	-	50	3,100
142,557	-	100,332	830,707
50,263	-	30,284	278,870
-	-	998,505	1,007,102
-	-	-	32,745
-	-	-	50,000
54	26,957	833	170,324
1,435,076	1,102,666	-	9,725,902
13,096	-	-	13,096
-	-	-	235,091
-	-	-	1,750,000
<u>\$ 9,701,136</u>	<u>\$ 1,983,327</u>	<u>\$ 2,216,960</u>	<u>\$ 34,660,654</u>
\$ 157,700	\$ 403,614	\$ 3,055	\$ 860,997
106,233	-	20,190	535,109
-	-	-	420,361
-	-	-	235,414
38,655	-	129,465	170,324
39,263	-	134,969	1,906,491
<u>\$ 341,851</u>	<u>\$ 403,614</u>	<u>\$ 287,679</u>	<u>\$ 4,128,696</u>
\$ 33,505	\$ -	\$ 17,477	\$ 182,385
-	1,102,666	-	5,182,438
-	-	863,653	2,603,653
<u>\$ 33,505</u>	<u>\$ 1,102,666</u>	<u>\$ 881,130</u>	<u>\$ 7,968,476</u>

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2019**

	General	Road and Bridge
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u> (Continued)		
Fund Balances		
Nonspendable		
Loans receivables	\$ 50,000	\$ -
Inventories	-	235,091
Missing heirs	36,538	-
Restricted for		
Law library	71,502	-
Recorder's technology equipment	383,392	-
Enhanced 911	460,585	-
County property recorder's fee	366,041	-
Law and prosecutorial equipment	76,094	-
County roads	-	2,215,377
Election equipment	1,771	-
Sheriff's contingency fund	5,000	-
Title III forest	69,711	-
Aquatic invasive species	416,193	-
Debt service	-	-
Committed to		
Rescue squad capital expenditures	25,019	-
Election equipment	53,427	-
Out-of-home placement costs	-	-
Unorganized townships		
Emergency services	-	-
Assigned to		
Capital assets	15,568	-
Wellness grant	298	-
Highways and streets	-	3,987,408
Human services	-	-
Resource development	-	-
Unassigned	3,243,489	-
Total Fund Balances	\$ 5,274,628	\$ 6,437,876
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 9,215,788	\$ 11,543,443

EXHIBIT 3
(Continued)

<u>Human Services</u>	<u>Resource Development</u>	<u>Nonmajor Funds</u>	<u>Total</u>
\$ -	\$ -	\$ -	\$ 50,000
-	-	-	235,091
-	-	-	36,538
-	-	-	71,502
-	-	-	383,392
-	-	-	460,585
-	-	-	366,041
-	-	-	76,094
-	-	-	2,215,377
-	-	-	1,771
-	-	-	5,000
-	-	-	69,711
-	-	-	416,193
-	-	865,338	865,338
-	-	-	25,019
-	-	-	53,427
1,000,000	-	-	1,000,000
-	-	211,345	211,345
-	-	-	15,568
-	-	-	298
-	-	-	3,987,408
8,325,780	-	-	8,325,780
-	477,047	-	477,047
-	-	(28,532)	3,214,957
\$ 9,325,780	\$ 477,047	\$ 1,048,151	\$ 22,563,482
\$ 9,701,136	\$ 1,983,327	\$ 2,216,960	\$ 34,660,654

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**LAKE COUNTY
TWO HARBORS, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET POSITION—GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2019**

Fund balances – total governmental funds (Exhibit 3)	\$	22,563,482
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.		95,240,547
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		7,968,476
Deferred outflows of resources are not available resources and, therefore, are not reported in the governmental funds.		
Deferred other postemployment benefits outflows	\$ 1,672,447	
Deferred pension outflows	<u>22,766</u>	1,695,213
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
General obligation bonds	\$ (11,640,000)	
Capital leases payable	(307,633)	
Compensated absences	(1,518,055)	
Bond premium	(200,039)	
Net pension liability	(5,736,403)	
Net other postemployment benefits liability	(452,529)	
Accrued interest payable	<u>(38,985)</u>	(19,893,644)
Deferred inflows of resources are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
Deferred other postemployment benefits inflows	\$ (88,468)	
Deferred pension inflows	<u>(3,526,044)</u>	<u>(3,614,512)</u>
Net Position of Governmental Activities (Exhibit 1)	\$	<u>103,959,562</u>

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2019**

	General	Road and Bridge
Revenues		
Taxes	\$ 6,349,996	\$ 2,866,801
Licenses and permits	15,980	-
Intergovernmental	6,669,348	3,157,937
Charges for services	467,300	160,169
Fines and forfeits	4,334	-
Investment earnings	430,154	-
Gifts and contributions	-	-
Miscellaneous	217,383	156,496
	\$ 14,154,495	\$ 6,341,403
Expenditures		
Current		
General government	\$ 4,846,152	\$ -
Public safety	5,235,739	-
Highways and streets	-	4,307,679
Sanitation	389,470	-
Human services	-	-
Health	-	-
Culture and recreation	764,386	-
Conservation of natural resources	160,238	-
Economic development	158,695	-
Capital outlay		
Highways and streets	-	4,765,963
Conservation of natural resources	-	-
Debt service		
Principal	-	27,823
Interest	-	1,090
Bond issuance costs	-	-
Administrative (fiscal) charges	-	-
	\$ 11,554,680	\$ 9,102,555
Excess of Revenues Over (Under) Expenditures	\$ 2,599,815	\$ (2,761,152)
Other Financing Sources (Uses)		
Transfers in	\$ -	\$ 1,400,000
Transfers out	(19,067,865)	-
Premium on bonds/notes issued	-	-
Proceeds from sale of bonds	-	-
	\$ (19,067,865)	\$ 1,400,000

EXHIBIT 5

<u>Human Services</u>	<u>Resource Development</u>	<u>Nonmajor Funds</u>	<u>Total</u>
\$ 1,772,685	\$ -	\$ 1,258,956	\$ 12,248,438
-	-	1,277	17,257
5,197,262	126,557	243,789	15,394,893
296,274	-	12,982	936,725
-	-	-	4,334
-	-	55,751	485,905
-	900	-	900
34,896	-	773,082	1,181,857
<u>\$ 7,301,117</u>	<u>\$ 127,457</u>	<u>\$ 2,345,837</u>	<u>\$ 30,270,309</u>
\$ -	\$ -	\$ -	\$ 4,846,152
-	-	137,595	5,373,334
-	-	-	4,307,679
-	-	-	389,470
3,453,838	-	-	3,453,838
3,372,991	-	-	3,372,991
-	955,276	-	1,719,662
-	-	643,883	804,121
-	-	-	158,695
-	-	-	4,765,963
-	-	1,084	1,084
-	146,667	860,000	1,034,490
-	10,140	408,471	419,701
-	-	46,333	46,333
-	-	1,900	1,900
<u>\$ 6,826,829</u>	<u>\$ 1,112,083</u>	<u>\$ 2,099,266</u>	<u>\$ 30,695,413</u>
<u>\$ 474,288</u>	<u>\$ (984,626)</u>	<u>\$ 246,571</u>	<u>\$ (425,104)</u>
\$ -	\$ 26,957	\$ 833	\$ 1,427,790
-	-	(1,427,790)	(20,495,655)
-	-	80,205	80,205
-	-	1,400,000	1,400,000
<u>\$ -</u>	<u>\$ 26,957</u>	<u>\$ 53,248</u>	<u>\$ (17,587,660)</u>

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2019**

	General	Road and Bridge
Net Change in Fund Balances	\$ (16,468,050)	\$ (1,361,152)
Fund Balances – January 1	21,742,678	7,918,066
Increase (decrease) in inventories	-	(119,038)
Fund Balances – December 31	\$ <u>5,274,628</u>	\$ <u>6,437,876</u>

EXHIBIT 5
(Continued)

<u>Human Services</u>	<u>Resource Development</u>	<u>Nonmajor Funds</u>	<u>Total</u>
\$ 474,288	\$ (957,669)	\$ 299,819	\$ (18,012,764)
8,851,492	1,434,716	748,332	40,695,284
<u>-</u>	<u>-</u>	<u>-</u>	<u>(119,038)</u>
<u>\$ 9,325,780</u>	<u>\$ 477,047</u>	<u>\$ 1,048,151</u>	<u>\$ 22,563,482</u>

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

EXHIBIT 6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES—GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2019**

Net change in fund balances – total governmental funds (Exhibit 5) \$ (18,012,764)

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

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

Unavailable revenue – December 31	\$ 7,968,476	
Unavailable revenue – January 1	(3,884,297)	4,084,179

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

Expenditures for general capital assets and infrastructure	\$ 6,111,479	
Net book value of assets sold	(10,680)	
Current year depreciation	(3,276,269)	2,824,530

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

Debt issued		
General obligation bonds issued	\$ (1,400,000)	
Bond premium	(131,178)	
Principal repayments		
General obligation bonds	860,000	
Capital lease	174,490	
Amortization of premium	65,589	(431,099)

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 the governmental funds.

Change in accrued interest payable	\$ 7,310	
Change in compensated absences	15,269	
Change in net pension liability	161,214	
Change in deferred pension outflows	(1,199,914)	
Change in deferred pension inflows	1,135,576	
Change in other postemployment benefits liability	87,659	
Change in other postemployment benefits outflows	(11,208)	
Change in other postemployment benefits inflows	(88,468)	
Change in inventories	(119,038)	(11,600)

Change in Net Position of Governmental Activities (Exhibit 2) \$ (11,546,754)

PROPRIETARY FUND

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**LAKE COUNTY
TWO HARBORS, MINNESOTA**

EXHIBIT 7

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2019**

	Broadband
Operating Revenues	
Charges for services	\$ 1,645,232
Miscellaneous	867
	\$ 1,646,099
Operating Expenses	
Contracted services	\$ 165
Administration and fiscal services	95,458
Real estate taxes	6,135
Supplies	105
Snowplowing	23,835
Utilities	28,885
Telephone	368
Fuel	2,992
Consulting services	277,500
Insurance	8,410
Postage	543
Rent and leased equipment	52,273
Repairs and maintenance	523,087
Video and internet services	338,516
Bad debts	132
Miscellaneous	129,594
Other services and charges	195,082
Waste management	1,175
Depreciation	1,174,806
	\$ 2,859,061
Operating Income (Loss)	\$ (1,212,962)
Nonoperating Revenues (Expenses)	
Taxes	\$ 23,167
Disparity aid	7,811
Interest income	32,781
Interest expense	(272)
	\$ 63,487
Income (Loss) Before Other Financing Sources	\$ (1,149,475)

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

***EXHIBIT 7
(Continued)***

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2019**

	<u>Broadband</u>
Other Financing Sources	
Transfers in	\$ 19,067,865
Special item: Loss on sale of broadband	<u>(16,406,969)</u>
Total Other Financing Sources	<u>\$ 2,660,896</u>
Change in Net Position	\$ 1,511,421
Net Position – January 1	<u>(1,511,421)</u>
Net Position – December 31	<u><u>\$ -</u></u>

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

EXHIBIT 8

**STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2019**

	Broadband
Cash Flows from Operating Activities	
Cash received from customers	\$ 1,561,151
Other operating revenues	867
Cash paid to suppliers	(1,723,996)
Net cash provided by (used in) operating activities	\$ (161,978)
Cash Flows from Noncapital Financing Activities	
Taxes	\$ 19,209
Interest income	32,781
Interest expense	(272)
Net cash provided by (used in) noncapital financing activities	\$ 51,718
Cash Flows from Capital and Related Financing Activities	
Proceeds from disposal of capital assets	\$ 8,400,000
Transfers from other funds	17,414,105
Intergovernmental receipts	101,829
Repayment of advance	(17,505,674)
Principal paid on loan	(8,400,000)
Net cash provided by (used in) capital and related financing activities	\$ 10,260
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (100,000)
Cash and Cash Equivalents at January 1	100,000
Cash and Cash Equivalents at December 31	\$ -
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities	
Operating income (loss)	\$ (1,212,962)
Adjustments to reconcile net operating income (loss) to net cash provided by (used in) operating activities	
Depreciation	\$ 1,174,806
(Increase) decrease in receivables	(84,081)
(Increase) decrease in inventories	327,768
Increase (decrease) in payables	(367,509)
Total adjustments	\$ 1,050,984
Net Cash Provided by (Used in) Operating Activities	\$ (161,978)

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

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FIDUCIARY FUNDS

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**LAKE COUNTY
TWO HARBORS, MINNESOTA**

EXHIBIT 9

**STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
DECEMBER 31, 2019**

	<u>Agency</u>
<u>Assets</u>	
Cash and pooled investments	<u><u>\$ 1,391,271</u></u>
<u>Liabilities</u>	
Accounts payable	\$ 720,380
Due to other governments	593,666
Customer deposits – current	<u>77,225</u>
Total Liabilities	<u><u>\$ 1,391,271</u></u>

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**LAKE COUNTY
TWO HARBORS, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2019

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, 2019. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

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

Discretely Presented Component Unit

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

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

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

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Joint Ventures and Jointly-Governed Organizations

The County participates in several joint ventures described in Note 4.D. The County also participates in jointly-governed organizations described in Note 4.E.

B. Basic Financial Statements

1. Government-Wide Statements

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

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

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

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

2. Fund Financial Statements

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

The County reports the following major governmental funds:

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

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

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

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

The County reports the following major proprietary fund:

The Broadband Enterprise Fund is used to account for the operations of the broadband system. Activities necessary to provide broadband services are accounted for in this fund, including the financial resources to be used for the acquisition and construction of the major capital assets relating to the County's broadband system. The County sold the broadband system in June of 2019.

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

Additionally, the County reports the following fund types:

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

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

C. Measurement Focus and Basis of Accounting

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Lake County considers all revenue as available if collected within 90 days after the end of the current period, except for taxes, which have a 60-day accrual period and for the Schools and Roads – Grants to States grant, which has a 120-day accrual period. Property and other taxes, licenses, and interest are all considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

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

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

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

1. Cash and Cash Equivalents

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

2. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Auditor/Treasurer for the purpose of increasing earnings through investment activities. Investments are reported at their fair value at December 31, 2019. A market approach is used to value all investments other than external investment pools, which are measured at fair value per share. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2019 were \$430,154 at the governmental fund level.

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

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

1. Summary of Significant Accounting Policies

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

3. Receivables and Payables

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

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

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

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

4. Inventories and Prepaid Items

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

Inventories 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.

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

1. Summary of Significant Accounting Policies

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

5. Capital Assets

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

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

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

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

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

6. Unearned Revenue

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

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

1. Summary of Significant Accounting Policies

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

7. Pension Plan

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

8. Compensated Absences

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

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

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

1. Summary of Significant Accounting Policies

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

8. Compensated Absences (Continued)

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

9. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expenditure/expense) until then. The County reports deferred outflows of resources only under the full accrual basis of accounting associated with defined benefit pension plans and other postemployment benefits (OPEB) and, accordingly, are reported only in the statement of net position.

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

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

1. Summary of Significant Accounting Policies

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

10. Long-Term Obligations

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

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

11. Classification of Net Position

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

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

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

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

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

1. Summary of Significant Accounting Policies

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

12. Classification of Fund Balances

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

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

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

Committed – amounts that can be used only for the specific purposes determined by a formal action (resolution) of Lake County’s highest level of decision-making authority, which is the Lake County Board of Commissioners. Those committed amounts cannot be used for other purposes unless the Board of Commissioners removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts.

Assigned – amounts the County intends to be used by the government for specific purposes that do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount of fund balance that is not restricted or committed. In the General Fund, assigned amounts represent intended uses as determined by the County Board or the Auditor/Treasurer.

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

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

1. Summary of Significant Accounting Policies

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

12. Classification of Fund Balances (Continued)

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

13. Use of Estimates

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

2. Stewardship, Compliance, and Accountability

A. Deficit Fund Equity

At December 31, 2019, the Forfeited Tax Special Revenue Fund had a deficit fund balance of \$28,532. This deficit will be reduced with future tax levies and other revenue sources.

B. Excess of Expenditures Over Appropriations

For the year ended December 31, 2019, expenditures exceeded appropriations in the following nonmajor fund:

	<u>Final Budget</u>	<u>Expenditures</u>	<u>Excess</u>
Unorganized Townships Special Revenue Fund	\$ 116,250	\$ 137,595	\$ 21,345

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

3. Detailed Notes

A. Assets

1. Deposits and Investments

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

Primary government	
Cash and pooled investments	\$ 21,397,524
Component unit	
Cash and pooled investments	859,976
Restricted cash for security deposits	18,029
Fiduciary funds	
Cash and pooled investments	<u>1,391,271</u>
 Total Cash and Investments	 <u><u>\$ 23,666,800</u></u>

a. Deposits

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

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated "A" or better and revenue obligations rated "AA" or better; irrevocable standby letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution not owned or controlled by the financial institution furnishing the collateral.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk. As of December 31, 2019, the County's deposits were not exposed to custodial credit risk.

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

3. Detailed Notes

A. Assets

1. Deposits and Investments (Continued)

b. Investments

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

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as “high risk” by Minn. Stat. § 118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers’ acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

3. Detailed Notes

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Interest Rate Risk

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

Credit Risk

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

Custodial Credit Risk

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

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

3. Detailed Notes

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Concentration of Credit Risk

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

The following table presents the County's cash and pooled investment balances at December 31, 2019, and information relating to potential investment risks:

Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5% of Portfolio	Maturity Date	
U.S. government agency securities					
Federal Home Loan Mortgage Corporation Note	Aaa	Moody's	<5%	06/30/2021	\$ 550,000
Negotiable certificates of deposit					
JP Morgan Chase Bank	N/A	N/A	<5%	12/31/2021	\$ 200,224
Worlds Foremost Bank	N/A	N/A	<5%	04/15/2020	99,984
Total negotiable certificates of deposit					\$ 300,208
Investment pools/mutual funds					
MAGIC Fund	N/R	N/A	95.29%	N/A	\$ 21,180,748
Total investments					\$ 22,030,956
Deposits – primary government					718,201
Deposits – component unit					878,005
Petty cash and change funds					3,100
Escheat cash					36,538
Total Cash and Investments					\$ 23,666,800

N/A – Not Applicable

N/R – Not Rated

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

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

3. Detailed Notes

A. Assets

1. Deposits and Investments (Continued)

Fair Value Measurement

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

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

At December 31, 2019, Lake County had the following recurring fair value measurements.

	December 31, 2019	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level				
Debt securities				
U.S. agencies	\$ 550,000	\$ -	\$ 550,000	\$ -
Negotiable certificates of deposit	300,208	-	300,208	-
Total Investments Included in the Fair Value Hierarchy	\$ 850,208	\$ -	\$ 850,208	\$ -
Investments measured at the net asset value (NAV)				
MAGIC Portfolio	21,180,748			
Total Investments	\$ 22,030,956			

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

3. Detailed Notes

A. Assets

1. Deposits and Investments

Fair Value Measurement (Continued)

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

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

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

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

3. Detailed Notes

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2019, for the County's governmental activities are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	\$ 278,870	\$ -
Due from other governments	9,725,902	-
Accounts	1,007,102	-
Interest	32,745	-
Loans receivable	50,000	50,000
Leases receivable	1,750,000	1,750,000
Total Governmental Activities	\$ 12,844,619	\$ 1,800,000

Loans Receivable

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

Leases Receivable

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

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

3. Detailed Notes

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2019, was as follows:

Governmental Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 3,968,383	\$ -	\$ -	\$ 3,968,383
Capital assets depreciated				
Buildings	\$ 20,801,987	\$ 3,970,865	\$ -	\$ 24,772,852
Improvements other than buildings	934,420	26,989	-	961,409
Machinery, furniture, and equipment	12,787,162	1,128,418	1,396,211	12,519,369
Infrastructure	110,152,050	985,207	-	111,137,257
Total capital assets depreciated	\$ 144,675,619	\$ 6,111,479	\$ 1,396,211	\$ 149,390,887
Less: accumulated depreciation for				
Buildings	\$ 8,352,543	\$ 514,716	\$ -	\$ 8,867,259
Improvements other than buildings	621,312	39,462	-	660,774
Machinery, furniture, and equipment	11,302,112	594,372	1,385,531	10,510,953
Infrastructure	35,952,018	2,127,719	-	38,079,737
Total accumulated depreciation	\$ 56,227,985	\$ 3,276,269	\$ 1,385,531	\$ 58,118,723
Total capital assets depreciated, net	\$ 88,447,634	\$ 2,835,210	\$ 10,680	\$ 91,272,164
Governmental Activities Capital Assets, Net	\$ 92,416,017	\$ 2,835,210	\$ 10,680	\$ 95,240,547

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

3. Detailed Notes

A. Assets

3. Capital Assets (Continued)

Business-Type Activities

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease/Sale of Assets</u>	<u>Ending Balance</u>
Capital assets depreciated				
Buildings	\$ 761,879	\$ -	\$ (761,879)	\$ -
Improvements other than buildings	1,135,835	-	(1,135,835)	-
Machinery, furniture, and equipment	2,988,173	-	(2,988,173)	-
Infrastructure	<u>72,277,233</u>	<u>-</u>	<u>(72,277,233)</u>	<u>-</u>
Total capital assets depreciated	<u>\$ 77,163,120</u>	<u>\$ -</u>	<u>\$ (77,163,120)</u>	<u>\$ -</u>
Less: accumulated depreciation for				
Buildings	\$ 104,983	\$ 8,482	\$ (113,465)	\$ -
Improvements other than buildings	197,853	15,789	(213,642)	-
Machinery, furniture, and equipment	2,061,960	165,768	(2,227,728)	-
Infrastructure	<u>8,995,449</u>	<u>984,767</u>	<u>(9,980,216)</u>	<u>-</u>
Total accumulated depreciation	<u>\$ 11,360,245</u>	<u>\$ 1,174,806</u>	<u>\$ (12,535,051)</u>	<u>\$ -</u>
Business-Type Activities Capital Assets, Net	<u>\$ 65,802,875</u>	<u>\$ (1,174,806)</u>	<u>\$ (64,628,069)</u>	<u>\$ -</u>

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

Governmental Activities	
General government	\$ 306,430
Public safety	223,254
Highways and streets, including depreciation of infrastructure assets	2,595,366
Human services	4,139
Sanitation	10,674
Culture and recreation	109,294
Conservation of natural resources	<u>27,112</u>
Total Depreciation Expense – Governmental Activities	<u>\$ 3,276,269</u>
Business-Type Activities	
Broadband	<u>\$ 1,174,806</u>

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

3. Detailed Notes (Continued)

B. Interfund Receivables, Payables, and Transfers

1. Due To/From Other Funds

The composition of interfund balances as of December 31, 2019, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	<u>Purpose</u>
General	Human Services Special Revenue	\$ 38,655	Reimbursement for services
	Forfeited Tax Special Revenue	101,675	Tax forfeit apportionment
	Road and Bridge Special Revenue	<u>2,150</u>	Reimbursement for services
Total due to General Fund		\$ 142,480	
Human Services Special Revenue	General	54	Reimbursement for services
Resource Development Special Revenue	Forfeited Tax Special Revenue	26,957	Tax forfeit apportionment
Unorganized Townships Special Revenue	Forfeited Tax Special Revenue	<u>833</u>	Tax forfeit apportionment
Total Due To/From Other Funds		<u>\$ 170,324</u>	

2. Interfund Transfers

Interfund transfers for the year ended December 31, 2019, consisted of the following:

Transfer to Resource Development Fund from Tax Forfeited Special Revenue Fund	\$ 27,790	Tax forfeit apportionment
Transfer to Road and Bridge Special Revenue Fund from Debt Service Fund	1,400,000	Capital outlay purchases
Transfer to Broadband Enterprise Fund from General Fund	<u>19,067,865</u>	Close out fund
Total Transfers to Other Funds	<u>\$ 20,495,655</u>	

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

3. Detailed Notes (Continued)

C. Liabilities

1. Long-Term Debt

Governmental Activities

<u>Types of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2019</u>
General obligation bonds					
G.O. Capital Improvement Refunding Bonds, Series 2014A	2030	\$60,000 - \$355,000	2.00 - 3.25	\$ 2,410,000	\$ 745,000
G.O. Judgment Bonds, Series 2018A	2033	\$390,000 - \$590,000	3.00 - 3.25	7,235,000	6,845,000
G.O. Capital Improvement Bonds, Series 2018B	2033	\$115,000 - \$235,000	3.00 - 3.50	2,765,000	2,650,000
G.O. Capital Improvement Bonds, Series 2019A	2034	\$70,000 - \$115,000	3.00 - 4.00	1,400,000	<u>1,400,000</u>
Total General Obligation Bonds					<u>\$ 11,640,000</u>
Other Long-Term Debt					
Capital lease – Land	2021	\$146,667	3.25 - 5.375	\$ 2,200,000	\$ 293,330
Capital lease – Chieftain	2020	\$14,302 - \$27,823	3.70	178,065	<u>14,303</u>
Total Other Long-Term Debt					<u>\$ 307,633</u>

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

3. Detailed Notes

C. Liabilities (Continued)

2. Debt Service Requirements

Debt service requirements at December 31, 2019, were as follows:

Governmental Activities

Year Ending December 31	General Obligation Bonds		Other Long-Term Debt	
	Principal	Interest	Principal	Interest
2020	\$ 680,000	\$ 369,494	\$ 160,970	\$ 6,387
2021	700,000	348,694	146,663	3,117
2022	720,000	326,944	-	-
2023	750,000	304,519	-	-
2024	770,000	279,569	-	-
2025 - 2029	4,245,000	1,006,419	-	-
2030 - 2034	3,775,000	314,550	-	-
Total	<u>\$ 11,640,000</u>	<u>\$ 2,950,189</u>	<u>\$ 307,633</u>	<u>\$ 9,504</u>

3. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2019, was as follows:

Governmental Activities

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Bonds payable					
General obligation improvement refunding bonds	\$ 1,100,000	\$ -	\$ 355,000	\$ 745,000	\$ 60,000
General obligation judgment bonds	7,235,000	-	390,000	6,845,000	400,000
General obligation capital improvement bonds	2,765,000	1,400,000	115,000	4,050,000	220,000
Bond premium	134,450	80,204	14,615	200,039	-
Capital leases payable	482,123	-	174,490	307,633	160,970
Compensated absences	1,533,324	682,066	697,335	1,518,055	-
Governmental Activities Long-Term Liabilities	<u>\$ 13,249,897</u>	<u>\$ 2,162,270</u>	<u>\$ 1,746,440</u>	<u>\$ 13,665,727</u>	<u>\$ 840,970</u>

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

3. Detailed Notes

C. Liabilities

3. Changes in Long-Term Liabilities (Continued)

Business-Type Activities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Broadband loans	\$ 48,500,694	\$ -	\$ 48,500,694	\$ -	\$ -

D. Other Postemployment Benefits (OPEB)

1. Plan Description and Funding Policy

Lake County explicitly subsidizes the cost of retiree health insurance coverage for certain retired employees through a sick leave reserve program under a single employer self-insured plan. Highway Department employees with at least ten years of service who are eligible to receive a retirement benefit from PERA are eligible for up to two years of health insurance premiums paid by the County at the single rate. Highway Department employees with 20 or more years of service are eligible for up to three years of health insurance premiums. At retirement, each eligible employee's sick leave hours are converted to a dollar amount using the employee's hourly pay rate at retirement. The period of time for which the employee may receive the paid health insurance benefit is limited to the dollar value of the employee's accumulated sick leave at retirement. As of December 31, 2019, there were no retirees using their sick leave balances for insurance premiums.

Active employees who retire from the County when eligible to receive a retirement benefit from PERA and do not participate in any other health benefits program providing similar coverage will be eligible to continue coverage with respect to both themselves and their eligible dependents under the County's health benefits program. These retirees are required to pay 100 percent of the total premium cost. Since the premium is a blended rate determined on the entire active and retiree population, the retirees are receiving an implicit rate subsidy. As of December 31, 2019, nine retirees were receiving health benefits from the County's health plan, of which, four employees are under the age of 65 years old. The authority to provide these benefits is established in Minn. Stat. § 471.61, subd. 2a.

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

3. Detailed Notes

D. Other Postemployment Benefits (OPEB)

1. Plan Description and Funding Policy (Continued)

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

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

2. Total OPEB Liability

The County’s total OPEB liability of \$452,529 was measured as of January 1, 2019, and was determined by an actuarial valuation as of January 1, 2019. The OPEB liability is liquidated through the General Fund, the Road and Bridge Special Revenue Fund, the Human Services Special Revenue Fund, and the Forfeited Tax Special Revenue Fund.

The total OPEB liability in the fiscal year-end December 31, 2019, actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50 percent
Salary increases	3.00 percent, average wage inflation plus merit/productivity increases
Health care cost trend	6.50 percent, decreasing to 5.00 percent over six years

The current year discount rate is 3.80 percent, which is a change from the prior year rate of 3.30 percent. For the current valuation, GASB Statement 75 requires liabilities to be discounted based on a tax-exempt, high-quality 20-year municipal bond index.

Mortality rates are based on RP-2014 White Collar Mortality Tables with MP-2018 Generational Improvement Scale (with blue collar adjustment for police and fire personnel).

The actuarial assumptions are currently based on a combination of historical information and the most recent actuarial valuation for PERA as of June 30, 2019.

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

3. Detailed Notes

D. Other Postemployment Benefits (OPEB) (Continued)

3. Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at December 31, 2018	\$ 540,188
Changes for the year	
Service cost	\$ 31,227
Interest	18,301
Assumption changes	(15,209)
Differences between expected and actual experience	(88,004)
Benefit payments	(33,974)
Net change	\$ (87,659)
Balance at December 31, 2019	\$ 452,529

4. OPEB Liability Sensitivity

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

	Discount Rate	Total OPEB Liability
1% Decrease	2.80%	\$ 487,372
Current	3.80	452,529
1% Increase	4.80	420,109

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

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

3. Detailed Notes

D. Other Postemployment Benefits (OPEB)

4. OPEB Liability Sensitivity (Continued)

	<u>Health Care Trend Rate</u>	<u>Total OPEB Liability</u>
1% Decrease	5.50% Decreasing to 4.00%	\$ 407,778
Current	6.50% Decreasing to 5.00%	452,529
1% Increase	7.50% Decreasing to 6.00%	504,928

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

For the year ended December 31, 2019, the County recognized OPEB expense of (\$21,957). The County reported deferred outflows of resources and deferred inflows of resources related to OPEB for this same time period.

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ -	\$ 75,432
Changes in actuarial assumptions	-	13,036
Contributions paid subsequent to the measurement date	<u>22,766</u>	<u>-</u>
Total	<u>\$ 22,766</u>	<u>\$ 88,468</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year Ended December 31</u>	<u>OPEB Expense Amount</u>
2020	\$ (14,745)
2021	(14,745)
2022	(14,745)
2023	(14,745)
2024	(14,745)
Thereafter	(14,743)

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

3. Detailed Notes

D. Other Postemployment Benefits (OPEB) (Continued)

6. Changes in Actuarial Methods and Assumptions

The following changes in actuarial assumptions occurred in 2019:

- The health care trend rates were changed to better anticipate short-term and long-term medical increases.
- The mortality tables were updated from RP-2014 White Collar Mortality Tables with MP-2015 Generational Improvement Scale (with blue collar adjustment for police and fire personnel) to the RP-2014 White Collar Mortality Tables with MP-2018 Generational Improvement Scale (with blue collar adjustment for police and fire personnel).
- The retirement and withdrawal tables for police and fire employees were updated.
- The discount rate was changed from 3.30 percent to 3.80 percent.

E. Pension Plans

1. Defined Benefit Pension Plans

a. Plan Description

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

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

3. Detailed Notes

E. Pension Plans

1. Defined Benefit Pension Plans

a. Plan Description (Continued)

The General Employees Plan (accounted for in the General Employees Fund) has multiple benefit structures with members belonging to the Coordinated Plan, the Basic Plan, or the Minneapolis Employees Retirement Fund. Coordinated Plan members are covered by Social Security, and Basic Plan and Minneapolis Employees Retirement Fund members are not. The Basic Plan was closed to new members in 1967. The Minneapolis Employees Retirement Fund was closed to new members during 1978 and merged into the General Employees Plan in 2015. All new members must participate in the Coordinated Plan, for which benefits vest after five years of credited service. No Lake County employees belong to either the Basic Plan or the Minneapolis Employees Retirement Fund.

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

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

3. Detailed Notes

E. Pension Plans

1. Defined Benefit Pension Plans (Continued)

b. Benefits Provided

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefit provisions are established by state statute and can be modified only by the state legislature. Benefit increases are provided to benefit recipients each January.

Beginning January 1, 2019, General Employees Plan benefit recipients will receive a post-retirement increase equal to 50 percent of the cost of living adjustment announced by the Social Security Administration, with a minimum increase of at least 1.00 percent and maximum of 1.50 percent. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. For recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase. For members retiring on January 1, 2024, or later, the increase will be delayed until normal retirement age (age 65 if hired prior to July 1, 1989, or age 66 for individuals hired on or after July 1, 1989). Members retiring under the Rule of 90 are exempt from the delay to normal retirement.

Beginning January 1, 2019, Police and Fire Plan benefit recipients receive a 1.00 percent post-retirement increase. Recipients that have been receiving the annuity or benefit for at least 36 months as of the June 30 before the effective date of the increase will receive the full increase. For recipients receiving the annuity or benefit for at least 25 months but less than 36 months as of the June 30 before the effective date of the increase will receive a reduced prorated increase.

Beginning January 1, 2019, Correctional Plan benefit recipients will receive a post-retirement increase equal to 100 percent of the cost of living adjustment announced by the Social Security Administration, with a minimum increase of at least 1.00 percent and maximum of 2.50 percent. If the Correctional Plan's funding status declines to 85 percent or below for two consecutive years or

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

3. Detailed Notes

E. Pension Plans

1. Defined Benefit Pension Plans

b. Benefits Provided (Continued)

80 percent for one year, the maximum will be lowered from 2.50 percent to 1.50 percent. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. For recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase.

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

Benefits are based on a member's highest average salary for any 60 consecutive months of allowable service, age, and years of credit at termination of service. In the General Employees Plan, two methods are used to compute benefits for Coordinated Plan members. Members hired prior to July 1, 1989, receive the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Coordinated Plan member is 1.20 percent of average salary for each of the first ten years of service and 1.70 percent of average salary for each remaining year. Under Method 2, the annuity accrual rate is 1.70 percent for Coordinated Plan members for each year of service. Only Method 2 is used for members hired after June 30, 1989. For Police and Fire Plan members, the annuity accrual rate is 3.00 percent of average salary for each year of service. For Correctional Plan members, the annuity accrual rate is 1.90 percent of average salary for each year of service.

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

3. Detailed Notes

E. Pension Plans

1. Defined Benefit Pension Plans

b. Benefits Provided (Continued)

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

c. Contributions

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the state legislature. General Employees Plan members were required to contribute 6.50 percent of their annual covered salary in 2019. Police and Fire Plan members were required to contribute 11.30 percent of their annual covered salary in 2019. Correctional Plan members were required to contribute 5.83 percent of their annual covered salary in 2019.

In 2019, the County was required to contribute the following percentages of annual covered salary:

General Employees Plan – Coordinated Plan members	7.50%
Police and Fire Plan	16.95
Correctional Plan	8.75

The Police and Fire Plan member and employer contribution rates increased 0.50 percent and 0.75 percent, respectively, from 2018.

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

3. Detailed Notes

E. Pension Plans

1. Defined Benefit Pension Plans

c. Contributions (Continued)

The County's contributions for the year ended December 31, 2019, to the pension plans were:

General Employees Plan	\$	435,685
Police and Fire Plan		216,644
Correctional Plan		53,047

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

d. Pension Costs

General Employees Plan

At December 31, 2019, the County reported a liability of \$4,434,080 for its proportionate share of the General Employees Plan's net pension liability. The net pension liability was measured as of June 30, 2019, 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, 2018, through June 30, 2019, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2019, the County's proportion was 0.0802 percent. It was 0.0832 percent measured as of June 30, 2018. The County recognized pension expense of \$388,263 for its proportionate share of the General Employees Plan's pension expense.

The County also recognized \$10,322 as revenue, which results in a reduction of the net pension liability, for its proportionate share of the State of Minnesota's contribution to the General Employees Plan, which qualifies as a special funding situation. Legislation requires the State of Minnesota to contribute \$16 million to the General Employees Plan annually.

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

3. Detailed Notes

E. Pension Plans

1. Defined Benefit Pension Plans

d. Pension Costs

General Employees Plan (Continued)

The County's proportionate share of the net pension liability	\$	4,434,080
State of Minnesota's proportionate share of the net pension liability associated with the County		137,827
Total	\$	4,571,907

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 126,591	\$ -
Changes in actuarial assumptions	-	363,332
Difference between projected and actual investment earnings	-	465,216
Changes in proportion	-	242,598
Contributions paid to PERA subsequent to the measurement date	217,695	-
Total	\$ 344,286	\$ 1,071,146

The \$217,695 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, 2020. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

3. Detailed Notes

E. Pension Plans

1. Defined Benefit Pension Plans

d. Pension Costs

General Employees Plan (Continued)

Year Ended December 31	Pension Expense Amount
2020	\$ (366,622)
2021	(451,236)
2022	(133,848)
2023	7,151

Police and Fire Plan

At December 31, 2019, the County reported a liability of \$1,263,681 for its proportionate share of the Police and Fire Plan's net pension liability. The net pension liability was measured as of June 30, 2019, 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, 2018, through June 30, 2019, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2019, the County's proportion was 0.1187 percent. It was 0.1158 percent measured as of June 30, 2018. The County recognized pension expense of \$145,653 for its proportionate share of the Police and Fire Plan's pension expense.

The County also recognized \$16,024 as revenue, which results in a reduction of the net pension liability, for its proportionate share of the State of Minnesota's on-behalf contribution to the Police and Fire Plan. Legislation requires the State of Minnesota to contribute \$9 million to the Police and Fire Plan each year, starting in fiscal year 2014, until the plan is 90 percent funded, or until the State Patrol Plan is 90 percent funded, whichever occurs later. In addition, the state will pay direct state aid of \$4.5 million on October 1, 2018, and October 1, 2019, and \$9 million by October 1 of each subsequent year until full funding is reached or July 1, 2048, whichever is earlier.

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

3. Detailed Notes

E. Pension Plans

1. Defined Benefit Pension Plans

d. Pension Costs

Police and Fire Plan (Continued)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 52,918	\$ 203,880
Changes in actuarial assumptions	1,095,478	1,398,347
Difference between projected and actual investment earnings	-	249,415
Changes in proportion	29,360	181,562
Contributions paid to PERA subsequent to the measurement date	108,429	-
Total	\$ 1,286,185	\$ 2,033,204

The \$108,429 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, 2020. 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
2020	\$ (111,264)
2021	(210,047)
2022	(539,706)
2023	1,481
2024	4,088

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

3. Detailed Notes

E. Pension Plans

1. Defined Benefit Pension Plans

d. Pension Costs (Continued)

Correctional Plan

At December 31, 2019, the County reported a liability of \$38,642 for its proportionate share of the Correctional Plan's net pension liability. The net pension liability was measured as of June 30, 2019, 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, 2018, through June 30, 2019, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2019, the County's proportion was 0.2791 percent. It was 0.2901 percent measured as of June 30, 2018. The County recognized pension expense of \$74,581 for its proportionate share of the Correctional Plan's pension expense.

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 1,473	\$ 6,325
Changes in actuarial assumptions	-	354,736
Difference between projected and actual investment earnings	-	50,144
Changes in proportion	14,393	10,489
Contributions paid to PERA subsequent to the measurement date	<u>26,110</u>	<u>-</u>
Total	<u>\$ 41,976</u>	<u>\$ 421,694</u>

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

3. Detailed Notes

E. Pension Plans

1. Defined Benefit Pension Plans

d. Pension Costs

Correctional Plan (Continued)

The \$26,110 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, 2020. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended December 31</u>	<u>Pension Expense Amount</u>
2020	\$ (214,229)
2021	(179,082)
2022	(12,893)
2023	376

Total Pension Expense

The total pension expense for all plans recognized by the County for the year ended December 31, 2019, was \$608,497.

e. Actuarial Assumptions

The total pension liability in the June 30, 2019, actuarial valuation was determined using the individual entry-age normal actuarial cost method and the following additional actuarial assumptions:

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

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

3. Detailed Notes

E. Pension Plans

1. Defined Benefit Pension Plans

e. Actuarial Assumptions (Continued)

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants for all plans were based on RP-2014 tables for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be 1.25 percent for the General Employees Plan and 2.00 percent for the Correctional Plan. For the Police and Fire Plan, cost of living benefit increases for retirees are 1.00 percent as set by state statute.

Actuarial assumptions used in the June 30, 2019, valuation were based on the results of actuarial experience studies. The experience study for the General Employees Plan was dated June 30, 2015. The experience study for the Police and Fire Plan was dated August 30, 2016. The experience study for the Correctional Plan was dated February 2012. The mortality assumption for the Correctional Plan is based on the Police and Fire Plan experience study. Inflation and investment assumptions for all plans were reviewed in the experience study report for the General Employees Plan dated June 27, 2019.

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 geometric real rates of return for each major asset class are summarized in the following table:

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

3. Detailed Notes

E. Pension Plans

1. Defined Benefit Pension Plans

e. Actuarial Assumptions (Continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	35.50%	5.10%
International equity	17.50	5.30
Fixed income	20.00	0.75
Private markets	25.00	5.90
Cash equivalents	2.00	0.00

f. Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent in 2019, which remained consistent with 2018. 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 positions of the General Employees Plan, the Police and Fire Plan, and the Correctional Plan were projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

g. Changes in Actuarial Assumptions and Plan Provisions

The following changes in actuarial assumptions occurred in 2019:

General Employees Plan

- The mortality projection scale was changed from MP-2017 to MP-2018.

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

3. Detailed Notes

E. Pension Plans

1. Defined Benefit Pension Plans

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

Police and Fire Plan

- The mortality projection scale was changed from MP-2017 to MP-2018.

Correctional Plan

- The mortality projection scale was changed from MP-2017 to MP-2018.

h. Pension Liability Sensitivity

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

	Proportionate Share of the					
	General Employees Plan		Police and Fire Plan		Correctional Plan	
	Discount Rate	Net Pension Liability	Discount Rate	Net Pension Liability	Discount Rate	Net Pension Liability
1% Decrease	6.50%	\$ 7,289,386	6.50%	\$ 2,762,173	6.50%	\$ 411,837
Current	7.50	4,434,080	7.50	1,263,681	7.50	38,642
1% Increase	8.50	2,076,454	8.50	24,453	8.50	(259,676)

i. Pension Plan Fiduciary Net Position

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

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

3. Detailed Notes

E. Pension Plans (Continued)

2. Defined Contribution Plan

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

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

Total contributions by dollar amount and percentage of covered payroll made by the County during the year ended December 31, 2019, were:

	Employee	Employer
Contribution amount	\$ 10,323	\$ 10,323
Percentage of covered payroll	5.00%	5.00%

F. Postemployment Health Care Plans

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

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

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

3. Detailed Notes

F. Postemployment Health Care Plans

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

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

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

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

2. Voluntary Employees' Beneficiary Association (VEBA) Plan

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

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

3. Detailed Notes

F. Postemployment Health Care Plans

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

In 2019, the maximum County contribution for active employees is \$1,690 for employees with single coverage and \$3,250 for employees with family coverage. Any balance remaining in an employee's account at year-end rolls over into the subsequent year. Upon retirement, any balance remaining in the VEBA account may be used to pay medical expenses.

Eligibility requirements include:

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

4. Summary of Significant Contingencies and Other Items

A. Risk Management

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

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

A. Risk Management (Continued)

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$500,000 in 2019 and 2020. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

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

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

	Year Ended December 31	
	2019	2018
Unpaid claims, beginning of fiscal year	\$ -	\$ -
Incurred claims (including incurred but not reported)	113,449	130,121
Claims payments	(113,449)	(130,121)
Unpaid Claims, End of Fiscal Year	\$ -	\$ -

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

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

B. Contingent Liabilities

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

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

C. Tax-Forfeited Land

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

D. Joint Ventures

Arrowhead Regional Corrections

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

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

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Arrowhead Regional Corrections (Continued)

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

Arrowhead Regional Corrections is financed through state grants and contributions from the participating counties. Lake County provided \$674,270 in funding during 2019.

Separate financial information can be obtained from Arrowhead Regional Corrections, 211 West Second Street, Suite 450, Duluth, Minnesota 55802.

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

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

The Community Health Board is composed of nine members. The Carlton, Cook, and Lake County Boards of Commissioners each appoint two members; the St. Louis County Board of Commissioners appoints three members. Financing is obtained through federal and state grants. Lake County provided no funding to this organization in 2019.

Separate financial information can be obtained from the Carlton, Cook, Lake, and St. Louis Community Health Board, 404 West Superior Street, Suite 220, Duluth, Minnesota 55802.

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

D. Joint Ventures (Continued)

Northeast Minnesota Office of Job Training

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

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

Separate financial information can be obtained from the Northeast Minnesota Office of Job Training, 820 North Ninth Street, Suite 210, Virginia, Minnesota 55792.

Minnesota Counties Information Systems (MCIS)

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

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

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

Separate financial information can be obtained from the Minnesota Counties Information Systems, 413 Southeast 7th Avenue, Grand Rapids, Minnesota 55744.

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

D. Joint Ventures (Continued)

Northern Counties Land Use Coordinating Board

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

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

Lake County provided no funding to this organization during 2019.

Separate financial information can be obtained from the Northern Counties Land Use Coordinating Board, St. Louis County Courthouse, Duluth, Minnesota 55802.

North Shore Collaborative

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

Control of the North Shore Collaborative is vested in a Board of Directors. Financing is provided by state and federal grants, appropriations from Collaborative members, and miscellaneous revenues. Lake County is the fiscal agent for the Collaborative and handles all of the financial transactions for the organization. Financial information for the Collaborative for the fiscal year ended December 31, 2019, is as follows:

Total Assets	\$	233,047
Total Liabilities		233,047

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

D. Joint Ventures

North Shore Collaborative (Continued)

Separate financial information can be obtained from Lake County, 601 – 3rd Avenue, Two Harbors, Minnesota 55616.

Arrowhead Health Alliance

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

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

Lake County contributed \$78,697 in start-up funds to the Arrowhead Health Alliance in 2007. Lake County provided no further funding in 2019.

Northeast Minnesota Emergency Communications Board

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

The joint powers are the Counties of Aitkin, Carlton, Cass, Cook, Crow Wing, Itasca, Kanabec, Koochiching, Lake, Pine, and St. Louis, and the Cities of Duluth, Hibbing, International Falls, and Virginia, along with three tribes including Grand Portage Band of Chippewa, Leech Lake Band of Ojibwe, and Mille Lacs Band of Ojibwe. Control of the Northeast Minnesota Emergency Communications Board is vested in a Board of Directors composed of one County Commissioner from each of the member counties,

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4. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Northeast Minnesota Emergency Communications Board (Continued)

one City Council member from each of the member cities, and one tribal member. In addition, there is one member from the Northeast Minnesota Regional Advisory Committee, one member from the Northeast Minnesota Regional Radio System User Committee, and one member from the Northeast Minnesota Owners and Operators Committee who are also voting members of the Board.

St. Louis County is the fiscal agent for the Northeast Minnesota Emergency Communications Board. Funding is provided by grants and contributions from participating members. Lake County provided no funding in 2019.

Separate financial information can be obtained from St. Louis County, 100 North 5th Avenue West, Room 201, Duluth, Minnesota 55802-1293.

Lake Superior Drug and Violent Crime Task Force

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

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

Fiscal agent responsibilities for the Task Force are with St. Louis County. Lake County provided no funding to this organization in 2019.

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

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

E. Jointly-Governed Organizations

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

North Shore Management Board

The North Shore Management Board provides Lake Superior shoreline planning for Cook, Lake, and St. Louis Counties; the Cities of Beaver Bay, Grand Marais, Silver Bay, and Two Harbors; and the Towns of Duluth and Lakewood. Lake County contributed \$2,500 to the Board in 2019.

St. Louis and Lake Counties Regional Railroad Authority

The St. Louis and Lake Counties Regional Railroad Authority was established under the Regional Railroad Authorities Act, Minn. Stat. §§ 398A.01 – 398A.09. The Authority is governed by a Board composed of three members from the St. Louis County Board of Commissioners and two members from the Lake County Board of Commissioners. St. Louis County is the fiscal agent for the Authority, and all of its financial transactions are recorded in the Regional Railroad Authority Agency Fund. Financing is obtained through a tax levy and federal, state, and local grants or participation. Lake County did not contribute to the Authority during 2019.

Separate financial information can be obtained from the St. Louis and Lake Counties Regional Railroad Authority, 111 Station 44 Road, Eveleth, Minnesota 55734.

5. Special Item

In June 2019, Lake County sold Lake Connections, its business-type activity, providing broadband infrastructure to the residents of Lake County, to Pinpoint Holdings, Inc., for \$8,400,000. The proceeds of the sale were paid to the Rural Utilities Service to pay on the County's Rural Utilities Service broadband loans. The Rural Utilities Service forgave the remaining outstanding balance of the Rural Utilities Service broadband loans.

**LAKE COUNTY
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6. Subsequent Event

On March 11, 2020, the World Health Organization declared the outbreak of a coronavirus (COVID-19) to be a pandemic. Economic activity decreased in 2020, including gasoline sales taxes collected by the State of Minnesota used for funding County State Aid Highways (CSAH) revenue recorded in the County's Road and Bridge Special Revenue Fund. As a result, a decrease of approximately 15 percent of CSAH revenue is expected to be received for calendar year 2021. The COVID-19 pandemic also impacted the County's Local Transit Sales and Use Tax and the County's Lodging Tax. Revenues for 2020 from these sources are also expected to be lower than anticipated.

7. Component Unit Disclosures

A. Summary of Significant Accounting Policies

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

Reporting Entity

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

Basis of Presentation

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

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

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

7. Component Unit Disclosures

A. Summary of Significant Accounting Policies (Continued)

Measurement Focus and Basis of Accounting

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

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

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

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

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

Cash and Cash Equivalents

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

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

7. Component Unit Disclosures

A. Summary of Significant Accounting Policies (Continued)

Receivables and Payables

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

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

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

Restricted Assets

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

Capital Assets

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

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

7. Component Unit Disclosures

A. Summary of Significant Accounting Policies

Capital Assets (Continued)

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

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

Assets	Years
Buildings and structures	25 - 40
Equipment	7

Long-Term Obligations

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

B. Detailed Notes

1. Assets

Deposits

The Authority's total deposits are reported as follows:

Government-wide statement of net position	
Cash and pooled investments	\$ 763,094
Cash with management company for operations	96,882
Restricted cash with management company for security deposits	18,029
Total Cash	\$ 878,005

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

7. Component Unit Disclosures

B. Detailed Notes

1. Assets

Deposits (Continued)

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

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated "A" or better and revenue obligations rated "AA" or better; irrevocable standby letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution not owned or controlled by the financial institution furnishing the collateral.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the Authority's deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk other than complying with the requirements of Minnesota statutes. As of December 31, 2019, the Authority's deposits were not exposed to custodial credit risk.

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

7. Component Unit Disclosures

B. Detailed Notes

1. Assets (Continued)

Capital Assets

Capital asset activity for the year ended December 31, 2019, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets depreciated				
Buildings and structures	\$ 1,888,732	\$ 62,500	\$ -	\$ 1,951,232
Equipment	53,371	-	-	53,371
Total capital assets depreciated	\$ 1,942,103	\$ 62,500	\$ -	\$ 2,004,603
Less: accumulated depreciation for				
Buildings and structures	\$ 1,021,387	\$ 47,086	\$ -	\$ 1,068,473
Equipment	28,613	5,741	-	34,354
Total accumulated depreciation	\$ 1,050,000	\$ 52,827	\$ -	\$ 1,102,827
Capital Assets, Net	\$ 892,103	\$ 9,673	\$ -	\$ 901,776

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

Business-Type Activities	
Senior housing	\$ 52,827

2. Liabilities

Long-Term Debt

Business-Type Activities

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2019
2012 General Obligation Senior Housing Bonds	2027	Varies	1.0 - 3.5	\$ 860,000	\$ 460,000

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

7. Component Unit Disclosures

B. Detailed Notes

2. Liabilities (Continued)

Debt Service Requirements

Debt service requirements at December 31, 2019, were as follows:

Business-Type Activities

<u>Year Ending December 31</u>	<u>Revenue Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2020	\$ 55,000	\$ 14,356
2021	60,000	13,050
2022	60,000	11,613
2023	60,000	10,038
2024	60,000	8,388
2025 - 2027	165,000	14,119
Totals	<u>\$ 460,000</u>	<u>\$ 71,564</u>

Changes in Long-Term Liabilities

Business-Type Activities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds payable					
2012 General Obligation					
Senior Housing Bonds	\$ 515,000	\$ -	\$ 55,000	\$ 460,000	\$ 55,000
Less: unamortized discount	(6,419)	-	(803)	(5,616)	-
Total Bonds Payable	<u>\$ 508,581</u>	<u>\$ -</u>	<u>\$ 54,197</u>	<u>\$ 454,384</u>	<u>\$ 55,000</u>

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

7. Component Unit Disclosures (Continued)

C. Summary of Significant Contingencies and Other Items

Risk Management

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

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REQUIRED SUPPLEMENTARY INFORMATION

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**LAKE COUNTY
TWO HARBORS, MINNESOTA**

EXHIBIT A-1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2019**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 6,766,436	\$ 6,766,436	\$ 6,349,996	\$ (416,440)
Licenses and permits	11,000	11,000	15,980	4,980
Intergovernmental	4,574,374	4,574,374	6,669,348	2,094,974
Charges for services	417,520	417,520	467,300	49,780
Fines and forfeits	5,000	5,000	4,334	(666)
Investment earnings	80,764	80,764	430,154	349,390
Miscellaneous	120,987	120,987	217,383	96,396
Total Revenues	\$ 11,976,081	\$ 11,976,081	\$ 14,154,495	\$ 2,178,414
Expenditures				
Current				
General government				
Commissioners	\$ 311,342	\$ 311,342	\$ 296,268	\$ 15,074
Courts	49,700	49,700	30,669	19,031
Law library	8,000	8,000	3,997	4,003
County administration	302,369	302,369	310,493	(8,124)
County auditor	727,521	727,521	585,138	142,383
County assessor	511,761	511,761	499,353	12,408
Elections	101,635	101,635	79,654	21,981
Accounting and auditing	90,200	90,200	69,068	21,132
Data processing	730,140	730,140	734,978	(4,838)
Personnel	234,558	234,558	232,794	1,764
Attorney	432,539	432,539	386,681	45,858
Recorder	247,938	247,938	251,788	(3,850)
Planning and zoning	467,741	467,741	493,355	(25,614)
Buildings and plant	723,646	723,646	730,782	(7,136)
Veterans service officer	92,983	92,983	100,368	(7,385)
Motor pool	60,525	60,525	40,766	19,759
Total general government	\$ 5,092,598	\$ 5,092,598	\$ 4,846,152	\$ 246,446
Public safety				
Sheriff	\$ 2,321,912	\$ 2,321,912	\$ 2,325,293	\$ (3,381)
Ambulance	541,535	541,535	504,296	37,239
Emergency services	113,011	113,011	129,276	(16,265)
Coroner	37,500	37,500	42,872	(5,372)
County jail	1,093,732	1,093,732	973,822	119,910
Community corrections	679,889	679,889	676,588	3,301
Sentence to serve	106,879	106,879	83,980	22,899
Emergency management	113,747	113,747	234,027	(120,280)
Other public safety	123,970	123,970	265,585	(141,615)
Total public safety	\$ 5,132,175	\$ 5,132,175	\$ 5,235,739	\$ (103,564)

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

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

**EXHIBIT A-1
(Continued)**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2019**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Sanitation				
Solid waste	\$ 248,943	\$ 248,943	\$ 170,579	\$ 78,364
Recycling	198,951	198,951	205,606	(6,655)
Hazardous waste	22,500	22,500	13,285	9,215
Total sanitation	\$ 470,394	\$ 470,394	\$ 389,470	\$ 80,924
Culture and recreation				
Historical society	\$ 35,000	\$ 35,000	\$ 48,300	\$ (13,300)
Arenas	162,721	162,721	154,311	8,410
Humane Society	3,500	3,500	3,500	-
Memorial Day observance	3,000	3,000	-	3,000
Recreation board	153,660	153,660	148,168	5,492
Trails	-	-	287,807	(287,807)
County/regional library	122,300	122,300	122,300	-
Total culture and recreation	\$ 480,181	\$ 480,181	\$ 764,386	\$ (284,205)
Conservation of natural resources				
County extension	\$ 68,795	\$ 68,795	\$ 66,954	\$ 1,841
Soil and water conservation	61,771	61,771	69,866	(8,095)
Agricultural society/County fair	21,310	21,310	23,418	(2,108)
Water planning	4,571	4,571	-	4,571
CWP project	14,488	14,488	-	14,488
Wetland challenge	5,000	5,000	-	5,000
Total conservation of natural resources	\$ 175,935	\$ 175,935	\$ 160,238	\$ 15,697
Economic development				
Information centers	\$ 13,000	\$ 13,000	\$ 6,500	\$ 6,500
Airports	7,500	7,500	7,500	-
Housing and Redevelopment Authority	-	-	144,695	(144,695)
Total economic development	\$ 20,500	\$ 20,500	\$ 158,695	\$ (138,195)
Total Expenditures	\$ 11,371,783	\$ 11,371,783	\$ 11,554,680	\$ (182,897)

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

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

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2019**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Excess of Revenues Over (Under) Expenditures	\$ 604,298	\$ 604,298	\$ 2,599,815	\$ 1,995,517
Other Financing Sources (Uses)				
Transfers out	(26,000)	(26,000)	(19,067,865)	(19,041,865)
Net Change in Fund Balance	\$ 578,298	\$ 578,298	\$ (16,468,050)	\$ (17,046,348)
Fund Balance – January 1	<u>21,742,678</u>	<u>21,742,678</u>	<u>21,742,678</u>	<u>-</u>
Fund Balance – December 31	<u>\$ 22,320,976</u>	<u>\$ 22,320,976</u>	<u>\$ 5,274,628</u>	<u>\$ (17,046,348)</u>

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

EXHIBIT A-2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2019**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 2,627,853	\$ 2,627,853	\$ 2,866,801	\$ 238,948
Intergovernmental	5,055,523	5,055,523	3,157,937	(1,897,586)
Charges for services	152,718	152,718	160,169	7,451
Miscellaneous	83,000	83,000	156,496	73,496
Total Revenues	\$ 7,919,094	\$ 7,919,094	\$ 6,341,403	\$ (1,577,691)
Expenditures				
Current				
Highways and streets				
Administration	\$ 399,507	\$ 399,507	\$ 592,351	\$ (192,844)
Maintenance	2,233,139	2,233,139	1,593,533	639,606
Construction	4,176,866	4,176,866	1,394,936	2,781,930
Equipment maintenance and shop	730,825	730,825	726,859	3,966
Total highways and streets	\$ 7,540,337	\$ 7,540,337	\$ 4,307,679	\$ 3,232,658
Capital outlay				
Highways and streets	\$ -	\$ -	\$ 4,765,963	\$ (4,765,963)
Debt service				
Principal	\$ 35,000	\$ 35,000	\$ 27,823	\$ 7,177
Interest	-	-	1,090	(1,090)
Total debt service	\$ 35,000	\$ 35,000	\$ 28,913	\$ 6,087
Total Expenditures	\$ 7,575,337	\$ 7,575,337	\$ 9,102,555	\$ (1,527,218)
Excess of Revenues Over (Under) Expenditures	\$ 343,757	\$ 343,757	\$ (2,761,152)	\$ (3,104,909)
Other Financing Sources (Uses)				
Transfers in	5,000	5,000	1,400,000	1,395,000
Net Change in Fund Balance	\$ 348,757	\$ 348,757	\$ (1,361,152)	\$ (1,709,909)
Fund Balance – January 1	7,918,066	7,918,066	7,918,066	-
Increase (decrease) in inventories	-	-	(119,038)	(119,038)
Fund Balance – December 31	\$ 8,266,823	\$ 8,266,823	\$ 6,437,876	\$ (1,828,947)

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

EXHIBIT A-3

**BUDGETARY COMPARISON SCHEDULE
HUMAN SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2019**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 1,911,499	\$ 1,911,499	\$ 1,772,685	\$ (138,814)
Intergovernmental	4,711,732	4,711,732	5,197,262	485,530
Charges for services	277,781	277,781	296,274	18,493
Miscellaneous	20,350	20,350	34,896	14,546
Total Revenues	<u>\$ 6,921,362</u>	<u>\$ 6,921,362</u>	<u>\$ 7,301,117</u>	<u>\$ 379,755</u>
Expenditures				
Current				
Human services				
Income maintenance	\$ 1,025,888	\$ 1,025,888	\$ 796,615	\$ 229,273
Social services	2,896,649	2,896,649	2,657,223	239,426
Total human services	<u>\$ 3,922,537</u>	<u>\$ 3,922,537</u>	<u>\$ 3,453,838</u>	<u>\$ 468,699</u>
Health				
Nursing service	\$ 90,665	\$ 90,665	\$ 73,709	\$ 16,956
Transportation	94,879	94,879	113,386	(18,507)
Environmental health	111,441	111,441	118,266	(6,825)
Mental health	2,568,272	2,568,272	2,833,082	(264,810)
Health education	266,250	266,250	234,548	31,702
Total health	<u>\$ 3,131,507</u>	<u>\$ 3,131,507</u>	<u>\$ 3,372,991</u>	<u>\$ (241,484)</u>
Total Expenditures	<u>\$ 7,054,044</u>	<u>\$ 7,054,044</u>	<u>\$ 6,826,829</u>	<u>\$ 227,215</u>
Net Change in Fund Balance	<u>\$ (132,682)</u>	<u>\$ (132,682)</u>	<u>\$ 474,288</u>	<u>\$ 606,970</u>
Fund Balance – January 1	<u>8,851,492</u>	<u>8,851,492</u>	<u>8,851,492</u>	<u>-</u>
Fund Balance – December 31	<u>\$ 8,718,810</u>	<u>\$ 8,718,810</u>	<u>\$ 9,325,780</u>	<u>\$ 606,970</u>

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

EXHIBIT A-4

**BUDGETARY COMPARISON SCHEDULE
RESOURCE DEVELOPMENT SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2019**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$ 96,000	\$ 96,000	\$ 126,557	\$ 30,557
Gifts and contributions	-	-	900	900
Total Revenues	\$ 96,000	\$ 96,000	\$ 127,457	\$ 31,457
Expenditures				
Current				
Culture and recreation				
Trails	\$ 10,000	\$ 10,000	\$ 955,276	\$ (945,276)
Debt service				
Principal	\$ 146,667	\$ 146,667	\$ 146,667	\$ -
Interest	28,600	28,600	10,140	18,460
Total debt service	\$ 175,267	\$ 175,267	\$ 156,807	\$ 18,460
Total Expenditures	\$ 185,267	\$ 185,267	\$ 1,112,083	\$ (926,816)
Excess of Revenues Over (Under) Expenditures	\$ (89,267)	\$ (89,267)	\$ (984,626)	\$ (895,359)
Other Financing Sources (Uses)				
Transfers in	-	-	26,957	26,957
Net Change in Fund Balance	\$ (89,267)	\$ (89,267)	\$ (957,669)	\$ (868,402)
Fund Balance – January 1	1,434,716	1,434,716	1,434,716	-
Fund Balance – December 31	\$ 1,345,449	\$ 1,345,449	\$ 477,047	\$ (868,402)

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

EXHIBIT A-5

**SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS
OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2019**

	<u>2019</u>	<u>2018</u>
Total OPEB Liability		
Service cost	\$ 31,227	\$ 38,756
Interest	18,301	17,891
Differences between expected and actual experience	(88,004)	-
Changes of assumption or other inputs	(15,209)	-
Benefit payments	<u>(33,974)</u>	<u>(39,361)</u>
Net change in total OPEB liability	\$ (87,659)	\$ 17,286
Total OPEB Liability – Beginning, as restated	<u>540,188</u>	<u>522,902</u>
Total OPEB Liability – Ending	<u><u>\$ 452,529</u></u>	<u><u>\$ 540,188</u></u>
Covered-employee payroll	\$ 6,991,875	\$ 6,963,854
Total OPEB liability (asset) as a percentage of covered-employee payroll	6.47%	7.76%

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

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

EXHIBIT A-6

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA GENERAL EMPLOYEES RETIREMENT PLAN
DECEMBER 31, 2019**

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	State's Proportionate Share of the Net Pension Liability Associated with Lake County (b)	Employer's Proportionate Share of the Net Pension Liability and the State's Related Share of the Net Pension Liability (Asset) (a + b)	Covered Payroll (c)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2019	0.0802 %	\$ 4,434,080	\$ 137,827	\$ 4,571,907	\$ 5,679,040	78.08 %	80.23 %
2018	0.0832	4,615,595	151,525	4,767,120	5,594,427	82.50	79.53
2017	0.0853	5,445,496	68,493	5,513,989	5,496,867	99.07	75.90
2016	0.0878	7,128,924	93,162	7,222,086	5,451,333	130.77	68.91
2015	0.0932	4,830,108	N/A	4,830,108	5,478,295	88.17	78.19

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

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

EXHIBIT A-7

**SCHEDULE OF CONTRIBUTIONS
PERA GENERAL EMPLOYEES RETIREMENT PLAN
DECEMBER 31, 2019**

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)
2019	\$ 435,685	\$ 435,685	\$ -	\$ 5,809,133	7.50 %
2018	421,704	421,704	-	5,622,720	7.50
2017	409,868	409,868	-	5,464,906	7.50
2016	416,317	416,317	-	5,550,893	7.50
2015	406,332	406,332	-	5,417,760	7.50

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

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

EXHIBIT A-8

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA PUBLIC EMPLOYEES POLICE AND FIRE PLAN
DECEMBER 31, 2019**

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
2019	0.1187 %	\$ 1,263,681	\$ 1,251,628	100.96 %	89.26 %
2018	0.1158	1,234,309	1,220,179	101.16	88.84
2017	0.1170	1,579,639	1,199,741	131.67	85.43
2016	0.1240	4,976,336	1,195,000	416.43	63.88
2015	0.1320	1,499,829	1,205,980	124.37	86.61

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

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

EXHIBIT A-9

**SCHEDULE OF CONTRIBUTIONS
PERA PUBLIC EMPLOYEES POLICE AND FIRE PLAN
DECEMBER 31, 2019**

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)
2019	\$ 216,644	\$ 216,644	\$ -	\$ 1,278,136	16.95 %
2018	199,512	199,512	-	1,231,556	16.20
2017	195,698	195,698	-	1,208,014	16.20
2016	191,785	191,785	-	1,183,858	16.20
2015	194,705	194,705	-	1,201,883	16.20

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

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

EXHIBIT A-10

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA PUBLIC EMPLOYEES LOCAL GOVERNMENT CORRECTIONAL SERVICE RETIREMENT PLAN
DECEMBER 31, 2019**

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
2019	0.2791 %	\$ 38,642	\$ 595,360	6.49 %	98.17 %
2018	0.2901	47,713	592,526	8.05	97.64
2017	0.2800	798,003	554,689	143.86	67.89
2016	0.2900	1,059,410	548,503	193.15	58.16
2015	0.3000	46,380	535,509	8.66	96.95

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

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

EXHIBIT A-11

**SCHEDULE OF CONTRIBUTIONS
PERA PUBLIC EMPLOYEES LOCAL GOVERNMENT CORRECTIONAL SERVICE RETIREMENT PLAN
DECEMBER 31, 2019**

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)
2019	\$ 53,047	\$ 53,047	\$ -	\$ 606,251	8.75 %
2018	51,881	51,881	-	592,926	8.75
2017	48,374	48,374	-	552,846	8.75
2016	50,114	50,114	-	572,731	8.75
2015	50,912	50,912	-	581,851	8.75

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

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**LAKE COUNTY
TWO HARBORS, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2019**

1. Budgetary Information

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

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

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

Encumbrance accounting is employed in governmental funds.

2. Excess of Expenditures Over Appropriations

The following funds and departments had expenditures exceeding appropriations for the year ended December 31, 2019:

	Expenditures	Budget	Excess
Major governmental funds			
General Fund			
Current			
General government			
County administration	\$ 310,493	\$ 302,369	\$ 8,124
Data processing	734,978	730,140	4,838
Recorder	251,788	247,938	3,850
Planning and zoning	493,355	467,741	25,614
Buildings and plant	730,782	723,646	7,136
Veterans service officer	100,368	92,983	7,385
Public safety			
Sheriff	2,325,293	2,321,912	3,381
Emergency services	129,276	113,011	16,265
Coroner	42,872	37,500	5,372
Emergency management	234,027	113,747	120,280
Other public safety	265,585	123,970	141,615

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

2. Excess of Expenditures Over Appropriations (Continued)

	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
Major governmental funds			
General Fund			
Current (Continued)			
Sanitation			
Recycling	205,606	198,951	6,655
Culture and recreation			
Historical society	48,300	35,000	13,300
Trails	287,807	-	287,807
Conservation of natural resources			
Soil and water conservation	69,866	61,771	8,095
Agricultural society/County fair	23,418	21,310	2,108
Economic development			
Housing and Redevelopment Authority	144,695	-	144,695
Road and Bridge Special Revenue Fund			
Current			
Highways and streets			
Administration	592,351	399,507	192,844
Capital outlay			
Highways and streets	4,765,963	-	4,765,963
Debt service			
Interest	1,090	-	1,090
Human Services Special Revenue Fund			
Current			
Health			
Transportation	113,386	94,879	18,507
Environmental health	118,266	111,441	6,825
Mental health	2,833,082	2,568,272	264,810
Resource Development Special Revenue Fund			
Current			
Culture and recreation			
Trails	955,276	10,000	945,276

3. Other Postemployment Benefits Funded Status

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

4. Employer Contributions to Other Postemployment Benefits

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

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

4. Employer Contributions to Other Postemployment Benefits (Continued)

The following changes in actuarial methods and assumptions occurred in 2019:

- The health care trend rates were changed to better anticipate short-term and long-term medical increases.
- The mortality tables were updated from the RP-2014 White Collar Mortality Tables with MP-2015 Generational Improvement Scale (with blue collar adjustment for police and fire personnel) to the RP-2014 White Collar Mortality Tables with MP-2018 Generational Improvement Scale (with blue collar adjustment for police and fire personnel).
- The retirement and withdrawal tables for police and fire employees were updated.
- The discount rate was changed from 3.30 percent to 3.80 percent.

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

The following changes were reflected in the valuation performed on behalf of the Public Employees Retirement Association for the year ended June 30, 2019:

General Employees Retirement Plan

2019

- The mortality projection scale was changed from MP-2017 to MP-2018.

2018

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed benefit increase was changed from 1.00 percent per year through 2044 and 2.50 percent per year thereafter, to 1.25 percent per year.
- The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

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

General Employees Retirement Plan

2018 (Continued)

- Interest credited on member contribution decreased from 4.00 percent to 3.00 percent, beginning July 1, 2018.
- Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Contribution stabilizer provisions were repealed.
- Post-retirement benefit increases were changed from 1.00 percent per year with a provision to increase to 2.50 percent upon attainment of 90 percent funding ratio to 50 percent of the Social Security Cost of Living Adjustment, not less than 1.00 percent and not more than 1.50 percent, beginning January 1, 2019.
- For retirement on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches Normal Retirement Age. Does not apply to Rule of 90 retirees, disability benefit recipients, or survivors.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

2017

- The Combined Service Annuity (CSA) loads were changed from 0.80 percent for active members and 60 percent for vested and non-vested deferred members. The revised CSA loads are now 0.00 percent for active member liability, 15 percent for vested deferred member liability, and 3.00 percent for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year for all years to 1.00 percent per year through 2044 and 2.5 percent per year thereafter.

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

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

General Employees Retirement Plan

2017 (Continued)

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

2016

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

Public Employees Police and Fire Plan

2019

- The morality projection scale was changed from MP-2017 to MP-2018.

2018

- The morality projection scale was changed from MP-2016 to MP-2017.
- Post-retirement benefit increases were changed to 1.00 percent for all years, with no trigger.

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

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

Public Employees Police and Fire Plan

2018 (Continued)

- An end date of July 1, 2048, was added to the existing \$9.0 million state contribution. Additionally, annual state aid will equal \$4.5 million in fiscal years 2019 and 2020, and \$9.0 million thereafter, until the plan reaches 100 percent funding, or July 1, 2048, if earlier.
- Member contributions were changed effective January 1, 2019, and January 1, 2020, from 10.80 percent to 11.30 and 11.80 percent of pay, respectively. Employer contributions were changed effective January 1, 2019, and January 1, 2020, from 16.20 percent to 16.95 and 17.70 percent of pay, respectively. Interest credited on member contributions decreased from 4.00 percent to 3.00 percent, beginning July 1, 2018.
- Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

2017

- The assumed salary increases were changed as recommended in the June 30, 2016, experience study. The net effect is proposed rates that average 0.34 percent lower than the previous rates.
- The assumed rates of retirement were changed, resulting in fewer retirements.
- The CSA load was 30 percent for vested and non-vested, deferred members. The CSA has been changed to 33 percent for vested members and 2.00 percent for non-vested members.

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

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

Public Employees Police and Fire Plan

2017 (Continued)

- The base mortality table for healthy annuitants was changed from 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 3.00 percent for the first three years of service. Rates beyond the selected period of three years were adjusted, resulting in more expected terminations overall.
- The assumed percentage of married female members was decreased from 65 percent to 60 percent.
- The assumed age difference was changed from separate assumptions for male members (wives assumed to be three years younger) and female members (husbands assumed to be four years older) to the assumption that males are two years older than females.
- The assumed percentage of female members electing joint and survivor annuities was increased.
- The assumed post-retirement benefit increase rate was changed from 1.00 percent for all years to 1.00 percent per year through 2064 and 2.50 percent thereafter.
- The single discount rate was changed from 5.60 percent per annum to 7.50 percent per annum.

2016

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

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

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

Public Employees Police and Fire Plan

2016 (Continued)

- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was changed from 7.90 percent to 5.60 percent.
- The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

Public Employees Local Government Correctional Retirement Plan

2019

- The morality projection scale was changed from MP-2017 to MP-2018.

2018

- The Single Discount Rate was changed from 5.96 percent per annum to 7.50 percent per annum.
- The mortality projection scale was changed from MP-2016 to MP-2017.
- The assumed post-retirement benefit increase was changed from 2.50 percent per year to 2.00 percent per year.
- The augmentation adjustment in early retirement factor is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.
- Interest credited on member contributions decreased from 4.00 percent to 3.00 percent, beginning July 1, 2018.
- Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

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

Public Employees Local Government Correctional Retirement Plan

2018 (Continued)

- Post-retirement benefit increases were changed from 2.50 percent per year with a provision to reduce to 1.00 percent if the funding status declines to a certain level, to 100 percent of the Social Security Cost of Living Adjustment, not less than 1.00 percent and not more than 2.50 percent, beginning January 1, 2019. If the funding status declines to 85 percent for two consecutive years or 80 percent for one year, the maximum increase will be lowered to 1.50 percent.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

2017

- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016 and is applied to healthy and disabled members. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the RP-2014 disabled annuitant mortality table (with future mortality improvement according to Scale MP-2016).
- The CSA load was 30 percent for vested and non-vested, deferred members. The CSA has been changed to 35 percent for vested members and 1.00 percent for non-vested members.
- The single discount rate was changed from 5.31 percent per annum to 5.96 percent per annum.

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

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

Public Employees Local Government Correctional Retirement Plan (Continued)

2016

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

SUPPLEMENTARY INFORMATION

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**LAKE COUNTY
TWO HARBORS, MINNESOTA**

NONMAJOR GOVERNMENTAL FUNDS

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

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

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

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**LAKE COUNTY
TWO HARBORS, MINNESOTA**

EXHIBIT B-1

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2019**

	Special Revenue				
<u>Assets</u>	Unorganized Townships	Forfeited Tax	Debt Service	Total	
Cash and pooled investments	\$ 324,844	\$ -	\$ 762,112	\$ 1,086,956	
Petty cash and change funds	-	50	-	50	
Undistributed cash in agency funds	7,965	-	92,367	100,332	
Taxes receivable					
Delinquent	1,948	-	28,336	30,284	
Accounts receivable	-	998,505	-	998,505	
Due from other funds	833	-	-	833	
	\$ 335,590	\$ 998,555	\$ 882,815	\$ 2,216,960	
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>					
Liabilities					
Accounts payable	\$ -	\$ 3,055	\$ -	\$ 3,055	
Salaries payable	-	20,190	-	20,190	
Due to other funds	-	129,465	-	129,465	
Due to other governments	124,245	10,724	-	134,969	
	\$ 124,245	\$ 163,434	\$ -	\$ 287,679	
Deferred Inflows of Resources					
Unavailable revenue – taxes	\$ -	\$ -	\$ 17,477	\$ 17,477	
Unavailable revenue – long-term receivables	-	863,653	-	863,653	
	\$ -	\$ 863,653	\$ 17,477	\$ 881,130	
Fund Balances					
Restricted for debt service	\$ -	\$ -	\$ 865,338	\$ 865,338	
Committed to unorganized townships emergency services	211,345	-	-	211,345	
Unassigned	-	(28,532)	-	(28,532)	
	\$ 211,345	\$ (28,532)	\$ 865,338	\$ 1,048,151	
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 335,590	\$ 998,555	\$ 882,815	\$ 2,216,960	

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

EXHIBIT B-2

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2019**

	<u>Special Revenue</u>		<u>Debt Service</u>	<u>Total</u>
	<u>Unorganized Townships</u>	<u>Forfeited Tax</u>		
Revenues				
Taxes	\$ 114,106	\$ -	\$ 1,144,850	\$ 1,258,956
Licenses and permits	75	1,202	-	1,277
Intergovernmental	32,694	67,326	143,769	243,789
Charges for services	-	12,982	-	12,982
Investment earnings	-	-	55,751	55,751
Miscellaneous	-	702,500	70,582	773,082
Total Revenues	\$ 146,875	\$ 784,010	\$ 1,414,952	\$ 2,345,837
Expenditures				
Current				
Public safety	\$ 137,595	\$ -	\$ -	\$ 137,595
Conservation of natural resources	-	643,883	-	643,883
Capital outlay				
Conservation of natural resources	-	1,084	-	1,084
Debt service				
Principal	-	-	860,000	860,000
Interest	-	-	408,471	408,471
Administrative (fiscal) charges	-	-	1,900	1,900
Bond issuance costs	-	-	46,333	46,333
Total Expenditures	\$ 137,595	\$ 644,967	\$ 1,316,704	\$ 2,099,266
Excess of Revenues Over (Under) Expenditures	\$ 9,280	\$ 139,043	\$ 98,248	\$ 246,571
Other Financing Sources (Uses)				
Transfers in	\$ 833	\$ -	\$ -	\$ 833
Transfers out	-	(27,790)	(1,400,000)	(1,427,790)
Premium on bonds/notes issued	-	-	80,205	80,205
Proceeds from sale of bonds	-	-	1,400,000	1,400,000
Total Other Financing Sources (Uses)	\$ 833	\$ (27,790)	\$ 80,205	\$ 53,248
Net Change in Fund Balance	\$ 10,113	\$ 111,253	\$ 178,453	\$ 299,819
Fund Balance – January 1	201,232	(139,785)	686,885	748,332
Fund Balance – December 31	\$ 211,345	\$ (28,532)	\$ 865,338	\$ 1,048,151

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

EXHIBIT B-3

**BUDGETARY COMPARISON SCHEDULE
UNORGANIZED TOWNSHIPS SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2019**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 120,620	\$ 120,620	\$ 114,106	\$ (6,514)
Licenses and permits	100	100	75	(25)
Intergovernmental	15,000	15,000	32,694	17,694
Total Revenues	\$ 135,720	\$ 135,720	\$ 146,875	\$ 11,155
Expenditures				
Current				
Public safety				
Emergency services	116,250	116,250	137,595	(21,345)
Excess of Revenues Over (Under) Expenditures	\$ 19,470	\$ 19,470	\$ 9,280	\$ (10,190)
Other Financing Sources (Uses)				
Transfers in	-	-	833	833
Net Change in Fund Balance	\$ 19,470	\$ 19,470	\$ 10,113	\$ (9,357)
Fund Balance – January 1	201,232	201,232	201,232	-
Fund Balance – December 31	\$ 220,702	\$ 220,702	\$ 211,345	\$ (9,357)

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

EXHIBIT B-4

**BUDGETARY COMPARISON SCHEDULE
FORFEITED TAX SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2019**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Licenses and permits	\$ 1,290	\$ 1,290	\$ 1,202	\$ (88)
Intergovernmental	63,241	63,241	67,326	4,085
Charges for services	30,000	30,000	12,982	(17,018)
Miscellaneous	591,950	591,950	702,500	110,550
Total Revenues	<u>\$ 686,481</u>	<u>\$ 686,481</u>	<u>\$ 784,010</u>	<u>\$ 97,529</u>
Expenditures				
Current				
Conservation of natural resources				
Land use	\$ 690,187	\$ 690,187	\$ 643,883	\$ 46,304
Capital outlay				
Conservation of natural resources	-	-	1,084	(1,084)
Total Expenditures	<u>\$ 690,187</u>	<u>\$ 690,187</u>	<u>\$ 644,967</u>	<u>\$ 45,220</u>
Excess of Revenues Over (Under) Expenditures	<u>\$ (3,706)</u>	<u>\$ (3,706)</u>	<u>\$ 139,043</u>	<u>\$ 142,749</u>
Other Financing Sources (Uses)				
Transfers out	-	-	(27,790)	(27,790)
Net Change in Fund Balance	<u>\$ (3,706)</u>	<u>\$ (3,706)</u>	<u>\$ 111,253</u>	<u>\$ 114,959</u>
Fund Balance – January 1	<u>(139,785)</u>	<u>(139,785)</u>	<u>(139,785)</u>	<u>-</u>
Fund Balance – December 31	<u><u>\$ (143,491)</u></u>	<u><u>\$ (143,491)</u></u>	<u><u>\$ (28,532)</u></u>	<u><u>\$ 114,959</u></u>

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

EXHIBIT B-5

**BUDGETARY COMPARISON SCHEDULE
DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2019**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 1,242,513	\$ 1,242,513	\$ 1,144,850	\$ (97,663)
Intergovernmental	65,000	65,000	143,769	78,769
Investment earnings	145	145	55,751	55,606
Miscellaneous	70,337	70,337	70,582	245
Total Revenues	\$ 1,377,995	\$ 1,377,995	\$ 1,414,952	\$ 36,957
Expenditures				
Debt service				
Principal	\$ 1,003,000	\$ 1,003,000	\$ 860,000	\$ 143,000
Interest	374,621	374,621	408,471	(33,850)
Bond issuance costs	-	-	46,333	(46,333)
Administrative (fiscal) charges	405	405	1,900	(1,495)
Total Expenditures	\$ 1,378,026	\$ 1,378,026	\$ 1,316,704	\$ 61,322
Excess of Revenues Over (Under) Expenditures	\$ (31)	\$ (31)	\$ 98,248	\$ 98,279
Other Financing Sources (Uses)				
Transfers out	\$ -	\$ -	\$ (1,400,000)	\$ (1,400,000)
Premium on bonds/notes issued	-	-	80,205	80,205
Proceeds on bonds	-	-	1,400,000	1,400,000
Total Other Financing Sources (Uses)	\$ -	\$ -	\$ 80,205	\$ 80,205
Net Change in Fund Balance	\$ (31)	\$ (31)	\$ 178,453	\$ 178,484
Fund Balance – January 1	686,885	686,885	686,885	-
Fund Balance – December 31	\$ 686,854	\$ 686,854	\$ 865,338	\$ 178,484

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FIDUCIARY FUNDS

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**LAKE COUNTY
TWO HARBORS, MINNESOTA**

EXHIBIT C-1

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2019**

	Balance January 1	Additions	Deductions	Balance December 31
<u>CITIES, TOWNS, AND OTHER GOVERNMENTS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 49,356	\$ 13,851,944	\$ 13,859,726	\$ 41,574
<u>Liabilities</u>				
Due to other governments	\$ 49,356	\$ 13,851,944	\$ 13,859,726	\$ 41,574
 <u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 631,620	\$ 22,409,680	\$ 22,520,733	\$ 520,567
<u>Liabilities</u>				
Due to other governments	\$ 631,620	\$ 22,409,680	\$ 22,520,733	\$ 520,567
 <u>STATE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 30,325	\$ 359,062	\$ 357,862	\$ 31,525
<u>Liabilities</u>				
Due to other governments	\$ 30,325	\$ 359,062	\$ 357,862	\$ 31,525

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

*EXHIBIT C-1
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2019**

	Balance January 1	Additions	Deductions	Balance December 31
<u>SEWER SYSTEM DEPOSITS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 75,655	\$ 155,900	\$ 154,330	\$ 77,225
<u>Liabilities</u>				
Customer deposits – current	\$ 75,655	\$ 155,900	\$ 154,330	\$ 77,225
 <u>NORTH SHORE COLLABORATIVE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 219,583	\$ 69,404	\$ 55,940	\$ 233,047
<u>Liabilities</u>				
Accounts payable	\$ 219,583	\$ 69,404	\$ 55,940	\$ 233,047
 <u>ARROWHEAD HEALTH ALLIANCE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 227,775	\$ 190,451	\$ 280,893	\$ 137,333
<u>Liabilities</u>				
Accounts payable	\$ 227,775	\$ 190,451	\$ 280,893	\$ 137,333

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

*EXHIBIT C-1
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2019**

	Balance January 1	Additions	Deductions	Balance December 31
<u>MINNESOTA COUNTIES INFORMATION</u>				
<u>SYSTEMS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 350,000	\$ -	\$ 350,000
<u>Liabilities</u>				
Accounts payable	\$ -	\$ 350,000	\$ -	\$ 350,000
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 1,234,314	\$ 37,386,441	\$ 37,229,484	\$ 1,391,271
<u>Liabilities</u>				
Accounts payable	\$ 447,358	\$ 609,855	\$ 336,833	\$ 720,380
Due to other governments	711,301	36,620,686	36,738,321	593,666
Customer deposits – current	75,655	155,900	154,330	77,225
Total Liabilities	\$ 1,234,314	\$ 37,386,441	\$ 37,229,484	\$ 1,391,271

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OTHER SCHEDULES

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**LAKE COUNTY
TWO HARBORS, MINNESOTA**

EXHIBIT D-1

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2019**

Appropriations and Shared Revenue

State

Highway users tax	\$	2,482,144
County program aid		549,065
PERA rate reimbursement		24,330
Disparity reduction aid		132,953
Aquatic invasive species aid		177,029
Police aid		142,736
Taconite credit		626,092
Enhanced 911		89,177
Market value credit		3,028
		3,028

Total appropriations and shared revenue **\$ 4,226,554**

Reimbursement for Services

State

Minnesota Department of Human Services	\$	216,591
		216,591

Payments

Federal

Payments in lieu of taxes	\$	1,209,366
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State

Payments in lieu of taxes		988,903
---------------------------	--	---------

Local

		13,198
		13,198

Total payments **\$ 2,211,467**

Grants

State

Minnesota Department of Public Safety	\$	7,972
Health		64,716
Natural Resources		526,824
Human Services		3,747,436
Veterans Affairs		10,000
Transportation		65,000
Board of Water and Soil Resources		46,330
Office of Environmental Assistance		68,710
Pollution Control Agency		45,889
		45,889

Total state **\$ 4,582,877**

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

**EXHIBIT D-1
(Continued)**

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2019**

Grants (Continued)

Federal

Department of	
Agriculture	\$ 2,900,892
Commerce	7,983
Housing and Urban Development	144,695
Justice	14,349
Transportation	81,402
Education	1,098
Health and Human Services	918,048
Homeland Security	88,937

Total federal **\$ 4,157,404**

Total state and federal grants **\$ 8,740,281**

Total Intergovernmental Revenue **\$ 15,394,893**

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

EXHIBIT D-2

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2019**

Federal Grantor Pass-Through Agency Program or Cluster Title	Federal CFDA Number	Contract Number/ Pass-Through Grant Numbers	Expenditures	Passed Through to Subrecipients
U.S. Department of Agriculture				
Direct				
U.S. Forest Service Cooperative Agreement	10.U01	16-LE-11090900-002	\$ 13,500	\$ -
State and Private Forestry Hazardous Fuel Reduction Program	10.697	19-DG-11420000-196	1,050	-
Passed Through Carlton, Cook, Lake, and St. Louis Community Health Board				
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	12-700-00061	60,419	-
Passed Through Minnesota Department of Human Services SNAP Cluster				
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	192MN101S2514	103,938	-
Passed Through Minnesota Department of Natural Resources				
Cooperative Forestry Assistance	10.664	17-DG-11420004-061	79,748	-
Cooperative Forestry Assistance	10.664	17-DG-11420004-147	19,100	-
(Total Cooperative Forestry Assistance 10.664 \$98,848)				
Passed Through Minnesota Management and Budget Forest Service Schools and Roads Cluster				
Schools and Roads – Grants to States	10.665	P.L. 115-141	<u>2,622,913</u>	<u>-</u>
Total U.S. Department of Agriculture			<u>\$ 2,900,668</u>	<u>\$ -</u>
U.S. Department of Commerce				
Passed Through Minnesota Department of Natural Resources				
Coastal Zone Management Administration Awards	11.419	NA17NOS4190062	<u>\$ 7,983</u>	<u>\$ -</u>
U.S. Department of Housing and Urban Development				
Passed Through Minnesota Department of Employment and Economic Development				
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	CDAP-15-0036-O-FY16	\$ 116,244	\$ 116,244
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	CDAP-17-0042-O-FY18	<u>28,451</u>	<u>28,451</u>
(Total Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii 14.228 \$144,695)				
Total U.S. Department of Housing and Urban Development			<u>\$ 144,695</u>	<u>\$ 144,695</u>
U.S. Department of Justice				
Passed Through Minnesota Department of Public Safety				
Crime Victim Assistance	16.575	A-CVSP-2018-LAKEAO	<u>\$ 14,349</u>	<u>\$ -</u>

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

**EXHIBIT D-2
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2019**

Federal Grantor Pass-Through Agency Program or Cluster Title	Federal CFDA Number	Contract Number/ Pass-Through Grant Numbers	Expenditures	Passed Through to Subrecipients
U.S. Department of Transportation				
Passed Through Minnesota Department of Transportation Highway Planning and Construction Cluster Highway Planning and Construction	20.205	00038	\$ (1,130)	\$ -
Passed Through Minnesota Department of Natural Resources Highway Planning and Construction Cluster Recreational Trails Program	20.219	123993/PO #3000112030	150,000	-
Total U.S. Department of Transportation			\$ 148,870	\$ -
U.S. Department of Education				
Passed Through Carlton, Cook, Lake, and St. Louis Community Health Board Special Education – Grants for Infants and Families	84.181	12-700-00061	\$ 1,098	\$ -
U.S. Department of Health and Human Services				
Passed Through Carlton, Cook, Lake, and St. Louis Community Health Board Public Health Emergency Preparedness TANF Cluster Temporary Assistance for Needy Families (Total Temporary Assistance for Needy Families 93.558 \$66,548)	93.069	65457	\$ 22,739	\$ -
Temporary Assistance for Needy Families (Total Temporary Assistance for Needy Families 93.558 \$66,548)	93.558	12-700-00061	3,965	-
Maternal and Child Health Services Block Grant to the States	93.994	12-700-00061	3,730	-
Passed Through Minnesota Department of Human Services Promoting Safe and Stable Families TANF Cluster Temporary Assistance for Needy Families (Total Temporary Assistance for Needy Families 93.558 \$66,548)	93.556	G-1801MNFPS	1,171	-
Temporary Assistance for Needy Families (Total Temporary Assistance for Needy Families 93.558 \$66,548)	93.558	1901MNTANF	62,583	-
Child Support Enforcement	93.563	1901MNCSES	65,817	-
Child Support Enforcement (Total Child Support Enforcement 93.563 \$242,625)	93.563	1901MNCES	176,808	-
Refugee and Entrant Assistance – State Administered Programs CCDF Cluster Child Care and Development Block Grant	93.566	1901MNRCA	117	-
Child Care and Development Block Grant	93.575	G1901MNCCDF	1,121	-
Community-Based Child Abuse Prevention Grants	93.590	G-1801MNBCAP	1,500	-
Stephanie Tubbs Jones Child Welfare Services Program	93.645	G-1801MNCWSS	1,006	-
Foster Care – Title IV-E	93.658	1901MNFOST	39,183	-
Social Services Block Grant	93.667	G-1901MNSOSR	80,644	-
John H. Chafee Foster Care Program for Successful Transition to Adulthood	93.674	G-1901MNCILP	2,000	-
Children's Health Insurance Program	93.767	1905MN5021	92	-
Medicaid Cluster Medical Assistance Program	93.778	1905MN5MAP	1,516	-
Medical Assistance Program (Total Medical Assistance Program 93.778 \$455,572)	93.778	1905MN5ADM	454,056	-
Total U.S. Department of Health and Human Services			\$ 918,048	\$ -

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

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

**EXHIBIT D-2
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2019**

Federal Grantor Pass-Through Agency Program or Cluster Title	Federal CFDA Number	Contract Number/ Pass-Through Grant Numbers	Expenditures	Passed Through to Subrecipients
U.S. Department of Homeland Security				
Passed Through Minnesota Department of Natural Resources				
Boating Safety Financial Assistance	97.012	R29G40CGFFY17	\$ 3,875	\$ -
Boating Safety Financial Assistance	97.012	R29G70CGFFY18	6,331	-
(Total Boating Safety Assistance 97.012 \$10,206)				
Passed Through Minnesota Department of Public Safety				
Disaster Grants – Public Assistance (Presidentially Declared Disasters)	97.036	DR4390	31,962	-
Emergency Management Performance Grants	97.042	F-EMPG-2019-LAKECO	16,835	-
Homeland Security Grant Program	97.067	A-OPSG-2017-LAKESO	29,934	-
Total U.S. Department of Homeland Security			\$ 88,937	\$ -
Total Federal Awards			\$ 4,224,648	\$ 144,695
Totals by Cluster				
Total expenditures for SNAP Cluster			\$ 103,938	
Total expenditures for Forest Service Schools and Roads Cluster			2,622,913	
Total expenditures for Highway Planning and Construction Cluster			148,870	
Total expenditures for TANF Cluster			66,548	
Total expenditures for CCDF Cluster			1,121	
Total expenditures for Medicaid Cluster			455,572	

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**LAKE COUNTY
TWO HARBORS, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2019**

1. Summary of Significant Accounting Policies

A. Reporting Entity

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

B. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Lake County under programs of the federal government for the year ended December 31, 2019. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of Lake County, it is not intended to and does not present the financial position, changes in net position, or cash flows of Lake County.

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. Negative amounts shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

2. De Minimis Cost Rate

Lake County has elected not to use the ten percent de minimis indirect cost rate allowed under the Uniform Guidance.

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

3. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 4,157,404
Grants received more than 90 days after year-end, deferred in 2019	
Cooperative Forestry Assistance	5,624
Recreational Trails Program	150,000
Deferred in 2018, recognized as revenue in 2019	
Cooperative Forestry Assistance	(3,620)
Schools and Roads – Grants to States	(2,228)
Highway Planning and Construction	<u>(82,532)</u>
Expenditures Per Schedule of Expenditures of Federal Awards	<u>\$ 4,224,648</u>

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JULIE BLAHA
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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

Independent Auditor's Report

Board of Commissioners
Lake County
Two Harbors, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Lake County, Minnesota, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated November 16, 2020.

Internal Control Over Financial Reporting

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

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

financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit the attention of those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. We did identify a deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as item 2019-001, that we consider to be a significant deficiency.

Compliance and Other Matters

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

Minnesota Legal Compliance

In connection with our audit, nothing came to our attention that caused us to believe that Lake County failed to comply with the provisions of the contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions sections of the *Minnesota Legal Compliance Audit Guide for Counties*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, insofar as they relate to accounting matters. 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, insofar as they relate to accounting matters.

Lake County's Response to Findings

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

Purpose of This Report

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

/s/Julie Blaha

/s/Dianne Syverson

JULIE BLAHA
STATE AUDITOR

DIANNE SYVERSON, CPA
DEPUTY STATE AUDITOR

November 16, 2020

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

Independent Auditor's Report

Board of County Commissioners
Lake County
Two Harbors, Minnesota

Report on Compliance for Each Major Federal Program

We have audited Lake County's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on the County's major federal program for the year ended December 31, 2019. Lake County's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on the Major Federal Program

In our opinion, Lake County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2019.

Report on Internal Control Over Compliance

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

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

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

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

/s/Julie Blaha

JULIE BLAHA
STATE AUDITOR

November 16, 2020

/s/Dianne Syverson

DIANNE SYVERSON, CPA
DEPUTY STATE AUDITOR

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**LAKE COUNTY
TWO HARBORS, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2019**

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:

Forest Service Schools and Roads Cluster

CFDA No. 10.665

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

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

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2019

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

INTERNAL CONTROL

Finding Number: 2019-001

Prior Year Finding Number: 1996-011

Repeat Finding Since: 1996

Segregation of Duties

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

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

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

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

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

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2019**

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.

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Linda Libal
Lake County Auditor/Treasurer

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

**CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED DECEMBER 31, 2019**

Finding Number: 2019-001
Finding Title: Segregation of Duties

Name of Contact Person Responsible for Corrective Action:

Matt Huddleston, County Administrator

Corrective Action Planned:

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

Anticipated Completion Date:

Ongoing

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

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2019**

Finding Number: 1996-011

Finding Title: Segregation of Duties

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

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

Status: Not Corrected. The County's management is aware of this condition. Limited staff prohibits the extensive segregation of duties that is desired. All positions have been cross-trained and there is at least one other person who acts as a back-up for each position. Given the staffing level, this is as much segregation of duties as can be accomplished.

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

Yes _____ No X