

# State of Minnesota



## Office of the State Auditor

Julie Blaha  
State Auditor

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### **Lake County Two Harbors, Minnesota**

Year Ended December 31, 2020

## **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, 2020



**Office of the State Auditor**

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

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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TWO HARBORS, MINNESOTA**

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TWO HARBORS, MINNESOTA**

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**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

**ORGANIZATION  
DECEMBER 31, 2020**

			<u>Term Expires</u>
<b>Elected</b>			
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
<b>Appointed</b>			
Assessor	Gregg Swartwoudt		December 2024
Examiner of Titles	David Adams (St. Louis County)		Indefinite
Health Officer	Dr. Tolga Hanhan		Indefinite
Highway Engineer	Jason DiPiazza		May 2022
Veterans Service Officer	Brad Anderson		January 2023
Clerk of the Board	Laurel Buchanan		Indefinite
County Administrator	Matthew Huddleston		Indefinite





**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 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, 2020, 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 discretely presented component unit, each major fund, and the aggregate remaining fund information of Lake County, Minnesota, as of December 31, 2020, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter – Change in Accounting Principle***

As discussed in Note 1.E to the financial statements, in 2020, the County adopted new accounting guidance by implementing the provisions of Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*, which represents a change in accounting principles. Our opinion is not modified with respect to this matter.

### ***Other Matters***

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

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

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 23, 2021, 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) is presented for purposes of additional analysis, 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), and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the SEFA is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

*/s/Julie Blaha*

JULIE BLAHA  
STATE AUDITOR

*/s/Dianne Syverson*

DIANNE SYVERSON, CPA  
DEPUTY STATE AUDITOR

November 23, 2021

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2020  
(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, 2020. 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 \$111,412,745, of which \$91,573,823 is the net investment in capital assets and \$8,530,471 is restricted to specific purposes.
- Lake County's governmental activities' net position increased by \$7,453,183 for the year ended December 31, 2020. 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 \$15,998.
- The net cost of governmental activities was \$6,236,734 for the current fiscal year. The net cost was funded by general revenues and other items totaling \$13,689,917.

**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 two 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.
- **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.

- **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.

## **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 and statement of changes in 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 statements may be found in Exhibits 7 and 8.



## 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	
	2020	2019
Assets		
Current and other assets	\$ 37,708	\$ 34,490
Capital assets	96,235	95,241
Total Assets	\$ 133,943	\$ 129,731
Deferred Outflows of Resources	\$ 1,301	\$ 1,695
Liabilities		
Long-term liabilities outstanding	\$ 19,848	\$ 19,855
Other liabilities	2,174	3,997
Total Liabilities	\$ 22,022	\$ 23,852
Deferred Inflows of Resources	\$ 1,810	\$ 3,615
Net Position		
Net investment in capital assets	\$ 91,574	\$ 90,138
Restricted	8,530	8,904
Unrestricted	11,308	4,917
Total Net Position, as reported	\$ 111,412	\$ 103,959

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

	Governmental Activities	
	2020	2019
Revenues		
Program revenues		
Fees, fines, charges, and other	\$ 2,489	\$ 2,248
Operating grants and contributions	23,472	16,028
Capital grants and contributions	1,875	334
General revenues		
Property taxes	10,928	10,269
Other taxes	2,770	3,006
Unrestricted grants and contributions	1,464	1,346
Investment earnings	152	486
Gain on sale of capital assets	100	58
Special item: Forgiveness of loans receivable	(1,750)	-
Miscellaneous	26	595
Transfers	-	(19,068)
Total Revenues	\$ 41,526	\$ 15,302
Expenses		
General government	\$ 5,369	\$ 4,948
Public safety	6,152	5,432
Highways and streets	10,702	6,026
Sanitation	433	402
Human services	3,348	3,470
Health	3,515	3,373
Culture and recreation	3,181	1,817
Conservation of natural resources	926	776
Economic development	83	159
Interest	364	446
Total Expenses	\$ 34,073	\$ 26,849
Increase (Decrease) in Net Position	\$ 7,453	\$ (11,547)
Net Position, January 1	103,959	115,506
Net Position, December 31, as reported	\$ 111,412	\$ 103,959

## Governmental Activities

The cost of all governmental activities this year was \$34,072,509. However, as shown in the statement of activities, the amount that taxpayers ultimately financed for these activities through County taxes, other general revenues, and special items was \$13,689,917, because some of the cost was paid by those who directly benefited from the programs (\$2,488,825) or by other governments and organizations that subsidized certain programs with grants and contributions (\$25,346,950). 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	
	2020	2019	2020	2019
General government	\$ 5,369	\$ 4,948	\$ 745	\$ 209
Public safety	6,152	5,432	5,311	4,850
Highways and streets	10,702	6,026	4,068	843
Human services	3,348	3,470	1,462	1,742
Health	3,515	3,373	(1,287)	(220)
All others	4,987	3,600	(4,062)	815
Total	<u>\$ 34,073</u>	<u>\$ 26,849</u>	<u>\$ 6,237</u>	<u>\$ 8,239</u>

## 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 \$26,219,673 in 2020, compared with \$22,563,482 in 2019, an increase of \$3,656,191. 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 2020 of \$4,583,946, or 17.48 percent, of total fund balance. Nonspendable fund balance was \$603,919, and restricted fund balance was \$3,980,027. Unrestricted fund balance was \$21,635,727, or 82.52 percent, of total fund balance. Unrestricted fund balance was \$1,379,169 committed, \$9,720,166 assigned, and \$10,536,392 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, 2020, unrestricted fund balance for the General Fund was \$10,767,705, compared to \$3,337,801 in 2019. This increase in the fund balance of the General Fund is due to an internal fund balance transfer from the Health and Human Services Special Revenue Fund and an unbudgeted increase in intergovernmental revenues. Unrestricted fund balance at the end of the year represented 65.57 percent of the General Fund's operating revenues and 83.26 percent of operating expenditures.

The Road and Bridge Special Revenue Fund's unrestricted fund balance increased to \$4,889,550 in 2020, compared to unrestricted fund balance of \$3,987,408 in 2019. In 2020, there was an unbudgeted increase in intergovernmental revenues. Unrestricted fund balance at the end of the year represented 40.59 percent of the fund's operating revenues and 39.25 percent of operating expenditures.

The Human Services Special Revenue Fund's unrestricted fund balance was \$5,569,695 in 2020, compared to \$9,325,780 in 2019. The decrease in the fund balance of the Human Services Special Revenue Fund is attributed to an internal fund balance transfer to the General Fund. Unrestricted fund balance at the end of the year represented 76.37 percent of the fund's operating revenues and 80.30 percent of operating expenditures.

The Resource Development Special Revenue Fund's unrestricted fund balance was \$243,445 in 2020, compared to \$477,047 in 2019. 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 11.67 percent of the fund's operating revenues and 9.72 percent of operating expenditures.

### **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 2020.

In the General Fund, the actual charges to appropriations (expenditures) were \$1,325,305 over the final budget amounts. Unbudgeted expenditures included \$271,562 of unbudgeted trail expenditures, \$760,078 of unbudgeted public safety expenditures, and \$170,922 of unbudgeted building and plant expenditures. These were offset by savings in various other General Fund departments.

Resources available for appropriation were also above the final budgeted amount by \$4,352,842. This was primarily due to greater than expected collections in intergovernmental revenues.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

At the end of 2020, the County had \$96,235,486 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	
	2020	2019
Land	\$ 3,968	\$ 3,968
Buildings and improvements	15,953	16,206
Machinery, vehicles, furniture, and equipment	1,971	2,008
Infrastructure	74,343	73,058
Totals	<u>\$ 96,235</u>	<u>\$ 95,240</u>

The County's fiscal year 2021 capital budget calls for it to spend another \$147,000 for miscellaneous improvements at various buildings, \$239,000 on vehicles for various departments, \$874,219 on equipment for various departments, and \$6,521,836 for road construction. The road construction will be funded by state-aid construction funds.

### **Debt**

At year-end, the County had \$10,960,000 in bonds and notes outstanding, versus \$11,640,000 last year—a decrease of 5.84 percent—as shown in Table 5. The decrease is attributed to scheduled payments on the bonds and notes. Capital leases payable decreased by \$160,970.

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

	Governmental Activities	
	2020	2019
General obligation bonds	\$ 10,960	\$ 11,640
Capital leases	147	308
Compensated absences	1,612	1,518
Net pension liability	6,431	5,736
Net other postemployment benefits	513	453
Unamortized premium	185	200
Total	<u>\$ 19,848</u>	<u>\$ 19,855</u>

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

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

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The County's elected and appointed officials considered many factors when setting the fiscal year 2021 budget and tax rates.

- County General Fund expenditures for 2021 are budgeted to increase 1.00 percent over 2020.
- Property tax levies increased 1.25 percent for 2021.

## **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**

## **GOVERNMENT-WIDE FINANCIAL STATEMENTS**



**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

***EXHIBIT 1***

**STATEMENT OF NET POSITION  
DECEMBER 31, 2020**

	<b>Primary Government Governmental Activities</b>	<b>Discretely Presented Component Unit</b>
<b><u>Assets</u></b>		
Cash and pooled investments	\$ 21,769,171	\$ 856,782
Receivables	15,421,132	22,364
Inventories	504,285	-
Prepaid items	13,096	-
Restricted assets		
Security deposits	-	18,429
Capital assets		
Non-depreciable capital assets	3,968,383	-
Depreciable capital assets – net of accumulated depreciation	92,267,103	848,949
<b>Total Assets</b>	<b>\$ 133,943,170</b>	<b>\$ 1,746,524</b>
<b><u>Deferred Outflows of Resources</u></b>		
Deferred other postemployment benefits outflows	\$ 45,377	\$ -
Deferred pension outflows	1,255,936	-
<b>Total Deferred Outflows of Resources</b>	<b>\$ 1,301,313</b>	<b>\$ -</b>
<b><u>Liabilities</u></b>		
Accounts payable and other current liabilities	\$ 1,736,710	\$ 4,167
Accrued interest payable	36,823	-
Unearned revenue	399,832	2,565
Security deposits payable	-	18,429
Long-term liabilities		
Due within one year	846,663	60,000
Due in more than one year	12,057,668	340,188
Other postemployment benefits liability	512,820	-
Net pension liability	6,431,278	-
<b>Total Liabilities</b>	<b>\$ 22,021,794</b>	<b>\$ 425,349</b>
<b><u>Deferred Inflows of Resources</u></b>		
Deferred other postemployment benefits inflows	\$ 73,723	\$ -
Deferred pension inflows	1,736,221	-
<b>Total Deferred Inflows of Resources</b>	<b>\$ 1,809,944</b>	<b>\$ -</b>

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

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**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

***EXHIBIT 1  
(Continued)***

**STATEMENT OF NET POSITION  
DECEMBER 31, 2020**

	<b><u>Primary Government Governmental Activities</u></b>	<b><u>Discretely Presented Component Unit</u></b>
<b><u>Net Position</u></b>		
Net investment in capital assets	\$ 91,573,823	\$ 448,761
Restricted for		
General government	913,376	-
Public safety	516,923	-
Highways and streets	5,603,937	-
Conservation of natural resources	500,860	-
Debt service	995,375	-
Unrestricted	<u>11,308,451</u>	<u>872,414</u>
<b>Total Net Position</b>	<b><u>\$ 111,412,745</u></b>	<b><u>\$ 1,321,175</u></b>

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2020**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Fees, Charges, Fines, and Other</u>
<b>Primary government</b>		
<b>Governmental activities</b>		
General government	\$ 5,369,030	\$ 694,566
Public safety	6,152,197	122,539
Highways and streets	10,701,918	88,515
Sanitation	433,431	42,565
Human services	3,347,848	232,577
Health	3,514,910	255,669
Culture and recreation	3,180,791	-
Conservation of natural resources	925,805	901,464
Economic development	82,814	150,930
Interest	363,765	-
<b>Total governmental activities</b>	<b>\$ 34,072,509</b>	<b>\$ 2,488,825</b>
<b>Component unit</b>		
Housing and Redevelopment Authority	<b>\$ 445,493</b>	<b>\$ 328,087</b>

**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)**

Forgiveness of loans receivable

**Total general revenues and special item**

**Change in net position**

**Net Position – Beginning**

**Net Position – Ending**

**EXHIBIT 2**

Program Revenues		Net (Expense) Revenue and Changes in Net Position	
Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Governmental Activities	Discretely Presented Component Unit
\$ 3,929,747	\$ -	\$ (744,717)	
718,915	-	(5,310,743)	
4,704,277	1,840,660	(4,068,466)	
200,885	-	(189,981)	
1,652,854	-	(1,462,417)	
4,546,826	-	1,287,585	
1,806,414	34,494	(1,339,883)	
5,854,564	-	5,830,223	
57,314	-	125,430	
-	-	(363,765)	
<u>\$ 23,471,796</u>	<u>\$ 1,875,154</u>	<u>\$ (6,236,734)</u>	
<u>\$ -</u>	<u>\$ -</u>		<u>\$ (117,406)</u>
		\$ 10,927,782	\$ 114,215
		682,198	-
		761,240	-
		988,737	-
		338,296	-
		1,464,072	-
		-	6,572
		152,106	4,156
		99,526	-
		25,960	8,461
		(1,750,000)	-
		<u>\$ 13,689,917</u>	<u>\$ 133,404</u>
		\$ 7,453,183	\$ 15,998
		<u>103,959,562</u>	<u>1,305,177</u>
		<u>\$ 111,412,745</u>	<u>\$ 1,321,175</u>

## **FUND FINANCIAL STATEMENTS**

## **GOVERNMENTAL FUNDS**

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2020**

	<u>General</u>	<u>Road and Bridge</u>
<b><u>Assets</u></b>		
Cash and pooled investments	\$ 9,900,540	\$ 6,058,041
Escheat cash	36,538	-
Petty cash and change funds	1,050	1,000
Taxes receivable – delinquent	164,556	34,853
Accounts receivable	14,730	5,260
Accrued interest receivable	3,392	-
Loans receivable	50,000	-
Due from other funds	613,913	820
Due from other governments	2,646,409	7,537,074
Prepaid items	-	-
Inventories	-	504,285
<b>Total Assets</b>	<b><u>\$ 13,431,128</u></b>	<b><u>\$ 14,141,333</u></b>
<b><u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u></b>		
<b>Liabilities</b>		
Accounts payable	\$ 150,251	\$ 95,803
Salaries payable	138,772	114,532
Contracts payable	-	212,580
Retainage payable	-	264,190
Due to other funds	-	-
Due to other governments	90,639	56,285
Unearned revenue	-	399,832
<b>Total Liabilities</b>	<b><u>\$ 379,662</u></b>	<b><u>\$ 1,143,222</u></b>
<b>Deferred Inflows of Resources</b>		
Unavailable revenue – taxes	\$ 115,038	\$ 23,966
Unavailable revenue – grants	96	6,677,747
Unavailable revenue – long-term receivables	-	-
<b>Total Deferred Inflows of Resources</b>	<b><u>\$ 115,134</u></b>	<b><u>\$ 6,701,713</u></b>

**EXHIBIT 3**

<b>Human Services</b>	<b>Resource Development</b>	<b>Nonmajor Funds</b>	<b>Total</b>
\$ 4,435,313	\$ -	\$ 1,335,639	\$ 21,729,533
-	-	-	36,538
1,000	-	50	3,100
47,007	-	26,296	272,712
4,844	-	1,082,055	1,106,889
-	-	-	3,392
-	-	-	50,000
-	-	-	614,733
1,428,035	2,376,621	-	13,988,139
13,096	-	-	13,096
-	-	-	504,285
<b>\$ 5,929,295</b>	<b>\$ 2,376,621</b>	<b>\$ 2,444,040</b>	<b>\$ 38,322,417</b>
\$ 207,562	\$ 212,250	\$ 3,305	\$ 669,171
45,155	-	7,332	305,791
-	-	-	212,580
-	-	-	264,190
22,849	428,734	163,150	614,733
37,233	-	100,821	284,978
-	-	-	399,832
<b>\$ 312,799</b>	<b>\$ 640,984</b>	<b>\$ 274,608</b>	<b>\$ 2,751,275</b>
\$ 33,705	\$ -	\$ 18,294	\$ 191,003
-	1,492,192	-	8,170,035
-	-	990,431	990,431
<b>\$ 33,705</b>	<b>\$ 1,492,192</b>	<b>\$ 1,008,725</b>	<b>\$ 9,351,469</b>



**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2020**

	<u>General</u>	<u>Road and Bridge</u>
<b><u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u></b> (Continued)		
<b>Fund Balances</b>		
Nonspendable		
Loans receivables	\$ 50,000	\$ -
Inventories	-	504,285
Missing heirs	36,538	-
Prepaid items	-	-
Restricted for		
Law library	84,609	-
Recorder's technology equipment	422,412	-
Enhanced 911	433,330	-
County property recorder's fee	406,355	-
Law and prosecutorial equipment	78,593	-
County roads	-	902,563
Sheriff's contingency fund	5,000	-
Title III forest	111,105	-
Aquatic invasive species	389,755	-
Debt service	-	-
Lodging tax	150,930	-
Committed to		
Rescue squad capital expenditures	25,019	-
Election equipment	103,427	-
Out-of-home placement costs	-	-
Unorganized townships		
Emergency services	-	-
Assigned to		
Capital assets	15,568	-
Wellness grant	1,908	-
Highways and streets	-	4,889,550
Human services	-	-
Resource development	-	-
Unassigned	10,621,783	-
<b>Total Fund Balances</b>	<b>\$ 12,936,332</b>	<b>\$ 6,296,398</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<b>\$ 13,431,128</b>	<b>\$ 14,141,333</b>

**EXHIBIT 3**  
**(Continued)**

<b>Human Services</b>	<b>Resource Development</b>	<b>Nonmajor Funds</b>	<b>Total</b>
\$ -	\$ -	\$ -	\$ 50,000
-	-	-	504,285
-	-	-	36,538
13,096	-	-	13,096
-	-	-	84,609
-	-	-	422,412
-	-	-	433,330
-	-	-	406,355
-	-	-	78,593
-	-	-	902,563
-	-	-	5,000
-	-	-	111,105
-	-	-	389,755
-	-	995,375	995,375
-	-	-	150,930
-	-	-	25,019
-	-	-	103,427
1,000,000	-	-	1,000,000
-	-	250,723	250,723
-	-	-	15,568
-	-	-	1,908
-	-	-	4,889,550
4,569,695	-	-	4,569,695
-	243,445	-	243,445
-	-	(85,391)	10,536,392
<b>\$ 5,582,791</b>	<b>\$ 243,445</b>	<b>\$ 1,160,707</b>	<b>\$ 26,219,673</b>
<b>\$ 5,929,295</b>	<b>\$ 2,376,621</b>	<b>\$ 2,444,040</b>	<b>\$ 38,322,417</b>

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

***EXHIBIT 4***

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO  
THE GOVERNMENT-WIDE STATEMENT OF NET POSITION—GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2020**

<b>Fund balances – total governmental funds (Exhibit 3)</b>	<b>\$ 26,219,673</b>
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	96,235,486
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.	9,351,469
Deferred outflows of resources are not available resources and, therefore, are not reported in the governmental funds.	
Deferred other postemployment benefits outflows	\$ 45,377
Deferred pension outflows	<u>1,255,936</u>
	1,301,313
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	\$ (10,960,000)
Capital leases payable	(146,663)
Compensated absences	(1,612,245)
Bond premium	(185,423)
Net pension liability	(6,431,278)
Net other postemployment benefits liability	(512,820)
Accrued interest payable	<u>(36,823)</u>
	(19,885,252)
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	\$ (73,723)
Deferred pension inflows	<u>(1,736,221)</u>
	<u>(1,809,944)</u>
<b>Net Position of Governmental Activities (Exhibit 1)</b>	<b><u>\$ 111,412,745</u></b>

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2020**

	<u>General</u>	<u>Road and Bridge</u>
<b>Revenues</b>		
Taxes	\$ 7,346,724	\$ 2,634,137
Licenses and permits	24,610	1,635
Intergovernmental	8,100,980	9,319,529
Charges for services	578,888	77,527
Fines and forfeits	12,482	-
Investment earnings	144,235	-
Gifts and contributions	-	-
Miscellaneous	213,413	12,742
<b>Total Revenues</b>	<b>\$ 16,421,332</b>	<b>\$ 12,045,570</b>
<b>Expenditures</b>		
<b>Current</b>		
General government	\$ 5,194,936	\$ -
Public safety	6,284,655	-
Highways and streets	-	11,878,006
Sanitation	428,991	-
Human services	-	-
Health	-	-
Culture and recreation	765,250	-
Conservation of natural resources	176,705	-
Economic development	82,814	-
<b>Capital outlay</b>		
Highways and streets	-	562,025
Conservation of natural resources	-	-
<b>Debt service</b>		
Principal	-	16,057
Interest	-	154
Administrative (fiscal) charges	-	-
<b>Total Expenditures</b>	<b>\$ 12,933,351</b>	<b>\$ 12,456,242</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 3,487,981</b>	<b>\$ (410,672)</b>
<b>Other Financing Sources (Uses)</b>		
Transfers in	\$ 4,173,723	\$ -
Transfers out	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>\$ 4,173,723</b>	<b>\$ -</b>
<b>Net Change in Fund Balances</b>	<b>\$ 7,661,704</b>	<b>\$ (410,672)</b>
<b>Fund Balances – January 1</b>	<b>5,274,628</b>	<b>6,437,876</b>
<b>Increase (decrease) in inventories</b>	<b>-</b>	<b>269,194</b>
<b>Fund Balances – December 31</b>	<b>\$ 12,936,332</b>	<b>\$ 6,296,398</b>

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

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**EXHIBIT 5**

<b>Human Services</b>	<b>Resource Development</b>	<b>Nonmajor Funds</b>	<b>Total</b>
\$ 1,788,979	\$ -	\$ 1,081,988	\$ 12,851,828
-	-	1,046	27,291
5,015,373	2,074,651	237,727	24,748,260
382,610	-	700	1,039,725
-	-	-	12,482
-	-	7,871	152,106
300	12,292	-	12,592
105,636	-	932,519	1,264,310
<b>\$ 7,292,898</b>	<b>\$ 2,086,943</b>	<b>\$ 2,261,851</b>	<b>\$ 40,108,594</b>
\$ -	\$ -	\$ 11,239	\$ 5,206,175
-	-	111,093	6,395,748
-	-	-	11,878,006
-	-	-	428,991
3,402,597	-	-	3,402,597
3,533,290	-	-	3,533,290
-	2,341,019	-	3,106,269
-	10,400	693,063	880,168
-	-	-	82,814
-	-	-	562,025
-	-	24,001	24,001
-	146,667	680,000	842,724
-	6,766	369,494	376,414
-	-	2,375	2,375
<b>\$ 6,935,887</b>	<b>\$ 2,504,852</b>	<b>\$ 1,891,265</b>	<b>\$ 36,721,597</b>
<b>\$ 357,011</b>	<b>\$ (417,909)</b>	<b>\$ 370,586</b>	<b>\$ 3,386,997</b>
\$ -	\$ 184,307	\$ 11,622	\$ 4,369,652
(4,100,000)	-	(269,652)	(4,369,652)
<b>\$ (4,100,000)</b>	<b>\$ 184,307</b>	<b>\$ (258,030)</b>	<b>\$ -</b>
\$ (3,742,989)	\$ (233,602)	\$ 112,556	\$ 3,386,997
9,325,780	477,047	1,048,151	22,563,482
-	-	-	269,194
<b>\$ 5,582,791</b>	<b>\$ 243,445</b>	<b>\$ 1,160,707</b>	<b>\$ 26,219,673</b>

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

**EXHIBIT 6**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE  
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES—GOVERNMENTAL ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2020**

**Net change in fund balances – total governmental funds (Exhibit 5)** **\$ 3,386,997**

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	\$ 9,351,469	
Unavailable revenue – January 1	<u>(7,968,476)</u>	1,382,993

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	\$ 4,293,833	
Current year depreciation	<u>(3,298,894)</u>	994,939

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

Principal repayments		
General obligation bonds	\$ 680,000	
Capital lease	160,970	
Amortization of premium	<u>14,616</u>	855,586

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	\$ 2,162	
Change in compensated absences	(94,190)	
Change in net pension liability	(694,875)	
Change in deferred pension outflows	(416,511)	
Change in deferred pension inflows	1,789,823	
Change in other postemployment benefits liability	(60,291)	
Change in other postemployment benefits outflows	22,611	
Change in other postemployment benefits inflows	14,745	
Change in inventories	<u>269,194</u>	<u>832,668</u>

**Change in Net Position of Governmental Activities (Exhibit 2)** **\$ 7,453,183**

## **FIDUCIARY FUNDS**

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

***EXHIBIT 7***

**STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
DECEMBER 31, 2020**

	<b>Social Welfare Private-Purpose Trust Fund</b>	<b>Custodial Funds</b>
	<hr/>	<hr/>
<b><u>Assets</u></b>		
Cash and pooled investments	\$ 63,322	\$ 2,671,506
Due from other governments	-	37,250
Accounts receivable	-	1,769
Taxes receivable for other governments	-	920,638
	<hr/>	<hr/>
<b>Total Assets</b>	<b>\$ 63,322</b>	<b>\$ 3,631,163</b>
	<hr/>	<hr/>
<b><u>Liabilities</u></b>		
Accounts payable	\$ -	\$ 12,262
Due to other governments	-	847,813
Due to others	-	13,131
	<hr/>	<hr/>
<b>Total Liabilities</b>	<b>\$ -</b>	<b>\$ 873,206</b>
	<hr/>	<hr/>
<b><u>Net Position</u></b>		
Restricted for		
Individuals, organizations, other governments	<b>\$ 63,322</b>	<b>\$ 2,757,957</b>
	<hr/> <hr/>	<hr/> <hr/>



**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

**EXHIBIT 8**

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2020**

	<b>Social Welfare Private-Purpose Trust Fund</b>	<b>Custodial Funds</b>
	<u>                    </u>	<u>                    </u>
<b>Additions</b>		
Contributions		
Individuals	\$ 408,273	\$ 2,892,830
Investment earnings		
Net increase in fair value of investments	-	8,014
Property tax collections for other governments	-	37,622,032
License and fees collected for state	-	405,706
Miscellaneous	-	7,600
	<u>                    </u>	<u>                    </u>
<b>Total Additions</b>	<b>\$ 408,273</b>	<b>\$ 40,936,182</b>
	<u>                    </u>	<u>                    </u>
<b>Deductions</b>		
Beneficiary payments to individuals	\$ 373,152	\$ 4,209
Medical, dental, and life insurance	-	172,965
Payments of property tax to other governments	-	35,312,690
Payments to state	-	2,142,546
Administrative expense	-	1,771,795
Payments to other entities	-	110,600
	<u>                    </u>	<u>                    </u>
<b>Total Deductions</b>	<b>\$ 373,152</b>	<b>\$ 39,514,805</b>
	<u>                    </u>	<u>                    </u>
<b>Change in net position</b>	<b>\$ 35,121</b>	<b>\$ 1,421,377</b>
	<u>                    </u>	<u>                    </u>
<b>Net Position – January 1, as restated</b>	<b>28,201</b>	<b>1,336,580</b>
	<u>                    </u>	<u>                    </u>
<b>Net Position – December 31</b>	<b>\$ 63,322</b>	<b>\$ 2,757,957</b>
	<u>                    </u>	<u>                    </u>

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2020**

**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, 2020. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the County are discussed below.

**A. Financial Reporting Entity**

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

**Discretely Presented Component Unit**

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

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

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1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Joint Ventures and Jointly-Governed Organizations

The County participates in several joint ventures described in Note 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.

The government-wide statement of net position is presented on a consolidated basis by column; and 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 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**

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1. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

2. Fund Financial Statements

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

The 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.

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.

The Social Welfare Private-Purpose Trust Fund is used to account for resources legally held in a trust for the benefit of individuals.

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

Custodial funds are held in a fiduciary capacity 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 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.

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.

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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1. Summary of Significant Accounting Policies (Continued)

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

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Auditor/Treasurer for the purpose of increasing earnings through investment activities.

Investments are reported at their fair value at December 31, 2020. 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 2020 were \$144,235 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.

2. 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).

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.

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

3. 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.

4. Capital Assets

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

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

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

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

5. Unearned Revenue

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

6. 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.

7. Compensated Absences

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

Lake County's employees (except for Highway Department employees) participate in a 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



**LAKE COUNTY  
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1. Summary of Significant Accounting Policies

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

7. Compensated Absences (Continued)

leave as well as two to three years of insurance coverage. The lump sum payouts are paid directly into the post-retirement health savings plan. Compensated absences are liquidated by the General Fund, the Road and Bridge Special Revenue Fund, the Human Services Special Revenue Fund, and the Forfeited Tax Special Revenue Fund.

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

8. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and 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**

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1. Summary of Significant Accounting Policies

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

9. Long-Term Obligations

In the government-wide financial statements, long-term debt, and other long-term obligations are reported as liabilities on the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issue costs are expensed in the year of bond issuance.

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

10. Classification of Net Position

Net position in government-wide statements 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**

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1. Summary of Significant Accounting Policies

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

11. Classification of 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**

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1. Summary of Significant Accounting Policies

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

11. Classification of Fund Balances (Continued)

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

12. Use of Estimates

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

E. Change in Accounting Principles

During the year ended December 31, 2020, Lake County adopted new accounting guidance by implementing the provisions of GASB Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying and reporting fiduciary activities. The implementation of this statement has resulted in changing the presentation of the financial statements by recording the Social Welfare Private-Purpose Trust Fund that was not previously reported and including accruals and ending net position to custodial funds not previously required. Beginning net position has been restated to reflect this change.

	<u>Social Welfare Private-Purpose Trust Fund</u>	<u>Custodial Funds</u>
Net Position, January 1, 2020, as previously reported	\$ -	\$ -
Change in accounting principles	<u>28,201</u>	<u>1,336,580</u>
Net Position, January 1, 2020, as restated	<u>\$ 28,201</u>	<u>\$ 1,336,580</u>

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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2. Stewardship, Compliance, and Accountability

A. Deficit Fund Equity

At December 31, 2020, the Forfeited Tax Special Revenue Fund had a deficit fund balance of \$85,391. 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, 2020, expenditures exceeded appropriations in the following nonmajor funds:

	<u>Final Budget</u>	<u>Expenditures</u>	<u>Excess</u>
Forfeited Tax Special Revenue Fund	\$ 711,580	\$ 717,064	\$ 5,484
Unorganized Townships Special Revenue Fund	116,250	122,332	6,082
Debt Service Fund	1,049,899	1,051,869	1,970

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	\$ 21,769,171
Component unit	
Cash and pooled investments	856,782
Restricted cash for security deposits	18,429
Fiduciary funds	
Cash and pooled investments	<u>2,734,828</u>
Total Cash and Investments	<u>\$ 25,379,210</u>

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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3. Detailed Notes

A. Assets

1. Deposits and Investments (Continued)

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, 2020, the County's deposits were not exposed to custodial credit risk.

b. Investments

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

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

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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3. Detailed Notes

A. Assets

1. Deposits and Investments

b. Investments (Continued)

- (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.

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.

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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3. Detailed Notes

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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.

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.



**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

3. Detailed Notes

A. Assets

1. Deposits and Investments

b. Investments (Continued)

The following table presents the County's cash and pooled investment balances at December 31, 2020, 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	
Negotiable certificates of deposit					
JP Morgan Chase Bank	N/A	N/A	<5%	12/31/2021	\$ 200,310
State Bank of India	N/A	N/A	<5%	04/21/2021	100,356
Hammi Bank Los Angeles	N/A	N/A	<5%	01/18/2022	203,340
Eaglebank	N/A	N/A	<5%	01/17/2023	206,520
Texas Exchange Bank	N/A	N/A	<5%	12/18/2023	200,134
Baycoast Bank	N/A	N/A	<5%	01/31/2024	209,556
Total negotiable certificates of deposit					\$ 1,120,216
Investment pools/mutual funds					
MAGiC Fund	N/R	N/A	95.09%	N/A	21,733,047
Total investments					\$ 22,853,263
Deposits – primary government					1,611,098
Deposits – component unit					875,211
Petty cash and change funds					3,100
Escheat cash					36,538
Total Cash and Investments					\$ 25,379,210

N/A – Not Applicable

N/R – Not Rated

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

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:

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

3. Detailed Notes

A. Assets

1. Deposits and Investments

Fair Value Measurement (Continued)

- *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, 2020, Lake County had the following recurring fair value measurements.

		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)
	December 31, 2020			
Investments by fair value level				
Debt securities				
Negotiable certificates of deposit	\$ 1,120,216	\$ -	\$ 1,120,216	\$ -
Investments measured at the net asset value				
MAGIC Portfolio	21,733,047			
Total Investments	\$ 22,853,263			

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

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

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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3. Detailed Notes

A. Assets

1. Deposits and Investments

Fair Value Measurement (Continued)

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

2. Receivables

Receivables as of December 31, 2020, for the County's governmental activities are as follows:

	<u>Total Receivables</u>	<u>Amounts Not Scheduled for Collection During the Subsequent Year</u>
Governmental Activities		
Taxes	\$ 272,712	\$ -
Due from other governments	13,988,139	-
Accounts	1,106,889	-
Interest	3,392	-
Loans receivable	<u>50,000</u>	<u>50,000</u>
Total Governmental Activities	<u>\$ 15,421,132</u>	<u>\$ 50,000</u>

Loans Receivable

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

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

3. Detailed Notes

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2020, 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	\$ 24,772,852	\$ 279,723	\$ -	\$ 25,052,575
Improvements other than buildings	961,409	22,140	-	983,549
Machinery, furniture, and equipment	12,519,369	509,883	304,238	12,725,014
Infrastructure	111,137,257	3,482,087	-	114,619,344
Total capital assets depreciated	\$ 149,390,887	\$ 4,293,833	\$ 304,238	\$ 153,380,482
Less: accumulated depreciation for				
Buildings	\$ 8,867,259	\$ 518,844	\$ -	\$ 9,386,103
Improvements other than buildings	660,774	35,932	-	696,706
Machinery, furniture, and equipment	10,510,953	546,942	304,238	10,753,657
Infrastructure	38,079,737	2,197,176	-	40,276,913
Total accumulated depreciation	\$ 58,118,723	\$ 3,298,894	\$ 304,238	\$ 61,113,379
Total capital assets depreciated, net	\$ 91,272,164	\$ 994,939	\$ -	\$ 92,267,103
Governmental Activities Capital Assets, Net	\$ 95,240,547	\$ 994,939	\$ -	\$ 96,235,486

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

Governmental Activities	
General government	\$ 302,504
Public safety	206,287
Highways and streets, including depreciation of infrastructure assets	2,637,643
Human services	4,139
Sanitation	10,674
Culture and recreation	108,523
Conservation of natural resources	29,124
Total Depreciation Expense – Governmental Activities	\$ 3,298,894

**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, 2020, is as follows:

Receivable Fund	Payable Fund	Amount	Purpose
General	Human Services Special Revenue	\$ 22,849	Reimbursement for services
	Forfeited Tax Special Revenue	162,330	Reimbursement for deficit cash
	Resource Development Special Revenue	428,734	Reimbursement for deficit cash
Total due to General Fund		\$ 613,913	
Road and Bridge Special Revenue	Forfeited Tax Special Revenue	820	Reimbursement for services
Total Due To/From Other Funds		\$ 614,733	

2. Interfund Transfers

Interfund transfers for the year ended December 31, 2020, consisted of the following:

Transfer to General Fund from Health and Human Services Fund	\$ 4,100,000	To transfer fund balance
Transfer to General Fund from Forfeited Tax Special Revenue Fund	73,723	Tax forfeit apportionment
Total transfers to General Fund	\$ 4,173,723	
Transfer to Resource Development Fund from Forfeited Tax Special Revenue Fund	184,307	Tax forfeit apportionment
Transfer to Unorganized Townships Fund from Forfeited Tax Special Revenue Fund	11,622	Tax forfeit apportionment
Total Transfers	\$ 4,369,652	

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

3. Detailed Notes (Continued)

C. Liabilities

1. Long-Term Debt

Governmental Activities

Types of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2020
General obligation bonds					
G.O. Capital Improvement Refunding Bonds, Series 2014A	2030	\$60,000 - \$355,000	2.00 - 3.25	\$ 2,410,000	\$ 685,000
G.O. Judgment Bonds, Series 2018A	2033	\$390,000 - \$590,000	3.00 - 3.25	7,235,000	6,445,000
G.O. Capital Improvement Bonds, Series 2018B	2033	\$115,000 - \$235,000	3.00 - 3.50	2,765,000	2,500,000
G.O. Capital Improvement Bonds, Series 2019A	2034	\$70,000 - \$115,000	3.00 - 4.00	1,400,000	1,330,000
Total				<u>\$ 13,810,000</u>	<u>\$ 10,960,000</u>
Plus: unamortized premium					<u>185,423</u>
Total General Obligation Bonds					<u>\$ 11,145,423</u>
Other long-term debt					
Capital lease – Land	2021	\$146,667	3.25 - 5.375	\$ 2,200,000	<u>\$ 146,663</u>

2. Debt Service Requirements

Debt service requirements at December 31, 2020, were as follows:

Governmental Activities

Year Ending December 31	General Obligation Bonds		Other Long-Term Debt	
	Principal	Interest	Principal	Interest
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	795,000	253,919	-	-
2026 - 2030	4,385,000	873,106	-	-
2031 - 2034	2,840,000	193,944	-	-
Total	<u>\$ 10,960,000</u>	<u>\$ 2,580,695</u>	<u>\$ 146,663</u>	<u>\$ 3,117</u>

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

3. Detailed Notes

C. Liabilities (Continued)

3. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2020, was as follows:

Governmental Activities

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Bonds payable					
General obligation improvement refunding bonds	\$ 745,000	\$ -	\$ 60,000	\$ 685,000	\$ 60,000
General obligation judgment bonds	6,845,000	-	400,000	6,445,000	410,000
General obligation capital improvement bonds	4,050,000	-	220,000	3,830,000	230,000
Bond premium	200,039	-	14,616	185,423	-
Capital leases payable	307,633	-	160,970	146,663	146,663
Compensated absences	1,518,055	671,510	577,320	1,612,245	-
Governmental Activities Long-Term Liabilities	<u>\$ 13,665,727</u>	<u>\$ 671,510</u>	<u>\$ 1,432,906</u>	<u>\$ 12,904,331</u>	<u>\$ 846,663</u>

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, 2020, there were no retirees using their sick leave balances for insurance premiums.

**LAKE COUNTY  
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3. Detailed Notes

D. Other Postemployment Benefits (OPEB)

1. Plan Description and Funding Policy (Continued)

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, 2020, eight retirees were receiving health benefits from the County's health plan, of which, two employees are under the age of 65 years old. The authority to provide these benefits is established in Minn. Stat. § 471.61, subd. 2a.

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 \$512,820 was measured as of January 1, 2020, and was determined by an actuarial valuation as of January 1, 2020. 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, 2020, actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

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



**LAKE COUNTY  
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3. Detailed Notes

D. Other Postemployment Benefits (OPEB)

2. Total OPEB Liability (Continued)

The current year discount rate is 2.90 percent, which is a change from the prior year rate of 3.80 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.

3. Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at December 31, 2019	\$ 452,529
Changes for the year	
Service cost	\$ 37,029
Interest	18,175
Assumption changes	27,853
Benefit payments	(22,766)
Net change	\$ 60,291
Balance at December 31, 2020	\$ 512,820

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:

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

3. Detailed Notes

D. Other Postemployment Benefits (OPEB)

4. OPEB Liability Sensitivity (Continued)

	<u>Discount Rate</u>	<u>Total OPEB Liability</u>
1% Decrease	1.90%	\$ 551,712
Current	2.90	512,820
1% Increase	3.90	476,387

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:

	<u>Health Care Trend Rate</u>	<u>Total OPEB Liability</u>
1% Decrease	5.25% Decreasing to 4.00%	\$ 456,654
Current	6.25% Decreasing to 5.00%	512,820
1% Increase	7.25% Decreasing to 6.00%	579,054

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

For the year ended December 31, 2020, the County recognized OPEB expense of \$22,935. 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	\$ -	\$ 62,860
Changes in actuarial assumptions	23,874	10,863
Contributions paid subsequent to the measurement date	21,503	-
Total	<u>\$ 45,377</u>	<u>\$ 73,723</u>

**LAKE COUNTY  
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3. Detailed Notes

D. Other Postemployment Benefits (OPEB)

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

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>
2021	\$ (10,766)
2022	(10,766)
2023	(10,766)
2024	(10,766)
2025	(10,764)
Thereafter	3,979

6. Changes in Actuarial Methods and Assumptions

The following changes in actuarial assumptions occurred in 2020:

- The discount rate was changed from 3.80 percent to 2.90 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**

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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**

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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.

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.

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.

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 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.

**LAKE COUNTY  
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3. Detailed Notes

E. Pension Plans

1. Defined Benefit Pension Plans

b. Benefits Provided (Continued)

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.

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.

**LAKE COUNTY  
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3. Detailed Notes

E. Pension Plans

1. Defined Benefit Pension Plans (Continued)

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 2020. Police and Fire Plan members were required to contribute 11.80 percent of their annual covered salary in 2020. Correctional Plan members were required to contribute 5.83 percent of their annual covered salary in 2020.

In 2020, 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	17.70
Correctional Plan	8.75

The Police and Fire Plan member and employer contribution rates increased 0.50 percent and 0.75 percent, respectively, from 2019.

The County's contributions for the year ended December 31, 2020, to the pension plans were:

General Employees Plan	\$	454,329
Police and Fire Plan		227,592
Correctional Plan		56,958

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

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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3. Detailed Notes

E. Pension Plans

1. Defined Benefit Pension Plans (Continued)

d. Pension Costs

General Employees Plan

At December 31, 2020, the County reported a liability of \$4,904,284 for its proportionate share of the General Employees Plan's net pension liability. The net pension liability was measured as of June 30, 2020, 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, 2019, through June 30, 2020, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2020, the County's proportion was 0.0818 percent. It was 0.0802 percent measured as of June 30, 2019. The County recognized pension expense of \$104,165 for its proportionate share of the General Employees Plan's pension expense.

The County also recognized \$13,158 as revenue, which results in a reduction of the net pension liability, for its proportionate share of the State of Minnesota's expense related to its 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 until September 15, 2031.

The County's proportionate share of the net pension liability	\$ 4,904,284
State of Minnesota's proportionate share of the net pension liability associated with the County	<u>151,190</u>
Total	<u>\$ 5,055,474</u>

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:



**LAKE COUNTY  
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3. Detailed Notes

E. Pension Plans

1. Defined Benefit Pension Plans

d. Pension Costs

General Employees Plan (Continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 43,907	\$ 18,556
Changes in actuarial assumptions	-	181,776
Difference between projected and actual investment earnings	71,572	-
Changes in proportion	66,345	116,730
Contributions paid to PERA subsequent to the measurement date	234,690	-
Total	<u>\$ 416,514</u>	<u>\$ 317,062</u>

The \$234,690 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, 2021. 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
2021	\$ (343,164)
2022	(25,778)
2023	115,215
2024	118,489

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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3. Detailed Notes

E. Pension Plans

1. Defined Benefit Pension Plans

d. Pension Costs (Continued)

Police and Fire Plan

At December 31, 2020, the County reported a liability of \$1,451,236 for its proportionate share of the Police and Fire Plan's net pension liability. The net pension liability was measured as of June 30, 2020, 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, 2019, through June 30, 2020, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2020, the County's proportion was 0.1101 percent. It was 0.1187 percent measured as of June 30, 2019. The County recognized pension expense of \$113,942 for its proportionate share of the Police and Fire Plan's pension expense.

The State of Minnesota also contributed \$13.5 million to the Police and Fire Plan in the plan fiscal year ended June 30, 2020. The contribution consisted of \$4.5 million in direct state aid that meets the definition of a special funding situation and \$9 million in supplemental state aid that does not meet the definition of a special funding situation.

Legislation required the State of Minnesota to pay direct state aid of \$4.5 million on October 1, 2019, and to pay \$9 million by October 1 of each subsequent year until full funding is reached, or July 1, 2048, whichever is earlier. The County recognized an additional \$10,519 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's pension expense related to the special funding situation.

The County's proportionate share of the net pension liability	\$ 1,451,236
State of Minnesota's proportionate share of the net pension liability associated with the County	<u>34,190</u>
Total	<u>\$ 1,485,426</u>

**LAKE COUNTY  
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3. Detailed Notes

E. Pension Plans

1. Defined Benefit Pension Plans

d. Pension Costs

Police and Fire Plan (Continued)

Legislation also 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. The County also recognized \$9,909 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.

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:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 66,432	\$ 77,619
Changes in actuarial assumptions	547,739	960,352
Difference between projected and actual investment earnings	32,369	-
Changes in proportion	20,608	193,279
Contributions paid to PERA subsequent to the measurement date	<u>120,814</u>	<u>-</u>
Total	<u>\$ 787,962</u>	<u>\$ 1,231,250</u>

The \$120,814 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, 2021. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

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3. Detailed Notes

E. Pension Plans

1. Defined Benefit Pension Plans

d. Pension Costs

Police and Fire Plan (Continued)

<u>Year Ended December 31</u>	<u>Pension Expense Amount</u>
2021	\$ (161,460)
2022	(491,120)
2023	50,067
2024	52,668
2025	(14,257)

Correctional Plan

At December 31, 2020, the County reported a liability of \$75,758 for its proportionate share of the Correctional Plan's net pension liability. The net pension liability was measured as of June 30, 2020, 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, 2019, through June 30, 2020, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2020, the County's proportion was 0.2792 percent. It was 0.2791 percent measured as of June 30, 2019. The County recognized pension expense of (\$149,179) 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:

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3. Detailed Notes

E. Pension Plans

1. Defined Benefit Pension Plans

d. Pension Costs

Correctional Plan (Continued)

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 738	\$ 27,877
Changes in actuarial assumptions	-	159,128
Difference between projected and actual investment earnings	13,600	-
Changes in proportion	7,206	904
Contributions paid to PERA subsequent to the measurement date	<u>29,916</u>	<u>-</u>
Total	<u>\$ 51,460</u>	<u>\$ 187,909</u>

The \$29,916 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, 2021. 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>
2021	\$ (175,226)
2022	(9,037)
2023	4,231
2024	13,667

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3. Detailed Notes

E. Pension Plans

1. Defined Benefit Pension Plans

d. Pension Costs (Continued)

Total Pension Expense

The total pension expense for all plans recognized by the County for the year ended December 31, 2020, was \$68,928.

e. Actuarial Assumptions

The total pension liability in the June 30, 2020, actuarial valuation was determined using the individual entry-age normal actuarial cost method and the following additional actuarial assumptions:

	General Employees Fund	Police and Fire Fund	Correctional Fund
Inflation	2.25% per year	2.50% per year	2.50% per year
Active Member Payroll Growth	3.00% per year	3.25% per year	3.25% per year
Investment Rate of Return	7.50%	7.50%	7.50%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on the Pub-2010 General Employee Mortality Table for the General Employees Plan and the RP-2014 mortality tables for the Police and Fire and the Correctional Plans, 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, 2020, valuation were based on the results of actuarial experience studies. The experience study for the General Employees Plan was dated June 27, 2019. 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.

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3. Detailed Notes

E. Pension Plans

1. Defined Benefit Pension Plans

e. Actuarial Assumptions (Continued)

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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. equities	35.50%	5.10%
Broad international stock pool	17.50	5.30
Bond pool	20.00	0.75
Alternatives	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 2020, which remained consistent with 2019. 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.

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3. Detailed Notes

E. Pension Plans

1. Defined Benefit Pension Plans (Continued)

g. Changes in Actuarial Assumptions and Plan Provisions

The following changes in actuarial assumptions occurred in 2020:

General Employees Plan

- The price inflation assumption was decreased from 2.50 percent to 2.25 percent.
- The payroll growth assumption was decreased from 3.25 percent to 3.00 percent.
- Assumed salary increase rates were changed as recommended in the June 30, 2019, experience study. The net effect is assumed rates that average 0.25 percent less than previous rates.
- Assumed rates of retirement were changed as recommended in the June 30, 2019, experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements.
- Assumed rates of termination were changed as recommended in the June 30, 2019, experience study. The new rates are based on service and are generally lower than the previous rates for years two to five and slightly higher thereafter.
- Assumed rates of disability were changed as recommended in the June 30, 2019, experience study. The changes result in fewer predicted disability retirements for males and females.
- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 General Employee Mortality table, with adjustments. The base mortality table for disabled annuitants was changed from the RP-2014 Disabled Annuitant Mortality table to the Pub-2010 General/Teacher Disabled Retiree Mortality table, with adjustments.



**LAKE COUNTY  
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3. Detailed Notes

E. Pension Plans

1. Defined Benefit Pension Plans

g. Changes in Actuarial Assumptions and Plan Provisions

General Employees Plan (Continued)

- The mortality improvement scale was changed from Scale MP-2018 to Scale MP-2019.
- The assumed spouse age difference was changed from two years older for females to one year older.
- The assumed number of married male new retirees electing the 100 percent Joint and Survivor option changed from 35 percent to 45 percent. The assumed number of married female new retirees electing the 100 percent Joint and Survivor option changed from 15 percent to 30 percent. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.
- Augmentation for current privatized members was reduced to 2.00 percent for the period July 1, 2020, through December 31, 2023, and 0.00 percent thereafter. Augmentation was eliminated for privatizations occurring after June 30, 2020.

Police and Fire Plan

- The mortality projection scale was changed from MP-2018 to MP-2019.

Correctional Plan

- The mortality projection scale was changed from MP-2018 to MP-2019.

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

3. Detailed Notes

E. Pension Plans

1. Defined Benefit Pension Plans (Continued)

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:

	<u>General Employees Plan</u>		<u>Proportionate Share of the Police and Fire Plan</u>		<u>Correctional Plan</u>	
	<u>Discount Rate</u>	<u>Net Pension Liability</u>	<u>Discount Rate</u>	<u>Net Pension Liability</u>	<u>Discount Rate</u>	<u>Net Pension Liability</u>
1% Decrease	6.50%	\$ 7,859,866	6.50%	\$ 2,892,522	6.50%	\$ 470,829
Current	7.50	4,904,284	7.50	1,451,236	7.50	75,758
1% Increase	8.50	2,466,166	8.50	258,824	8.50	(240,556)

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](http://www.mnpera.org); by writing to PERA at 60 Empire Drive, Suite 200, St. Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

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.

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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3. Detailed Notes

E. Pension Plans

2. Defined Contribution Plan (Continued)

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. For those qualified personnel who elect to participate, Minn. Stat. § 353D.03 specifies plan provisions, including the employee and employer contribution rates. An eligible elected official who decides to participate contributes 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, 2020, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 10,541	\$ 10,541
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 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.

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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3. Detailed Notes

F. Postemployment Health Care Plans

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

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.

In 2020, 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.

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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3. Detailed Notes

F. Postemployment Health Care Plans

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

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.

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 2020 and 2021. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

A. Risk Management (Continued)

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

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. Amounts of claims incurred at the balance sheet date which have not been accrued in the financial statements is immaterial.

	Year Ended December 31	
	2020	2019
Unpaid claims, beginning of fiscal year	\$ -	\$ -
Incurred claims (including incurred but not reported)	98,385	113,449
Claims payments	(98,385)	(113,449)
Unpaid Claims, End of Fiscal Year	\$ -	\$ -

B. Contingent Liabilities

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

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

B. Contingent Liabilities (Continued)

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 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. 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 \$761,450 in funding during 2020.

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

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

D. Joint Ventures (Continued)

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

Carlton, Cook, Lake, and St. Louis Counties entered into a joint powers agreement creating and operating the Carlton, Cook, Lake, and St. Louis 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 2020.

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.

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.



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4. Summary of Significant Contingencies and Other Items

D. Joint Ventures (Continued)

Minnesota Counties Information Systems (MCIS)

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

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

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

Northern Counties Land Use Coordinating Board

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

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

Lake County provided no funding to this organization during 2020.

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

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

D. Joint Ventures (Continued)

North Shore Collaborative

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

Control of the North Shore Collaborative is vested in a Board of Directors. Financing is provided by state and federal grants, appropriations from Collaborative members, and miscellaneous revenues. Lake County is the fiscal agent for the Collaborative and handles all of the financial transactions for the organization. Financial information for the Collaborative for the fiscal year ended December 31, 2020, is as follows:

Total Assets	\$ 227,210
Total Liabilities	227,210

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 2020.

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

D. Joint Ventures (Continued)

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 the 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, 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 2020.

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.

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4. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Lake Superior Drug and Violent Crime Task Force (Continued)

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 2020.

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 2020.

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 2020.

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

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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5. Special Item

On December 9, 2020, the Lake County Board of Commissioners approved the write-off of \$1,750,000 in loans receivable due from the Lake County Ambulance Service.

6. Subsequent Event

On March 11, 2020, the World Health Organization declared the outbreak of a coronavirus (COVID-19) to be a pandemic. Although things are beginning to return to normal in 2021, there is still some uncertainty regarding when certain industries will return to pre-pandemic levels. The County factored these potential decreases in sales tax revenue into its 2021 budget.

The County was allocated approximately \$1.35 million in Coronavirus State and Local Fiscal Recovery Funds as part of the American Rescue Plan. These funds are directed at helping governments address economic fallouts associated with the pandemic and lay a foundation for recovery.

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.

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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7. Component Unit Disclosures

A. Summary of Significant Accounting Policies

Basis of Presentation (Continued)

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

Measurement Focus and Basis of Accounting

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

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

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.

**LAKE COUNTY  
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7. Component Unit Disclosures

A. Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

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

Receivables and Payables

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

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

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.

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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7. Component Unit Disclosures

A. Summary of Significant Accounting Policies (Continued)

Capital Assets

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

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

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

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

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.



**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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7. Component Unit Disclosures (Continued)

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	\$ 718,887
Cash with management company for operations	137,895
Restricted cash with management company for security deposits	<u>18,429</u>
Total Cash	<u>\$ 875,211</u>

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

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

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, 2020, 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, 2020, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets depreciated				
Buildings and structures	\$ 1,951,232	\$ -	\$ -	\$ 1,951,232
Equipment	53,371	-	-	53,371
Total capital assets depreciated	\$ 2,004,603	\$ -	\$ -	\$ 2,004,603
Less: accumulated depreciation for				
Buildings and structures	\$ 1,068,473	\$ 47,086	\$ -	\$ 1,115,559
Equipment	34,354	5,741	-	40,095
Total accumulated depreciation	\$ 1,102,827	\$ 52,827	\$ -	\$ 1,155,654
Capital Assets, Net	\$ 901,776	\$ (52,827)	\$ -	\$ 848,949

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, 2020
2012 General Obligation Senior Housing Bonds	2027	Varies	1.0 - 3.5	\$ 860,000	\$ 405,000

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

7. Component Unit Disclosures

B. Detailed Notes

2. Liabilities (Continued)

Debt Service Requirements

Debt service requirements at December 31, 2020, were as follows:

Business-Type Activities

Year Ending December 31	Revenue Bonds	
	Principal	Interest
2021	\$ 60,000	\$ 13,050
2022	60,000	11,613
2023	60,000	10,038
2024	60,000	8,388
2025	65,000	6,588
2026 - 2027	100,000	7,531
Totals	<u>\$ 405,000</u>	<u>\$ 57,208</u>

Changes in Long-Term Liabilities

Business-Type Activities

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Bonds payable					
2012 General Obligation					
Senior Housing Bonds	\$ 460,000	\$ -	\$ 55,000	\$ 405,000	\$ 60,000
Less: unamortized discount	(5,616)	-	(804)	(4,812)	-
Total Bonds Payable	<u>\$ 454,384</u>	<u>\$ -</u>	<u>\$ 54,196</u>	<u>\$ 400,188</u>	<u>\$ 60,000</u>

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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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.

## **REQUIRED SUPPLEMENTARY INFORMATION**

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

**EXHIBIT A-1**

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2020**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>Amounts</b>	<b>Final Budget</b>
<b>Revenues</b>				
Taxes	\$ 7,868,432	\$ 7,868,432	\$ 7,346,724	\$ (521,708)
Licenses and permits	17,150	17,150	24,610	7,460
Intergovernmental	3,397,698	3,397,698	8,100,980	4,703,282
Charges for services	491,799	491,799	578,888	87,089
Fines and forfeits	8,000	8,000	12,482	4,482
Investment earnings	100,764	100,764	144,235	43,471
Miscellaneous	184,647	184,647	213,413	28,766
<b>Total Revenues</b>	<b>\$ 12,068,490</b>	<b>\$ 12,068,490</b>	<b>\$ 16,421,332</b>	<b>\$ 4,352,842</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>General government</b>				
Commissioners	\$ 313,500	\$ 313,500	\$ 323,976	\$ (10,476)
Courts	50,500	50,500	38,300	12,200
Law library	8,000	8,000	3,943	4,057
County administration	302,779	302,779	311,566	(8,787)
County auditor	667,703	667,703	602,680	65,023
County assessor	557,358	557,358	493,219	64,139
Elections	58,336	58,336	51,136	7,200
Accounting and auditing	90,125	90,125	77,698	12,427
Data processing	666,371	666,371	743,484	(77,113)
Personnel	235,150	235,150	217,114	18,036
Attorney	417,336	417,336	405,652	11,684
Recorder	245,837	245,837	246,712	(875)
Planning and zoning	478,988	478,988	518,217	(39,229)
Buildings and plant	736,055	736,055	906,977	(170,922)
Veterans service officer	98,162	98,162	133,131	(34,969)
Motor pool	57,232	57,232	45,344	11,888
Other general government	-	-	75,787	(75,787)
<b>Total general government</b>	<b>\$ 4,983,432</b>	<b>\$ 4,983,432</b>	<b>\$ 5,194,936</b>	<b>\$ (211,504)</b>
<b>Public safety</b>				
Sheriff	\$ 2,530,687	\$ 2,530,687	\$ 2,356,645	\$ 174,042
Ambulance	541,814	541,814	510,445	31,369
Emergency services	228,422	228,422	261,108	(32,686)
Coroner	37,500	37,500	48,795	(11,295)
County jail	1,094,150	1,094,150	994,478	99,672
Community corrections	763,750	763,750	760,765	2,985
Sentence to serve	95,364	95,364	75,266	20,098
Emergency management	109,745	109,745	1,017,054	(907,309)
Other public safety	123,145	123,145	260,099	(136,954)
<b>Total public safety</b>	<b>\$ 5,524,577</b>	<b>\$ 5,524,577</b>	<b>\$ 6,284,655</b>	<b>\$ (760,078)</b>

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

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**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

**EXHIBIT A-1  
(Continued)**

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2020**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>Amounts</b>	<b>Final Budget</b>
<b>Expenditures</b>				
<b>Current (Continued)</b>				
<b>Sanitation</b>				
Solid waste	\$ 156,956	\$ 156,956	\$ 210,760	\$ (53,804)
Recycling	197,115	197,115	204,285	(7,170)
Hazardous waste	13,700	13,700	13,946	(246)
<b>Total sanitation</b>	<b>\$ 367,771</b>	<b>\$ 367,771</b>	<b>\$ 428,991</b>	<b>\$ (61,220)</b>
<b>Culture and recreation</b>				
Historical society	\$ 35,000	\$ 35,000	\$ 35,000	\$ -
Arenas	170,086	170,086	137,638	32,448
Humane Society	3,500	3,500	3,500	-
Memorial Day observance	3,000	3,000	-	3,000
Recreation board	147,660	147,660	147,550	110
Trails	-	-	271,562	(271,562)
County/regional library	170,000	170,000	170,000	-
<b>Total culture and recreation</b>	<b>\$ 529,246</b>	<b>\$ 529,246</b>	<b>\$ 765,250</b>	<b>\$ (236,004)</b>
<b>Conservation of natural resources</b>				
County extension	\$ 70,402	\$ 70,402	\$ 63,017	\$ 7,385
Soil and water conservation	66,374	66,374	65,217	1,157
Agricultural society/County fair	21,685	21,685	24,164	(2,479)
Water planning	4,571	4,571	4,571	-
CWP project	14,488	14,488	14,736	(248)
Wetland challenge	5,000	5,000	5,000	-
<b>Total conservation of natural resources</b>	<b>\$ 182,520</b>	<b>\$ 182,520</b>	<b>\$ 176,705</b>	<b>\$ 5,815</b>
<b>Economic development</b>				
Information centers	\$ 13,000	\$ 13,000	\$ 13,000	\$ -
Airports	7,500	7,500	7,500	-
Housing and Redevelopment Authority	-	-	57,314	(57,314)
Other economic development	-	-	5,000	(5,000)
<b>Total economic development</b>	<b>\$ 20,500</b>	<b>\$ 20,500</b>	<b>\$ 82,814</b>	<b>\$ (62,314)</b>
<b>Total Expenditures</b>	<b>\$ 11,608,046</b>	<b>\$ 11,608,046</b>	<b>\$ 12,933,351</b>	<b>\$ (1,325,305)</b>
<b>Excess of Revenues Over (Under)</b>				
<b>Expenditures</b>	<b>\$ 460,444</b>	<b>\$ 460,444</b>	<b>\$ 3,487,981</b>	<b>\$ 3,027,537</b>

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2020**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>Amounts</b>	<b>Final Budget</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	\$ -	\$ -	\$ 4,173,723	\$ 4,173,723
Transfers out	(25,000)	(25,000)	-	25,000
<b>Total Other Financing Sources (Uses)</b>	<b>\$ (25,000)</b>	<b>\$ (25,000)</b>	<b>\$ 4,173,723</b>	<b>\$ 4,198,723</b>
<b>Net Change in Fund Balance</b>	<b>\$ 435,444</b>	<b>\$ 435,444</b>	<b>\$ 7,661,704</b>	<b>\$ 7,226,260</b>
<b>Fund Balance – January 1</b>	<b>5,274,628</b>	<b>5,274,628</b>	<b>5,274,628</b>	<b>-</b>
<b>Fund Balance – December 31</b>	<b>\$ 5,710,072</b>	<b>\$ 5,710,072</b>	<b>\$ 12,936,332</b>	<b>\$ 7,226,260</b>



**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

**EXHIBIT A-2**

**BUDGETARY COMPARISON SCHEDULE  
ROAD AND BRIDGE SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2020**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>Amounts</b>	<b>Final Budget</b>
<b>Revenues</b>				
Taxes	\$ 2,441,017	\$ 2,441,017	\$ 2,634,137	\$ 193,120
Licenses and permits	-	-	1,635	1,635
Intergovernmental	6,091,754	6,091,754	9,319,529	3,227,775
Charges for services	152,718	152,718	77,527	(75,191)
Miscellaneous	19,000	19,000	12,742	(6,258)
<b>Total Revenues</b>	<b>\$ 8,704,489</b>	<b>\$ 8,704,489</b>	<b>\$ 12,045,570</b>	<b>\$ 3,341,081</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Highways and streets</b>				
Administration	\$ 411,079	\$ 411,079	\$ 156,592	\$ 254,487
Maintenance	2,718,472	2,718,472	1,757,396	961,076
Construction	5,069,038	5,069,038	9,235,682	(4,166,644)
Equipment maintenance and shop	762,396	762,396	728,336	34,060
<b>Total highways and streets</b>	<b>\$ 8,960,985</b>	<b>\$ 8,960,985</b>	<b>\$ 11,878,006</b>	<b>\$ (2,917,021)</b>
<b>Capital outlay</b>				
Highways and streets	\$ -	\$ -	\$ 562,025	\$ (562,025)
<b>Debt service</b>				
Principal	\$ 14,500	\$ 14,500	\$ 16,057	\$ (1,557)
Interest	-	-	154	(154)
<b>Total debt service</b>	<b>\$ 14,500</b>	<b>\$ 14,500</b>	<b>\$ 16,211</b>	<b>\$ (1,711)</b>
<b>Total Expenditures</b>	<b>\$ 8,975,485</b>	<b>\$ 8,975,485</b>	<b>\$ 12,456,242</b>	<b>\$ (3,480,757)</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (270,996)</b>	<b>\$ (270,996)</b>	<b>\$ (410,672)</b>	<b>\$ (139,676)</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	5,000	5,000	-	(5,000)
<b>Net Change in Fund Balance</b>	<b>\$ (265,996)</b>	<b>\$ (265,996)</b>	<b>\$ (410,672)</b>	<b>\$ (144,676)</b>
<b>Fund Balance – January 1</b>	<b>6,437,876</b>	<b>6,437,876</b>	<b>6,437,876</b>	<b>-</b>
<b>Increase (decrease) in inventories</b>	<b>-</b>	<b>-</b>	<b>269,194</b>	<b>269,194</b>
<b>Fund Balance – December 31</b>	<b>\$ 6,171,880</b>	<b>\$ 6,171,880</b>	<b>\$ 6,296,398</b>	<b>\$ 124,518</b>

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

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**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

**EXHIBIT A-3**

**BUDGETARY COMPARISON SCHEDULE  
HUMAN SERVICES SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2020**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>Amounts</b>	<b>Final Budget</b>
<b>Revenues</b>				
Taxes	\$ 1,911,499	\$ 1,911,499	\$ 1,788,979	\$ (122,520)
Intergovernmental	4,950,722	4,950,722	5,015,373	64,651
Charges for services	266,312	266,312	382,610	116,298
Gifts and contributions	-	-	300	300
Miscellaneous	53,950	53,950	105,636	51,686
<b>Total Revenues</b>	<b>\$ 7,182,483</b>	<b>\$ 7,182,483</b>	<b>\$ 7,292,898</b>	<b>\$ 110,415</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Human services</b>				
Income maintenance	\$ 1,047,568	\$ 1,047,568	\$ 871,787	\$ 175,781
Social services	3,097,913	3,097,913	2,530,810	567,103
<b>Total human services</b>	<b>\$ 4,145,481</b>	<b>\$ 4,145,481</b>	<b>\$ 3,402,597</b>	<b>\$ 742,884</b>
<b>Health</b>				
Nursing service	\$ 100,875	\$ 100,875	\$ 235,944	\$ (135,069)
Transportation	105,043	105,043	63,227	41,816
Environmental health	134,089	134,089	114,998	19,091
Mental health	2,568,272	2,568,272	2,853,587	(285,315)
Health education	321,789	321,789	265,534	56,255
<b>Total health</b>	<b>\$ 3,230,068</b>	<b>\$ 3,230,068</b>	<b>\$ 3,533,290</b>	<b>\$ (303,222)</b>
<b>Total Expenditures</b>	<b>\$ 7,375,549</b>	<b>\$ 7,375,549</b>	<b>\$ 6,935,887</b>	<b>\$ 439,662</b>
<b>Excess of Revenues Over (Under)</b>				
<b>Expenditures</b>	<b>\$ (193,066)</b>	<b>\$ (193,066)</b>	<b>\$ 357,011</b>	<b>\$ 550,077</b>
<b>Other Financing Sources (Uses)</b>				
Transfers Out	-	-	(4,100,000)	(4,100,000)
<b>Change in Fund Balance</b>	<b>\$ (193,066)</b>	<b>\$ (193,066)</b>	<b>\$ (3,742,989)</b>	<b>\$ (3,549,923)</b>
<b>Fund Balance – January 1</b>	<b>9,325,780</b>	<b>9,325,780</b>	<b>9,325,780</b>	<b>-</b>
<b>Fund Balance – December 31</b>	<b>\$ 9,132,714</b>	<b>\$ 9,132,714</b>	<b>\$ 5,582,791</b>	<b>\$ (3,549,923)</b>

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

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**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

**EXHIBIT A-4**

**BUDGETARY COMPARISON SCHEDULE  
RESOURCE DEVELOPMENT SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2020**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>Amounts</b>	<b>Final Budget</b>
<b>Revenues</b>				
Intergovernmental	\$ 96,000	\$ 96,000	\$ 2,074,651	\$ 1,978,651
Gifts and contributions	-	-	12,292	12,292
<b>Total Revenues</b>	<b>\$ 96,000</b>	<b>\$ 96,000</b>	<b>\$ 2,086,943</b>	<b>\$ 1,990,943</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Culture and recreation</b>				
Trails	\$ -	\$ -	\$ 2,341,019	\$ (2,341,019)
<b>Conservation of natural resources</b>				
Other conservation	\$ -	\$ -	\$ 10,400	\$ (10,400)
<b>Debt service</b>				
Principal	\$ 146,667	\$ 146,667	\$ 146,667	\$ -
Interest	28,600	28,600	6,766	21,834
<b>Total debt service</b>	<b>\$ 175,267</b>	<b>\$ 175,267</b>	<b>\$ 153,433</b>	<b>\$ 21,834</b>
<b>Total Expenditures</b>	<b>\$ 175,267</b>	<b>\$ 175,267</b>	<b>\$ 2,504,852</b>	<b>\$ (2,329,585)</b>
<b>Excess of Revenues Over (Under)</b>				
<b>Expenditures</b>	<b>\$ (79,267)</b>	<b>\$ (79,267)</b>	<b>\$ (417,909)</b>	<b>\$ (338,642)</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	-	-	184,307	184,307
<b>Net Change in Fund Balance</b>	<b>\$ (79,267)</b>	<b>\$ (79,267)</b>	<b>\$ (233,602)</b>	<b>\$ (154,335)</b>
<b>Fund Balance – January 1</b>	<b>477,047</b>	<b>477,047</b>	<b>477,047</b>	<b>-</b>
<b>Fund Balance – December 31</b>	<b>\$ 397,780</b>	<b>\$ 397,780</b>	<b>\$ 243,445</b>	<b>\$ (154,335)</b>

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

**EXHIBIT A-5**

**SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS  
OTHER POSTEMPLOYMENT BENEFITS  
DECEMBER 31, 2020**

	<u>2020</u>	<u>2019</u>	<u>2018</u>
<b>Total OPEB Liability</b>			
Service cost	\$ 37,029	\$ 31,227	\$ 38,756
Interest	18,175	18,301	17,891
Differences between expected and actual experience	-	(88,004)	-
Changes of assumption or other inputs	27,853	(15,209)	-
Benefit payments	<u>(22,766)</u>	<u>(33,974)</u>	<u>(39,361)</u>
<b>Net change in total OPEB liability</b>	<b>\$ 60,291</b>	<b>\$ (87,659)</b>	<b>\$ 17,286</b>
<b>Total OPEB Liability – Beginning, as restated</b>	<b><u>452,529</u></b>	<b><u>540,188</u></b>	<b><u>522,902</u></b>
<b>Total OPEB Liability – Ending</b>	<b><u><u>\$ 512,820</u></u></b>	<b><u><u>\$ 452,529</u></u></b>	<b><u><u>\$ 540,188</u></u></b>
 Covered-employee payroll	 \$ 7,201,631	 \$ 6,991,875	 \$ 6,963,854
Total OPEB liability (asset) as a percentage of covered-employee payroll	7.12%	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, 2020**

<b>Measurement Date</b>	<b>Employer's Proportion of the Net Pension Liability (Asset)</b>	<b>Employer's Proportionate Share of the Net Pension Liability (Asset) (a)</b>	<b>State's Proportionate Share of the Net Pension Liability Associated with Lake County (b)</b>	<b>Employer's Proportionate Share of the Net Pension Liability and the State's Related Share of the Net Pension Liability (Asset) (a + b)</b>	<b>Covered Payroll (c)</b>	<b>Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/c)</b>	<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>
2020	0.0818 %	\$ 4,904,284	\$ 151,190	\$ 5,055,474	\$ 5,831,120	84.11 %	79.06 %
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, 2020**

<b>Year Ending</b>	<b>Statutorily Required Contributions (a)</b>	<b>Actual Contributions in Relation to Statutorily Required Contributions (b)</b>	<b>Contribution (Deficiency) Excess (b - a)</b>	<b>Covered Payroll (c)</b>	<b>Actual Contributions as a Percentage of Covered Payroll (b/c)</b>
2020	\$ 454,329	\$ 454,329	\$ -	\$ 6,057,720	7.50 %
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, 2020**

<b>Measurement Date</b>	<b>Employer's Proportion of the Net Pension Liability (Asset)</b>	<b>Employer's Proportionate Share of the Net Pension Liability (Asset) (a)</b>	<b>State's Proportionate Share of the Net Pension Liability Associated with Lake County (b)</b>	<b>Employer's Proportionate Share of the Net Pension Liability and the State's Related Share of the Net Pension Liability (Asset) (a + b)</b>	<b>Covered Payroll (c)</b>	<b>Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/c)</b>	<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>
2020	0.1101 %	\$ 1,451,236	\$ 34,190	\$ 1,485,426	\$ 1,242,965	119.51 %	87.19 %
2019	0.1187	1,263,681	N/A	1,263,681	1,251,628	100.96	89.26
2018	0.1158	1,234,309	N/A	1,234,309	1,220,179	101.16	88.84
2017	0.1170	1,579,639	N/A	1,579,639	1,199,741	131.67	85.43
2016	0.1240	4,976,336	N/A	4,976,336	1,195,000	416.43	63.88
2015	0.1320	1,499,829	N/A	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.

N/A – Not Applicable

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

**EXHIBIT A-9**

**SCHEDULE OF CONTRIBUTIONS  
PERA PUBLIC EMPLOYEES POLICE AND FIRE PLAN  
DECEMBER 31, 2020**

<b>Year Ending</b>	<b>Statutorily Required Contributions (a)</b>	<b>Actual Contributions in Relation to Statutorily Required Contributions (b)</b>	<b>Contribution (Deficiency) Excess (b - a)</b>	<b>Covered Payroll (c)</b>	<b>Actual Contributions as a Percentage of Covered Payroll (b/c)</b>
2020	\$ 227,592	\$ 227,592	\$ -	\$ 1,285,831	17.70 %
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, 2020**

<b>Measurement Date</b>	<b>Employer's Proportion of the Net Pension Liability (Asset)</b>	<b>Employer's Proportionate Share of the Net Pension Liability (Asset) (a)</b>	<b>Covered Payroll (b)</b>	<b>Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b)</b>	<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>
2020	0.2792 %	\$ 75,758	\$ 607,452	12.47 %	96.67 %
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  
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***EXHIBIT A-11***

**SCHEDULE OF CONTRIBUTIONS  
PERA PUBLIC EMPLOYEES LOCAL GOVERNMENT CORRECTIONAL SERVICE RETIREMENT PLAN  
DECEMBER 31, 2020**

<b>Year Ending</b>	<b>Statutorily Required Contributions (a)</b>	<b>Actual Contributions in Relation to Statutorily Required Contributions (b)</b>	<b>Contribution (Deficiency) Excess (b - a)</b>	<b>Covered Payroll (c)</b>	<b>Actual Contributions as a Percentage of Covered Payroll (b/c)</b>
2020	\$ 56,958	\$ 56,958	\$ -	\$ 650,949	8.75 %
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.

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED DECEMBER 31, 2020**

**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, 2020:

	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
Major governmental funds			
General Fund			
Current			
General government			
Commissioners	\$ 323,976	\$ 313,500	\$ 10,476
County administration	311,566	302,779	8,787
Data processing	743,484	666,371	77,113
Recorder	246,712	245,837	875
Planning and zoning	518,217	478,988	39,229
Buildings and plant	906,977	736,055	170,922
Veterans service officer	133,131	98,162	34,969
Other general government	75,787	-	75,787
Public safety			
Emergency services	261,108	228,422	32,686
Coroner	48,795	37,500	11,295
Emergency management	1,017,054	109,745	907,309
Other public safety	260,099	123,145	136,954

**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			
Solid waste	210,760	156,956	53,804
Recycling	204,285	197,115	7,170
Hazardous waste	13,946	13,700	246
Culture and recreation			
Trails	271,562	-	271,562
Conservation of natural resources			
Agricultural society/County fair	24,164	21,685	2,479
CWP project	14,736	14,488	248
Economic development			
Housing and Redevelopment Authority	57,314	-	57,314
Other economic development	5,000	-	5,000
Road and Bridge Special Revenue Fund			
Current			
Highways and streets			
Construction	9,235,682	5,069,038	4,166,644
Capital outlay			
Highways and streets	562,025	-	562,025
Debt service			
Principal	16,057	14,500	1,557
Interest	154	-	154
Human Services Special Revenue Fund			
Current			
Health			
Nursing service	235,944	100,875	135,069
Mental health	2,853,587	2,568,272	285,315
Resource Development Special Revenue Fund			
Current			
Culture and recreation			
Trails	2,341,019	-	2,341,019
Conservation of natural resources			
Other conservation	10,400	-	10,400

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.

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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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.

The following changes in actuarial methods and assumptions occurred in 2020:

- The discount rate was changed from 3.80 percent to 2.90 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, 2020:

General Employees Retirement Plan

2020

- The price inflation assumption was decreased from 2.50 percent to 2.25 percent.
- The payroll growth assumption was decreased from 3.25 percent to 3.00 percent.
- Assumed salary increase rates were changed as recommended in the June 30, 2019, experience study. The net effect is assumed rates that average 0.25 percent less than previous rates.
- Assumed rates of retirement were changed as recommended in the June 30, 2019, experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements.
- Assumed rates of termination were changed as recommended in the June 30, 2019, experience study. The new rates are based on service and are generally lower than the previous rates for years two to five and slightly higher thereafter.
- Assumed rates of disability were changed as recommended in the June 30, 2019, experience study. The change results in fewer predicted disability retirements for males and females.

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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

General Employees Retirement Plan

2020 (Continued)

- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 General Employee Mortality table, with adjustments. The base mortality table for disabled annuitants was changed from the RP-2014 Disabled Annuitant Mortality table to the Pub-2010 General/Teacher Disabled Retiree Mortality table, with adjustments.
- The mortality improvement scale was changed from Scale MP-2018 to Scale MP-2019.
- The assumed spouse age difference was changed from two years older for females to one year older.
- The assumed number of married male new retirees electing the 100 percent Joint and Survivor option changed from 35 percent to 45 percent. The assumed number of married female new retirees electing the 100 percent Joint and Survivor option changed from 15 percent to 30 percent. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.
- Augmentation for current privatized members was reduced to 2.00 percent for the period July 1, 2020, through December 31, 2023, and 0.00 percent thereafter. Augmentation was eliminated for privatizations occurring after June 30, 2020.

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.

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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

General Employees Retirement Plan

2018 (Continued)

- 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.
- 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.
- 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.

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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

General Employees Retirement Plan

2017 (Continued)

- 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.
- 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

2020

- The morality projection scale was changed from MP-2018 to MP-2019.

2019

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



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

Public Employees Police and Fire Plan (Continued)

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.
- 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**

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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 the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the mortality table assumed for healthy retirees.
- The assumed termination rates were decreased to 3.00 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**

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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 Service Retirement Plan

2020

- The morality projection scale was changed from MP-2018 to MP-2019.

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 factors 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.

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

Public Employees Local Government Correctional Service Retirement Plan

2018 (Continued)

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

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

Public Employees Local Government Correctional Service 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**

**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.

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

**EXHIBIT B-1**

**COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
DECEMBER 31, 2020**

	<b>Special Revenue</b>		<b>Debt</b>	
	<b>Unorganized Townships</b>	<b>Forfeited Tax</b>	<b>Service</b>	<b>Total</b>
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 347,435	\$ -	\$ 988,204	\$ 1,335,639
Petty cash and change funds	-	50	-	50
Taxes receivable				
Delinquent	1,093	-	25,203	26,296
Accounts receivable	-	1,082,055	-	1,082,055
<b>Total Assets</b>	<b>\$ 348,528</b>	<b>\$ 1,082,105</b>	<b>\$ 1,013,407</b>	<b>\$ 2,444,040</b>
<b><u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u></b>				
<b>Liabilities</b>				
Accounts payable	\$ -	\$ 3,305	\$ -	\$ 3,305
Salaries payable	-	7,332	-	7,332
Due to other funds	-	163,150	-	163,150
Due to other governments	97,543	3,278	-	100,821
<b>Total Liabilities</b>	<b>\$ 97,543</b>	<b>\$ 177,065</b>	<b>\$ -</b>	<b>\$ 274,608</b>
<b>Deferred Inflows of Resources</b>				
Unavailable revenue – taxes	\$ 262	\$ -	\$ 18,032	\$ 18,294
Unavailable revenue – long-term receivables	-	990,431	-	990,431
<b>Total Deferred Inflows of Resources</b>	<b>\$ 262</b>	<b>\$ 990,431</b>	<b>\$ 18,032</b>	<b>\$ 1,008,725</b>
<b>Fund Balances</b>				
Restricted for debt service	\$ -	\$ -	\$ 995,375	\$ 995,375
Committed to unorganized townships emergency services	250,723	-	-	250,723
Unassigned	-	(85,391)	-	(85,391)
<b>Total Fund Balances</b>	<b>\$ 250,723</b>	<b>\$ (85,391)</b>	<b>\$ 995,375</b>	<b>\$ 1,160,707</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<b>\$ 348,528</b>	<b>\$ 1,082,105</b>	<b>\$ 1,013,407</b>	<b>\$ 2,444,040</b>



**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

**EXHIBIT B-2**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2020**

	<b>Special Revenue</b>		<b>Debt</b>	
	<b>Unorganized Townships</b>	<b>Forfeited Tax</b>	<b>Service</b>	<b>Total</b>
<b>Revenues</b>				
Taxes	\$ 113,909	\$ -	\$ 968,079	\$ 1,081,988
Licenses and permits	105	941	-	1,046
Intergovernmental	36,074	66,215	135,438	237,727
Charges for services	-	700	-	700
Investment earnings	-	-	7,871	7,871
Miscellaneous	-	862,001	70,518	932,519
<b>Total Revenues</b>	<b>\$ 150,088</b>	<b>\$ 929,857</b>	<b>\$ 1,181,906</b>	<b>\$ 2,261,851</b>
<b>Expenditures</b>				
<b>Current</b>				
General government	\$ 11,239	\$ -	\$ -	\$ 11,239
Public safety	111,093	-	-	111,093
Conservation of natural resources	-	693,063	-	693,063
<b>Capital outlay</b>				
Conservation of natural resources	-	24,001	-	24,001
<b>Debt service</b>				
Principal	-	-	680,000	680,000
Interest	-	-	369,494	369,494
Administrative (fiscal) charges	-	-	2,375	2,375
<b>Total Expenditures</b>	<b>\$ 122,332</b>	<b>\$ 717,064</b>	<b>\$ 1,051,869</b>	<b>\$ 1,891,265</b>
<b>Excess of Revenues Over (Under)</b>				
<b>Expenditures</b>	<b>\$ 27,756</b>	<b>\$ 212,793</b>	<b>\$ 130,037</b>	<b>\$ 370,586</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	\$ 11,622	\$ -	\$ -	\$ 11,622
Transfers out	-	(269,652)	-	(269,652)
<b>Total Other Financing Sources (Uses)</b>	<b>\$ 11,622</b>	<b>\$ (269,652)</b>	<b>\$ -</b>	<b>\$ (258,030)</b>
<b>Net Change in Fund Balance</b>	<b>\$ 39,378</b>	<b>\$ (56,859)</b>	<b>\$ 130,037</b>	<b>\$ 112,556</b>
<b>Fund Balance – January 1</b>	<b>211,345</b>	<b>(28,532)</b>	<b>865,338</b>	<b>1,048,151</b>
<b>Fund Balance – December 31</b>	<b>\$ 250,723</b>	<b>\$ (85,391)</b>	<b>\$ 995,375</b>	<b>\$ 1,160,707</b>

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

**EXHIBIT B-3**

**BUDGETARY COMPARISON SCHEDULE  
UNORGANIZED TOWNSHIPS SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2020**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>Amounts</b>	<b>Final Budget</b>
<b>Revenues</b>				
Taxes	\$ 120,620	\$ 120,620	\$ 113,909	\$ (6,711)
Licenses and permits	100	100	105	5
Intergovernmental	15,000	15,000	36,074	21,074
<b>Total Revenues</b>	<b>\$ 135,720</b>	<b>\$ 135,720</b>	<b>\$ 150,088</b>	<b>\$ 14,368</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>General government</b>				
Elections	\$ -	\$ -	\$ 11,239	\$ (11,239)
<b>Public safety</b>				
Emergency services	116,250	116,250	111,093	5,157
<b>Total Expenditures</b>	<b>\$ 116,250</b>	<b>\$ 116,250</b>	<b>\$ 122,332</b>	<b>\$ (6,082)</b>
<b>Excess of Revenues Over (Under)</b>				
<b>Expenditures</b>	<b>\$ 19,470</b>	<b>\$ 19,470</b>	<b>\$ 27,756</b>	<b>\$ 8,286</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	-	-	11,622	11,622
<b>Net Change in Fund Balance</b>	<b>\$ 19,470</b>	<b>\$ 19,470</b>	<b>\$ 39,378</b>	<b>\$ 19,908</b>
<b>Fund Balance – January 1</b>	<b>211,345</b>	<b>211,345</b>	<b>211,345</b>	<b>-</b>
<b>Fund Balance – December 31</b>	<b>\$ 230,815</b>	<b>\$ 230,815</b>	<b>\$ 250,723</b>	<b>\$ 19,908</b>

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

**EXHIBIT B-4**

**BUDGETARY COMPARISON SCHEDULE  
FORFEITED TAX SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2020**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>Amounts</b>	<b>Final Budget</b>
<b>Revenues</b>				
Licenses and permits	\$ 1,190	\$ 1,190	\$ 941	\$ (249)
Intergovernmental	62,000	62,000	66,215	4,215
Charges for services	30,000	30,000	700	(29,300)
Miscellaneous	619,050	619,050	862,001	242,951
<b>Total Revenues</b>	<b>\$ 712,240</b>	<b>\$ 712,240</b>	<b>\$ 929,857</b>	<b>\$ 217,617</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Conservation of natural resources</b>				
Land use	\$ 668,980	\$ 668,980	\$ 693,063	\$ (24,083)
<b>Capital outlay</b>				
Conservation of natural resources	42,600	42,600	24,001	18,599
<b>Total Expenditures</b>	<b>\$ 711,580</b>	<b>\$ 711,580</b>	<b>\$ 717,064</b>	<b>\$ (5,484)</b>
<b>Excess of Revenues Over (Under)</b>				
<b>Expenditures</b>	<b>\$ 660</b>	<b>\$ 660</b>	<b>\$ 212,793</b>	<b>\$ 212,133</b>
<b>Other Financing Sources (Uses)</b>				
Transfers out	-	-	(269,652)	(269,652)
<b>Net Change in Fund Balance</b>	<b>\$ 660</b>	<b>\$ 660</b>	<b>\$ (56,859)</b>	<b>\$ (57,519)</b>
<b>Fund Balance – January 1</b>	<b>(28,532)</b>	<b>(28,532)</b>	<b>(28,532)</b>	<b>-</b>
<b>Fund Balance – December 31</b>	<b>\$ (27,872)</b>	<b>\$ (27,872)</b>	<b>\$ (85,391)</b>	<b>\$ (57,519)</b>

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

**EXHIBIT B-5**

**BUDGETARY COMPARISON SCHEDULE  
DEBT SERVICE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2020**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>Amounts</b>	<b>Final Budget</b>
<b>Revenues</b>				
Taxes	\$ 1,037,769	\$ 1,037,769	\$ 968,079	\$ (69,690)
Intergovernmental	65,000	65,000	135,438	70,438
Investment earnings	145	145	7,871	7,726
Miscellaneous	70,337	70,337	70,518	181
<b>Total Revenues</b>	<b>\$ 1,173,251</b>	<b>\$ 1,173,251</b>	<b>\$ 1,181,906</b>	<b>\$ 8,655</b>
<b>Expenditures</b>				
<b>Debt service</b>				
Principal	\$ 680,000	\$ 680,000	\$ 680,000	\$ -
Interest	369,494	369,494	369,494	-
Administrative (fiscal) charges	405	405	2,375	(1,970)
<b>Total Expenditures</b>	<b>\$ 1,049,899</b>	<b>\$ 1,049,899</b>	<b>\$ 1,051,869</b>	<b>\$ (1,970)</b>
<b>Net Change in Fund Balance</b>	<b>\$ 123,352</b>	<b>\$ 123,352</b>	<b>\$ 130,037</b>	<b>\$ 6,685</b>
<b>Fund Balance – January 1</b>	<b>865,338</b>	<b>865,338</b>	<b>865,338</b>	<b>-</b>
<b>Fund Balance – December 31</b>	<b>\$ 988,690</b>	<b>\$ 988,690</b>	<b>\$ 995,375</b>	<b>\$ 6,685</b>

## **FIDUCIARY FUNDS**

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

**COMBINING STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS – OTHER CUSTODIAL FUNDS  
DECEMBER 31, 2020**

	<u>Taxes and Penalties</u>	<u>State License and Fees</u>	<u>Jail Canteen</u>
<b><u>Assets</u></b>			
Cash and pooled investments	\$ 752,354	\$ 66,512	\$ 20,425
Due from other governments	-	-	-
Accounts receivable	-	-	1,068
Taxes receivable for other governments	<u>920,638</u>	<u>-</u>	<u>-</u>
<b>Total Assets</b>	<b><u>\$ 1,672,992</u></b>	<b><u>\$ 66,512</u></b>	<b><u>\$ 21,493</u></b>
<b><u>Liabilities</u></b>			
Accounts payable	\$ -	\$ -	\$ 48
Due to other governments	739,223	64,209	-
Due to others	<u>13,131</u>	<u>-</u>	<u>-</u>
<b>Total Liabilities</b>	<b><u>\$ 752,354</u></b>	<b><u>\$ 64,209</u></b>	<b><u>\$ 48</u></b>
<b><u>Net Position</u></b>			
Restricted for			
Individuals, organizations, other governments	<b><u>\$ 920,638</u></b>	<b><u>\$ 2,303</u></b>	<b><u>\$ 21,445</u></b>

*EXHIBIT C-1*

<b>Minnesota Counties Information Systems</b>	<b>Arrowhead Health Alliance</b>	<b>North Shore Collaborative</b>	<b>Escrow Account</b>	<b>Cities, Towns, and Other Governments</b>	<b>Total Other Custodial Funds</b>
\$ 1,186,364	\$ 131,203	\$ 227,205	\$ 102,525	\$ 184,918	\$ 2,671,506
-	37,250	-	-	-	37,250
41	655	5	-	-	1,769
-	-	-	-	-	920,638
<b>\$ 1,186,405</b>	<b>\$ 169,108</b>	<b>\$ 227,210</b>	<b>\$ 102,525</b>	<b>\$ 184,918</b>	<b>\$ 3,631,163</b>
\$ 9,662	\$ 2,552	\$ -	\$ -	\$ -	\$ 12,262
-	-	-	-	44,381	847,813
-	-	-	-	-	13,131
<b>\$ 9,662</b>	<b>\$ 2,552</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 44,381</b>	<b>\$ 873,206</b>
<b>\$ 1,176,743</b>	<b>\$ 166,556</b>	<b>\$ 227,210</b>	<b>\$ 102,525</b>	<b>\$ 140,537</b>	<b>\$ 2,757,957</b>

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

**COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FIDUCIARY FUNDS – OTHER CUSTODIAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2020**

	<u>Taxes and Penalties</u>	<u>State License and Fees</u>	<u>Jail Canteen</u>
<b>Additions</b>			
Contributions			
Individuals	\$ -	\$ -	\$ 2,990
Interest, dividends, and other	-	-	-
Property tax collections for other governments	23,873,770	-	-
License and fees collected for state	-	405,706	-
Miscellaneous	-	-	-
<b>Total Additions</b>	<u><b>\$ 23,873,770</b></u>	<u><b>\$ 405,706</b></u>	<u><b>\$ 2,990</b></u>
<b>Deductions</b>			
Beneficiary payments to individuals	\$ -	\$ -	\$ 4,209
Medical, dental, and life insurance	-	-	-
Payments of property tax to other governments	23,479,598	-	-
Payments to state	-	370,719	-
Administrative expense	-	-	-
Payments to other entities	-	-	-
<b>Total Deductions</b>	<u><b>\$ 23,479,598</b></u>	<u><b>\$ 370,719</b></u>	<u><b>\$ 4,209</b></u>
<b>Change in net position</b>	<b>\$ 394,172</b>	<b>\$ 34,987</b>	<b>\$ (1,219)</b>
<b>Net Position – January 1, as restated</b>	<u><b>526,466</b></u>	<u><b>(32,684)</b></u>	<u><b>22,664</b></u>
<b>Net Position – December 31</b>	<u><u><b>\$ 920,638</b></u></u>	<u><u><b>\$ 2,303</b></u></u>	<u><u><b>\$ 21,445</b></u></u>



**EXHIBIT C-2**

<b>Minnesota Counties Information Systems</b>	<b>Arrowhead Health Alliance</b>	<b>North Shore Collaborative</b>	<b>Escrow Account</b>	<b>Cities, Towns, and Other Governments</b>	<b>Total Other Custodial Funds</b>
\$ 2,421,306	\$ 272,273	\$ 60,361	\$ 135,900	\$ -	\$ 2,892,830
6,402	-	1,612	-	-	8,014
-	-	-	-	13,748,262	37,622,032
-	-	-	-	-	405,706
7,600	-	-	-	-	7,600
<b>\$ 2,435,308</b>	<b>\$ 272,273</b>	<b>\$ 61,973</b>	<b>\$ 135,900</b>	<b>\$ 13,748,262</b>	<b>\$ 40,936,182</b>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,209
172,965	-	-	-	-	172,965
-	-	-	-	11,833,092	35,312,690
-	-	-	-	1,771,827	2,142,546
1,425,579	278,402	67,814	-	-	1,771,795
-	-	-	110,600	-	110,600
<b>\$ 1,598,544</b>	<b>\$ 278,402</b>	<b>\$ 67,814</b>	<b>\$ 110,600</b>	<b>\$ 13,604,919</b>	<b>\$ 39,514,805</b>
\$ 836,764	\$ (6,129)	\$ (5,841)	\$ 25,300	\$ 143,343	\$ 1,421,377
339,979	172,685	233,051	77,225	(2,806)	1,336,580
<b>\$ 1,176,743</b>	<b>\$ 166,556</b>	<b>\$ 227,210</b>	<b>\$ 102,525</b>	<b>\$ 140,537</b>	<b>\$ 2,757,957</b>

## **OTHER SCHEDULES**

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

***EXHIBIT D-1***

**SCHEDULE OF INTERGOVERNMENTAL REVENUE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2020**

**Appropriations and Shared Revenue**

**State**

Highway users tax	\$ 5,672,347
County program aid	594,574
Disparity reduction aid	158,977
Aquatic invasive species aid	176,436
Police aid	155,155
Taconite credit	618,778
Enhanced 911	75,457
Market value credit	3,066
	<hr/>

<b>Total appropriations and shared revenue</b>	<b>\$ 7,454,790</b>
	<hr/>

**Reimbursement for Services**

**State**

Minnesota Department of Human Services	\$ 198,369
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**Payments**

**Federal**

Payments in lieu of taxes	\$ 955,343
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**State**

Payments in lieu of taxes	988,737
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**Local**

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1,157,890

<b>Total payments</b>	<b>\$ 3,101,970</b>
	<hr/>

**Grants**

**State**

Minnesota Department of	
Public Safety	\$ 71,843
Health	58,374
Natural Resources	3,712,155
Human Services	3,615,275
Veterans Affairs	7,500
Transportation	65,000
Board of Water and Soil Resources	130,194
Office of Environmental Assistance	69,692
Iron Range Resources and Rehabilitation Board	300,000
Secretary of State	3,784
Pollution Control Agency	200,885
	<hr/>

<b>Total state</b>	<b>\$ 8,234,702</b>
	<hr/>

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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

**SCHEDULE OF INTERGOVERNMENTAL REVENUE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2020**

**Grants (Continued)**

**Federal**

Department of	
Agriculture	\$ 2,866,273
Commerce	42,714
Housing and Urban Development	57,314
Justice	34,947
Transportation	150,000
Treasury	1,358,141
Education	5,403
Health and Human Services	936,637
Homeland Security	289,398
U.S. Election Assistance Commission	17,602

<b>Total federal</b>	<b>\$ 5,758,429</b>
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<b>Total state and federal grants</b>	<b>\$ 13,993,131</b>
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<b>Total Intergovernmental Revenue</b>	<b>\$ 24,748,260</b>
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**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

**EXHIBIT D-2**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2020**

<b>Federal Grantor Pass-Through Agency Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Contract Number/ Pass-Through Grant Numbers</b>	<b>Expenditures</b>	<b>Passed Through to Subrecipients</b>
<b>U.S. Department of Agriculture</b>				
Direct				
U.S. Forest Service Cooperative Agreement	10.U01	16-LE-11090900-002	\$ 13,500	\$ -
State and Private Forestry Hazardous Fuel Reduction Program	10.697	19-DG-11420000-196	42,496	-
State and Private Forestry Hazardous Fuel Reduction Program (Total State and Private Forestry Hazardous Fuel Reduction Program 10.697 \$50,288)	10.697	20-DG-11094200-230	7,792	-
State and Private Forestry Cooperative Fire Assistance	10.698	20-DG-11094200-226	1,360	-
Passed Through Carlton, Cook, Lake, and St. Louis Community Health Board				
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	202MN004W1003	50,725	-
Passed Through Minnesota Department of Human Services SNAP Cluster				
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	202MN101S2520	103,611	-
Passed Through Minnesota Department of Natural Resources				
Cooperative Forestry Assistance	10.664	17-DG-11420004-061	43,113	-
Cooperative Forestry Assistance (Total Cooperative Forestry Assistance 10.664 \$54,709)	10.664	17-DG-11420004-147	11,596	-
Passed Through Minnesota Management and Budget				
Forest Service Schools and Roads Cluster				
Schools and Roads – Grants to States	10.665	P.L. 115-141	2,586,552	-
<b>Total U.S. Department of Agriculture</b>			<b>\$ 2,860,745</b>	<b>\$ -</b>
<b>U.S. Department of Commerce</b>				
Passed Through Minnesota Department of Natural Resources				
Coastal Zone Management Administration Awards	11.419	NA17NOS4190062	\$ 34,494	\$ -
Coastal Zone Management Administration Awards (Total Coastal Zone Management Administration Awards 11.419 \$42,714)	11.419	NA18NOS4190081	8,220	-
<b>Total U.S. Department of Commerce</b>			<b>\$ 42,714</b>	<b>\$ -</b>
<b>U.S. Department of Housing and Urban Development</b>				
Passed Through Minnesota Department of Employment and Economic Development				
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	CDAP-17-0042-O-FY18	\$ 55,044	\$ 55,044
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii (Total Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii 14.228 \$57,314)	14.228	CDAP-18-0022-O-FY19	2,270	2,270
<b>Total U.S. Department of Housing and Urban Development</b>			<b>\$ 57,314</b>	<b>\$ 57,314</b>

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

**EXHIBIT D-2  
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2020**

<b>Federal Grantor Pass-Through Agency Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Contract Number/ Pass-Through Grant Numbers</b>	<b>Expenditures</b>	<b>Passed Through to Subrecipients</b>
<b>U.S. Department of Justice</b>				
Passed Through Minnesota Department of Public Safety Crime Victim Assistance	16.575	A-CVS-2020-LAKEAO-144	<u>\$ 34,947</u>	<u>\$ -</u>
<b>U.S. Department of the Treasury</b>				
Passed Through Minnesota Management and Budget COVID-19 – Coronavirus Relief Fund	21.019	SLT0016	<u>\$ 1,358,141</u>	<u>\$ 37,060</u>
<b>U.S. Department of Education</b>				
Passed Through Carlton, Cook, Lake, and St. Louis Community Health Board Special Education – Grants for Infants and Families	84.181	H18A150029	<u>\$ 5,403</u>	<u>\$ -</u>
<b>U.S. Election Assistance Commission</b>				
Passed Through Office of the Minnesota Secretary of State COVID-19 - 2018 HAVA Election Security Grants	90.404	Not Provided	<u>\$ 17,602</u>	<u>\$ -</u>
<b>U.S. Department of Health and Human Services</b>				
Passed Through Carlton, Cook, Lake, and St. Louis Community Health Board Public Health Emergency Preparedness	93.069	U90TP000529	\$ 28,957	\$ -
Temporary Assistance for Needy Families	93.558	2001MNTANF	681	-
(Total Temporary Assistance for Needy Families 93.558 \$62,149)				
Maternal and Child Health Services Block Grant to the States	93.994	H18A150029	2,246	-
Passed Through Minnesota Department of Human Services Promoting Safe and Stable Families	93.556	2001MNFPS	2,208	-
Temporary Assistance for Needy Families	93.558	2001MNTANF	61,468	-
(Total Temporary Assistance for Needy Families 93.558 \$62,149)				
Child Support Enforcement	93.563	2001MNCSET	182,932	-
Child Support Enforcement	93.563	2001MNCSES	67,347	-
(Total Child Support Enforcement 93.563 \$250,279)				
Refugee and Entrant Assistance – State Administered Programs CCDF Cluster	93.566	2001MNRMA	137	-
Child Care and Development Block Grant	93.575	2001MNCCDF	1,615	-
Community-Based Child Abuse Prevention Grants	93.590	1901MNBCAP	2,275	-
Stephanie Tubbs Jones Child Welfare Services Program	93.645	2001MNCWSS	1,510	-
Foster Care – Title IV-E	93.658	2001MNFOST	41,292	-
Social Services Block Grant	93.667	2001MNSOSR	83,167	-
John H. Chafee Foster Care Program for Successful Transition to Adulthood	93.674	2001MNCILP	2,000	-
Children's Health Insurance Program	93.767	2005MN5021	248	-
Medicaid Cluster				
Medical Assistance Program	93.778	2005MN5MAP	5,257	-
Medical Assistance Program	93.778	2005MN5ADM	453,297	-
(Total Medical Assistance Program 93.778 \$458,554)				
<b>Total U.S. Department of Health and Human Services</b>			<u>\$ 936,637</u>	<u>\$ -</u>

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

**EXHIBIT D-2  
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2020**

<b>Federal Grantor Pass-Through Agency Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Contract Number/ Pass-Through Grant Numbers</b>	<b>Expenditures</b>	<b>Passed Through to Subrecipients</b>
<b>U.S. Department of Homeland Security</b>				
Passed Through Minnesota Department of Natural Resources Boating Safety Financial Assistance	97.012	R29G70CGFFY18	\$ 3,875	\$ -
Passed Through Minnesota Department of Public Safety Disaster Grants – Public Assistance (Presidentially Declared Disasters)	97.036	DR4390	162,072	-
Homeland Security Grant Program	97.067	A-OPSG-2017-LAKESO	30,066	-
Homeland Security Grant Program (Total Homeland Security Grant Program 97.067 \$123,451)	97.067	A-OPSG-2018-LAKESO	93,385	-
<b>Total U.S. Department of Homeland Security</b>			<b>\$ 289,398</b>	<b>\$ -</b>
<b>Total Federal Awards</b>			<b>\$ 5,602,901</b>	<b>\$ 94,374</b>
<b>Totals by Cluster</b>				
Total expenditures for SNAP Cluster			\$ 103,611	
Total expenditures for Forest Service Schools and Roads Cluster			2,586,552	
Total expenditures for CCDF Cluster			1,615	
Total expenditures for Medicaid Cluster			458,554	

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2020**

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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, 2020. 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.

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.

3. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 5,758,429
Grants received more than 90 days after year-end, deferred in 2020	
Cooperative Forestry Assistance	96
Deferred in 2019, recognized as revenue in 2020	
Cooperative Forestry Assistance	(5,624)
Recreational Trails Program	(150,000)
	<hr/>
Expenditures Per Schedule of Expenditures of Federal Awards	\$ 5,602,901







**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 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, 2020, 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 23, 2021.

**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 as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

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

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2020-003 to be a material weakness and items 2020-001 and 2020-002 to be significant deficiencies.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Lake County's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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 responses to the internal control findings identified in our audit are described in the Corrective Action Plan. The County's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

## **Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting, compliance, and the provisions of the *Minnesota Legal Compliance Audit Guide for Counties* and the results of that testing, and not to provide an opinion on the effectiveness

of the County's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

*/s/Julie Blaha*

JULIE BLAHA  
STATE AUDITOR

*/s/Dianne Syverson*

DIANNE SYVERSON, CPA  
DEPUTY STATE AUDITOR

November 23, 2021



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

Independent Auditor's Report

Board of 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, 2020. Lake County's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

***Management's Responsibility***

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

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for Lake County's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the major federal program occurred. An audit includes examining, on a test basis, evidence about the 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, 2020.

### ***Other Matters***

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2020-004. Our opinion on the major federal program is not modified with respect to this matter.

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

### **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 and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify a deficiency in internal control over compliance, described in the accompanying Schedule of Findings and Questioned Costs as item 2020-004, that we consider to be a significant deficiency.

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

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

*/s/Dianne Syverson*

DIANNE SYVERSON, CPA  
DEPUTY STATE AUDITOR

November 23, 2021

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2020**

**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? **Yes**
- Significant deficiencies identified? **Yes**

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

**Federal Awards**

Internal control over major programs:

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

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)? **Yes**

The major federal program is:

COVID-19 – Coronavirus Relief Fund

CFDA No. 21.019

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, 2021**

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

**INTERNAL CONTROL**

Finding Number: 2020-001

Prior Year Finding Number: 2019-001

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, 2021**

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

**View of Responsible Official:** Concur

Finding Number: 2020-002

Prior Year Finding Number: N/A

Repeat Finding Since: N/A

Journal Entry Approval

**Criteria:** Lake County's procedures related to the processing of journal entries requires each journal entry to have supporting documentation and be approved by the County Auditor/Treasurer, Accountant, or HS Fiscal Supervisor.

**Condition:** Due to an error in the printing of the monthly journal entry report, no journal entries were reviewed and approved in 2020.

**Context:** Without the proper review and approval of journal entries, errors or irregularities may not be detected in a timely manner.

**Effect:** There is the increased risk that errors or irregularities may not be detected in a timely manner.

**Cause:** The County had to work with an outside vendor to resolve the error in report printing which was delayed due to the COVID-19 pandemic.

**Recommendation:** We recommend the County work to resolve the error in printing the monthly journal entry report in order to review and approve journal entries in accordance with the County journal entry policy.

**View of Responsible Official:** Acknowledged

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2021**

Finding Number: 2020-003

Prior Year Finding Number: N/A

Repeat Finding Since: N/A

**Audit Adjustment**

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

**Condition:** A material audit adjustment was identified that resulted in significant changes to the County's financial statements.

**Context:** The inability to detect material misstatements in the financial statements increases the likelihood that the financial statements would not be fairly presented. The adjustment was found in the audit; however, independent external auditors cannot be considered part of the County's internal control.

**Effect:** The following audit adjustment was reviewed and approved by management and is reflected in the financial statements.

- Resource Development Fund – due from other governments and deferred inflows of resources – unavailable grants were overstated by \$383,158 due to the inclusion of duplicate payments in the calculation of the grants receivable related to the Prospector's Trail Loop.

**Cause:** Due from other governments was not reconciled to the spending tracker worksheet for the Prospector's Trail Loop project.

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2021**

**Recommendation:** We recommend County staff implement procedures over financial reporting that include review of balances, disclosures, and supporting documentation by a qualified individual to ensure the information is complete and accurate, and the County's financial statements are fairly presented in accordance with accounting principles generally accepted in the United States of America.

**View of Responsible Official:** Acknowledged

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

Finding Number: 2020-004

Prior Year Finding Number: N/A

Repeat Finding Since: N/A

Reporting

**Program:** Coronavirus Relief Fund, CFDA No. 21.019, U. S. Department of the Treasury, SLT0016, 2020

**Pass-Through Agency:** The State of Minnesota Office of Management and Budget (MMB)

**Criteria:** Title 2 U.S. Code of Federal Regulations § 200.303 states that the auditee must establish and maintain effective internal control over the federal award that provides reasonable assurance that the auditee is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award.

Per MMB guidance, local governments accepting Coronavirus Relief Funds were required to submit monthly, interim, and final reports. The County was required to report monthly to MMB; this reporting includes the total spent to date and the total received by the County. On the final report, the County reports the status of Coronavirus Relief Funds spent that were awarded by MMB. The final report requires reporting of both summary and detailed information. The summary information is the same as that for monthly reporting on the total spent to date. Detail reporting requires the selection of the eligible Coronavirus

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2021**

Relief Fund category and the amount spent and the date. The County should have procedures in place to verify the accuracy of the reports and that the reports agree to the underlying support. MMB also requires reports to be submitted to the MMB within seven business days of the end of the monthly reporting period.

**Condition:** One of three reports tested contained duplicate expenditures totaling \$17,873. One of three reports tested was not submitted timely to MMB.

**Questioned Costs:** Not applicable.

**Context:** The County included duplicate expenditures on the final report totaling \$17,873. The August 2020 report was not submitted to MMB within the seven business days after the end of the monthly reporting period. The sample size was based on guidance from chapter 11 of the AICPA Audit Guide, *Government Auditing Standards and Single Audits*.

**Effect:** The County over reported expenditures by \$17,873 on the final report. In addition, the final report was not submitted timely to MMB.

**Cause:** The duplicate expenditures and late report were due to human error.

**Recommendation:** We recommend that the County implement policies and procedures to ensure that the reports are reviewed for accuracy and completeness by an individual independent of the preparer and submitted timely to MMB.

**View of Responsible Official:** Acknowledged



## Lake County Auditor/Treasurer

Linda Libal, County Auditor/Treasurer  
Ronelle Radle, Chief Deputy  
Lake County Court House  
601 3<sup>rd</sup> Avenue  
Two Harbors, MN 55616  
218.834.8315

### REPRESENTATION OF LAKE COUNTY TWO HARBORS, MINNESOTA

#### CORRECTIVE ACTION PLAN FOR THE YEAR ENDED DECEMBER 31, 2020

**Finding Number: 2020-001**

**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

**Finding Number: 2020-002**

**Finding Title: Journal Entry Approval**

Name of Contact Person Responsible for Corrective Action:

Linda Libal, Lake County Auditor-Treasurer

Corrective Action Planned:

Work with programming company to fix the printing problem.

Anticipated Completion Date:

April 2021

**Finding Number: 2020-003**

**Finding Title: Audit Adjustment**

Name of Contact Person Responsible for Corrective Action:

Matt Huddleston, Lake County Administrator

Corrective Action Planned:

Forestry will work with the Auditor's office to provide the funding worksheet on a regular basis to ensure proper accounting.

Anticipated Completion Date:

This will be done for 2021.

**Finding Number: 2020-004**

**Finding Title: Reporting**

**Program: Coronavirus Relief Fund, CFDA 20.219**

Name of Contact Person Responsible for Corrective Action:

Matt Huddleston, Lake County Administrator

Linda Libal, Lake County Auditor-Treasurer

Corrective Action Planned:

These funds have all been requested and received.

Anticipated Completion Date:

March 2021



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

Lake County Courthouse  
601 3<sup>rd</sup> Ave.  
Two Harbors, MN 55616  
218-834-8316  
Linda.libal@co.lake.mn.us

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

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED DECEMBER 31, 2020**

**Finding Number: 2019-001**

**Repeat Finding Since: 1996**

**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