

State of Minnesota



Office of the State Auditor

Julie Blaha
State Auditor

Lake County Two Harbors, Minnesota

Year Ended December 31, 2021

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, 2021



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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**LAKE COUNTY
TWO HARBORS, MINNESOTA**

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TWO HARBORS, MINNESOTA**

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INTRODUCTORY SECTION

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

**ORGANIZATION
DECEMBER 31, 2021**

			<u>Term Expires</u>
Elected			
Commissioner	Peter Walsh	District 1	January 2023
Commissioner	Derrick Goutermont	District 2	January 2025
Commissioner	Rick Hogenson	District 3	January 2025
Commissioner	Jeremy Hurd	District 4	January 2023
Commissioner	Rich Sve	District 5	January 2025
Attorney	Russ Conrow		January 2023
Auditor/Treasurer	Linda Libal		January 2023
Recorder	Lori Ekstrom		January 2023
Sheriff	Carey Johnson		January 2023
Appointed			
Assessor	Gregg Swartwoudt		December 2024
Examiner of Titles	David Adams (St. Louis County)		Indefinite
Health Officer	Harold B. Leppink, M.D.		Indefinite
Highway Engineer	Jason DiPiazza		May 2025
Veterans Service Officer	Brad Anderson		May 2024
Clerk of the Board	Laurel Buchanan		Indefinite
County Administrator	Matthew Huddleston		Indefinite

FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Lake County
Two Harbors, Minnesota

Report on the Audit of the Financial Statements

Opinions

We have audited 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, 2021, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, as listed in the table of contents.

In our opinion, the accompanying 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 as of December 31, 2021, 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.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the County, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the County's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, we:

- exercise professional judgment and maintain professional skepticism throughout the audit;
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements;
- obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed;
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements; and
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the County's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, budgetary comparison schedules for the General Fund and each major special revenue fund, Schedule of Changes in Total OPEB Liability and Related Ratios – Other Postemployment Benefits, PERA retirement plan schedules, and Notes to the Required

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Lake County's basic financial statements. The combining nonmajor fund statements, budgetary comparison schedules for each nonmajor special revenue fund and the Debt Service Fund, fiduciary funds combining statements, Schedule of Intergovernmental Revenues, and Schedule of Expenditures of Federal Awards and related notes, as required by Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* are presented for purposes of additional analysis and are 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 Supplementary Information as identified above is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 20, 2022, 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 the 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 the County's internal control over financial reporting and compliance.

/s/Julie Blaha

JULIE BLAHA
STATE AUDITOR

/s/Dianne Syverson

DIANNE SYVERSON, CPA
DEPUTY STATE AUDITOR

September 20, 2022

MANAGEMENT'S DISCUSSION AND ANALYSIS

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2021
(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, 2021. 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 \$122,408,968, of which \$97,428,675 is the net investment in capital assets and \$11,221,201 is restricted to specific purposes.
- Lake County's governmental activities' net position increased by \$10,996,223 for the year ended December 31, 2021. 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 \$67,328.
- The net cost of governmental activities was \$5,424,007 for the current fiscal year. The net cost was funded by general revenues and other items totaling \$16,420,230.

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, and the Schedules of Proportionate Share of Net Pension Liability and Schedules of Contributions for the County's pension plans 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 full 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 net position. 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. 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	
	2021	2020
Assets		
Current and other assets	\$ 42,969	\$ 37,708
Capital assets	<u>101,654</u>	<u>96,235</u>
Total Assets	<u>\$ 144,623</u>	<u>\$ 133,943</u>
Deferred Outflows of Resources	<u>\$ 4,396</u>	<u>\$ 1,301</u>
Liabilities		
Long-term liabilities outstanding	\$ 16,888	\$ 19,848
Other liabilities	<u>3,669</u>	<u>2,174</u>
Total Liabilities	<u>\$ 20,557</u>	<u>\$ 22,022</u>
Deferred Inflows of Resources	<u>\$ 6,053</u>	<u>\$ 1,810</u>
Net Position		
Net investment in capital assets	\$ 97,429	\$ 91,574
Restricted	11,221	8,530
Unrestricted	<u>13,759</u>	<u>11,308</u>
Total Net Position	<u>\$ 122,409</u>	<u>\$ 111,412</u>

Table 2
Changes in Net Position
(in Thousands)

	Governmental Activities	
	2021	2020
Revenues		
Program revenues		
Fees, fines, charges, and other	\$ 3,980	\$ 2,489
Operating grants and contributions	17,269	23,472
Capital grants and contributions	2,626	1,875
General revenues		
Property taxes	11,391	10,928
Other taxes	3,214	2,770
Unrestricted grants and contributions	1,659	1,464
Investment earnings	(24)	152
Gain on sale of capital assets	128	100
Miscellaneous	53	26
Special item		
Forgiveness of loans receivable	-	(1,750)
Total Revenues	<u>\$ 40,296</u>	<u>\$ 41,526</u>
Expenses		
General government	\$ 5,472	\$ 5,369
Public safety	5,333	6,152
Highways and streets	7,307	10,702
Sanitation	382	433
Human services	3,342	3,348
Health	3,525	3,515
Culture and recreation	1,481	3,181
Conservation of natural resources	916	926
Economic development	1,205	83
Interest	<u>336</u>	<u>364</u>
Total Expenses	<u>\$ 29,299</u>	<u>\$ 34,073</u>
Increase (Decrease) in Net Position	\$ 10,997	\$ 7,453
Net Position – January 1	<u>111,412</u>	<u>103,959</u>
Net Position – December 31	<u>\$ 122,409</u>	<u>\$ 111,412</u>

Governmental Activities

The cost of all governmental activities this year was \$29,298,851. However, as shown in the statement of activities, the amount that our taxpayers ultimately financed for these activities through County taxes and other general revenues was \$16,420,230, because some of the cost was paid by those who directly benefited from the programs (\$3,980,167) or by other governments and organizations that subsidized certain programs with grants and contributions (\$19,894,677). 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	
	2021	2020	2021	2020
General government	\$ 5,472	\$ 5,369	\$ 706	\$ 745
Public safety	5,333	6,152	4,442	5,311
Highways and streets	7,307	10,702	201	4,068
Human services	3,342	3,348	1,287	1,462
Health	3,525	3,515	(302)	(1,287)
All others	4,320	4,987	(909)	(4,062)
Total	\$ 29,299	\$ 34,073	\$ 5,425	\$ 6,237

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 \$31,513,311 in 2021, compared with \$26,219,673 in 2020, an increase of \$5,293,638. 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. 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 2021 of \$6,390,442, or 20.28 percent, of total fund balance. Nonspendable fund balance was \$564,430, and restricted fund balance was \$5,826,012. Unrestricted fund balance was \$25,122,869, or 79.72 percent, of total fund balance. Unrestricted fund balance was \$1,448,075 committed, \$10,369,864 assigned, and \$13,304,930 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, 2021, unrestricted fund balance for the General Fund was \$13,451,012, compared to \$10,767,705 in 2020. This increase in the fund balance of the General Fund is due to an unbudgeted increase in intergovernmental revenues. Unrestricted fund balance at the end of the year represented 79.10 percent of the General Fund's operating revenues and 97.62 percent of operating expenditures.

The Road and Bridge Special Revenue Fund's unrestricted fund balance increased to \$5,141,160 in 2021, compared to unrestricted fund balance of \$4,889,550 in 2020. In 2021, there was an unbudgeted increase in intergovernmental revenues. Unrestricted fund balance at the end of the year represented 40.58 percent of the fund's operating revenues and 45.75 percent of operating expenditures.

The Human Services Special Revenue Fund's unrestricted fund balance was \$6,124,058 in 2021, compared to \$5,569,695 in 2020. The increase in fund balance is due to an unbudgeted increase in intergovernmental revenues. Unrestricted fund balance at the end of the year represented 81.18 percent of the fund's operating revenues and 87.62 percent of operating expenditures.

The Forfeited Tax Special Revenue Fund's unrestricted fund balance was \$54,804 in 2021, compared to (\$85,391) in 2020. The increase in the balance of the Forfeited Tax Special Revenue Fund is due to an unexpected increase in revenues. Unrestricted fund balance at the end of the year represented 5.45 percent of the fund's operating revenues and 7.69 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 2021.

In the General Fund, the actual charges to appropriations (expenditures) were \$1,543,702 over the final budget amounts. Unbudgeted expenditures included \$250,315 of trails expenditures, \$355,910 of commissioner expenditures, \$484,489 of emergency management expenditures, and \$1,066,714 of other economic development expenditures. These were offset by savings in various other General Fund departments.

Resources available for appropriation were also above the final budgeted amount by \$4,741,257. This was primarily due to greater than expected collections in intergovernmental revenues.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2021, the County had \$101,653,675 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	
	2021	2020
Land	\$ 3,968	\$ 3,968
Buildings and improvements	15,469	15,953
Machinery, vehicles, furniture, and equipment	2,372	1,971
Infrastructure	79,845	74,343
Totals	\$ 101,654	\$ 96,235

The County’s fiscal year 2022 capital budget calls for it to spend another \$702,000 for miscellaneous improvements at various buildings, \$175,000 on vehicles for various departments, \$1,250,664 on equipment for various departments, and \$4,112,000 for road construction. The road construction will be funded by state-aid construction funds.

Debt

At year-end, the County had \$10,260,000 in bonds and notes outstanding, versus \$10,960,000 last year—a decrease of 6.39 percent—as shown in Table 5. The decrease is attributed to scheduled payments on the bonds and notes. Capital leases payable decreased by \$146,663.

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

	Governmental Activities	
	2021	2020
General obligation bonds	\$ 10,260	\$ 10,960
Capital leases	-	147
Compensated absences	1,597	1,612
Net pension liability	4,370	6,431
Net other postemployment benefits	490	513
Unamortized premium	171	185
Total	\$ 16,888	\$ 19,848

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 2022 budget and tax rates.

- County General Fund expenditures for 2022 are budgeted to increase 7.01 percent over 2021.
- Property tax levies increased 2.50 percent for 2022.

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, 2021**

	Primary Government Governmental Activities	Discretely Presented Component Unit
<u>Assets</u>		
Cash and pooled investments	\$ 28,719,194	\$ 917,124
Receivables	13,725,228	27,736
Inventories	464,796	-
Prepaid items	13,096	-
Restricted assets		
Security deposits	-	18,605
Capital assets		
Non-depreciable capital assets	3,968,383	-
Depreciable capital assets – net of accumulated depreciation	97,685,292	787,792
Net pension asset	46,672	-
	\$ 144,622,661	\$ 1,751,257
<u>Deferred Outflows of Resources</u>		
Deferred other postemployment benefits outflows	\$ 34,255	\$ -
Deferred pension outflows	4,361,895	-
	\$ 4,396,150	\$ -
<u>Liabilities</u>		
Accounts payable and other current liabilities	\$ 2,214,604	\$ 2,839
Accrued interest payable	33,762	-
Unearned revenue	1,420,713	319
Security deposits payable	-	18,605
Long-term liabilities		
Due within one year	720,000	-
Due in more than one year	11,307,366	340,991
Other postemployment benefits liability	489,931	-
Net pension liability	4,370,499	-
	\$ 20,556,875	\$ 362,754

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, 2021**

	Primary Government Governmental Activities	Discretely Presented Component Unit
<u>Deferred Inflows of Resources</u>		
Deferred other postemployment benefits inflows	\$ 120,084	\$ -
Deferred pension inflows	5,932,884	-
Total Deferred Inflows of Resources	\$ 6,052,968	\$ -
<u>Net Position</u>		
Net investment in capital assets	\$ 97,428,675	\$ 446,801
Restricted for		
General government	1,641,391	-
Public safety	605,449	-
Highways and streets	7,478,866	-
Conservation of natural resources	489,906	-
Debt service	1,005,589	-
Unrestricted	13,759,092	941,702
Total Net Position	\$ 122,408,968	\$ 1,388,503

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2021**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Fees, Charges, Fines, and Other</u>
Primary government		
Governmental activities		
General government	\$ 5,472,275	\$ 750,377
Public safety	5,332,860	95,261
Highways and streets	7,306,735	91,354
Sanitation	381,590	45,166
Human services	3,342,215	314,905
Health	3,525,219	190,442
Culture and recreation	1,481,395	-
Conservation of natural resources	916,069	884,573
Economic development	1,204,659	1,608,089
Interest	335,834	-
Total Governmental Activities	<u>\$ 29,298,851</u>	<u>\$ 3,980,167</u>
Component unit		
Housing and Redevelopment Authority	<u>\$ 384,253</u>	<u>\$ 321,730</u>

General Revenues

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

Total general revenues

Change in net position

Net Position – Beginning

Net Position – Ending

EXHIBIT 2

<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Position</u>	
<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Primary Government Governmental Activities</u>	<u>Discretely Presented Component Unit</u>
\$ 4,016,151	\$ -	\$ (705,747)	
795,630	-	(4,441,969)	
4,389,052	2,625,514	(200,815)	
2,230	-	(334,194)	
1,740,626	-	(1,286,684)	
3,636,740	-	301,963	
2,255,482	-	774,087	
315,807	-	284,311	
117,445	-	520,875	
-	-	(335,834)	
<u>\$ 17,269,163</u>	<u>\$ 2,625,514</u>	<u>\$ (5,424,007)</u>	
<u>\$ -</u>	<u>\$ -</u>		<u>\$ (62,523)</u>
		\$ 11,391,070	\$ 117,220
		845,229	-
		1,205,747	-
		993,153	-
		169,148	-
		1,659,469	6,690
		(24,332)	3,124
		128,132	-
		52,614	2,817
		<u>\$ 16,420,230</u>	<u>\$ 129,851</u>
		\$ 10,996,223	\$ 67,328
		<u>111,412,745</u>	<u>1,321,175</u>
		<u>\$ 122,408,968</u>	<u>\$ 1,388,503</u>

FUND FINANCIAL STATEMENTS

GOVERNMENTAL FUNDS

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2021**

	General	Road and Bridge
<u>Assets</u>		
Cash and pooled investments	\$ 14,519,041	\$ 7,700,044
Escheat cash	36,538	-
Petty cash and change funds	1,050	1,000
Taxes receivable – delinquent	149,683	33,579
Accounts receivable	22,571	27,079
Accrued interest receivable	5,808	-
Loans receivable	50,000	-
Settlement receivable	-	-
Due from other funds	786,983	35,542
Due from other governments	2,935,616	6,298,594
Prepaid items	-	-
Inventories	-	464,796
	\$ 18,507,290	\$ 14,560,634
 <u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>		
Liabilities		
Accounts payable	\$ 490,325	\$ 96,534
Salaries payable	149,414	119,844
Contracts payable	-	555,664
Due to other funds	32,694	55,374
Due to other governments	185,053	70,983
Unearned revenue	1,033,445	387,268
	\$ 1,890,931	\$ 1,285,667
 Deferred Inflows of Resources		
Unavailable revenue – taxes	\$ 107,328	\$ 23,862
Unavailable revenue – grants	234,735	5,561,472
Unavailable revenue – long-term receivables	-	-
	\$ 342,063	\$ 5,585,334

EXHIBIT 3

<u>Human Services</u>	<u>Forfeited Tax</u>	<u>Nonmajor Funds</u>	<u>Total</u>
\$ 5,061,923	\$ -	\$ 1,398,548	\$ 28,679,556
-	-	-	36,538
1,000	50	-	3,100
39,463	-	24,422	247,147
-	1,239,517	-	1,289,167
-	-	-	5,808
-	-	-	50,000
405,784	-	-	405,784
-	55,374	-	877,899
1,345,373	-	1,147,739	11,727,322
13,096	-	-	13,096
-	-	-	464,796
<u>\$ 6,866,639</u>	<u>\$ 1,294,941</u>	<u>\$ 2,570,709</u>	<u>\$ 43,800,213</u>
\$ 216,669	\$ 16,852	\$ 92,819	\$ 913,199
44,961	7,360	-	321,579
-	-	-	555,664
521	119,139	670,171	877,899
33,203	-	134,923	424,162
-	-	-	1,420,713
<u>\$ 295,354</u>	<u>\$ 143,351</u>	<u>\$ 897,913</u>	<u>\$ 4,513,216</u>
\$ 28,347	\$ -	\$ 17,633	\$ 177,170
-	-	297,739	6,093,946
405,784	1,096,786	-	1,502,570
<u>\$ 434,131</u>	<u>\$ 1,096,786</u>	<u>\$ 315,372</u>	<u>\$ 7,773,686</u>

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2021**

	General	Road and Bridge
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u> (Continued)		
Fund Balances		
Nonspendable		
Loans receivables	\$ 50,000	\$ -
Inventories	-	464,796
Missing heirs	36,538	-
Prepaid items	-	-
Restricted for		
Law library	100,962	-
Recorder's technology equipment	398,973	-
Enhanced 911	514,859	-
County property recorder's fee	454,150	-
Law and prosecutorial equipment	85,590	-
County roads	-	2,083,677
Sheriff's contingency fund	5,000	-
Title III forest	124,063	-
Aquatic invasive species	365,843	-
Debt service	-	-
Lodging tax	687,306	-
Committed to		
Rescue squad capital expenditures	25,019	-
Election equipment	103,427	-
Out-of-home placement costs	-	-
Forestry road grant	-	-
Forestry road maintenance	-	-
Unorganized townships		
Emergency services	-	-
Assigned to		
Capital assets	15,568	-
Wellness grant	2,068	-
Highways and streets	-	5,141,160
Human services	-	-
Resource development	-	-
Unassigned	13,304,930	-
Total Fund Balances	\$ 16,274,296	\$ 7,689,633
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 18,507,290	\$ 14,560,634

EXHIBIT 3
(Continued)

<u>Human Services</u>	<u>Forfeited Tax</u>	<u>Nonmajor Funds</u>	<u>Total</u>
\$ -	\$ -	\$ -	\$ 50,000
-	-	-	464,796
-	-	-	36,538
13,096	-	-	13,096
-	-	-	100,962
-	-	-	398,973
-	-	-	514,859
-	-	-	454,150
-	-	-	85,590
-	-	-	2,083,677
-	-	-	5,000
-	-	-	124,063
-	-	-	365,843
-	-	1,005,589	1,005,589
-	-	-	687,306
-	-	-	25,019
-	-	-	103,427
1,000,000	-	-	1,000,000
-	25,758	-	25,758
-	29,046	-	29,046
-	-	264,825	264,825
-	-	-	15,568
-	-	-	2,068
-	-	-	5,141,160
5,124,058	-	-	5,124,058
-	-	87,010	87,010
-	-	-	13,304,930
\$ 6,137,154	\$ 54,804	\$ 1,357,424	\$ 31,513,311
\$ 6,866,639	\$ 1,294,941	\$ 2,570,709	\$ 43,800,213

**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, 2021**

Fund balances – total governmental funds (Exhibit 3)	\$	31,513,311
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.		101,653,675
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		7,773,686
Deferred outflows of resources are not available resources and, therefore, are not reported in the governmental funds.		
Deferred other postemployment benefits outflows	\$ 34,255	
Deferred pension outflows	<u>4,361,895</u>	4,396,150
Net pension assets are not available to pay for current period expenditures and, therefore, are not reported in the governmental funds.		46,672
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	\$ (10,260,000)	
Compensated absences	(1,596,559)	
Bond premium	(170,807)	
Net pension liability	(4,370,499)	
Net other postemployment benefits liability	(489,931)	
Accrued interest payable	<u>(33,762)</u>	(16,921,558)
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	\$ (120,084)	
Deferred pension inflows	<u>(5,932,884)</u>	<u>(6,052,968)</u>
Net Position of Governmental Activities (Exhibit 1)		<u><u>\$ 122,408,968</u></u>

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2021**

	General	Road and Bridge
Revenues		
Taxes	\$ 9,282,587	\$ 2,986,997
Licenses and permits	26,790	3,130
Intergovernmental	6,762,222	9,538,354
Charges for services	526,025	78,317
Fines and forfeits	7,481	-
Investment earnings	(24,665)	-
Gifts and contributions	-	-
Miscellaneous	423,756	62,275
	\$ 17,004,196	\$ 12,669,073
Expenditures		
Current		
General government	\$ 5,349,779	\$ -
Public safety	5,825,303	-
Highways and streets	-	10,399,477
Sanitation	386,075	-
Human services	-	-
Health	-	-
Culture and recreation	799,877	-
Conservation of natural resources	213,290	-
Economic development	1,204,659	-
Capital outlay		
Highways and streets	-	836,872
Conservation of natural resources	-	-
Debt service		
Principal	-	-
Interest	-	-
Administrative (fiscal) charges	-	-
	\$ 13,778,983	\$ 11,236,349
Excess of Revenues Over (Under) Expenditures	\$ 3,225,213	\$ 1,432,724
Other Financing Sources (Uses)		
Transfers in	\$ 112,751	\$ -
Transfers out	-	-
	\$ 112,751	\$ -
Net Change in Fund Balances	\$ 3,337,964	\$ 1,432,724
Fund Balances – January 1	12,936,332	6,296,398
Increase (decrease) in inventories	-	(39,489)
Fund Balances – December 31	\$ 16,274,296	\$ 7,689,633

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

EXHIBIT 5

Human Services	Forfeited Tax	Nonmajor Funds	Total
\$ 1,843,162	\$ -	\$ 1,120,370	\$ 15,233,116
-	1,149	75	31,144
5,195,575	141,827	2,511,783	24,149,761
340,761	52,726	-	997,829
-	-	-	7,481
-	-	333	(24,332)
-	-	7,635	7,635
164,586	809,946	342	1,460,905
\$ 7,544,084	\$ 1,005,648	\$ 3,640,538	\$ 41,863,539
\$ -	\$ -	\$ -	\$ 5,349,779
-	-	148,673	5,973,976
-	-	-	10,399,477
-	-	-	386,075
3,447,770	-	-	3,447,770
3,541,951	-	-	3,541,951
-	-	2,454,037	3,253,914
-	684,300	10,000	907,590
-	-	-	1,204,659
-	-	-	836,872
-	28,175	-	28,175
-	-	846,663	846,663
-	-	352,086	352,086
-	-	1,425	1,425
\$ 6,989,721	\$ 712,475	\$ 3,812,884	\$ 36,530,412
\$ 554,363	\$ 293,173	\$ (172,346)	\$ 5,333,127
\$ -	\$ -	\$ 110,499	\$ 223,250
-	(152,978)	(70,272)	(223,250)
\$ -	\$ (152,978)	\$ 40,227	\$ -
\$ 554,363	\$ 140,195	\$ (132,119)	\$ 5,333,127
5,582,791	(85,391)	1,489,543	26,219,673
-	-	-	(39,489)
\$ 6,137,154	\$ 54,804	\$ 1,357,424	\$ 31,513,311

**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, 2021**

Net change in fund balances – total governmental funds (Exhibit 5) \$ 5,333,127

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

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

Unavailable revenue – December 31	\$ 7,773,686	
Unavailable revenue – January 1	(9,351,469)	(1,577,783)

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	\$ 9,097,873	
Net book value of assets sold	(6,736)	
Current year depreciation	(3,672,948)	5,418,189

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	\$ 700,000	
Capital lease	146,663	
Amortization of premium	14,616	861,279

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	\$ 3,061	
Change in compensated absences	15,686	
Change in net pension asset	46,672	
Change in net pension liability	2,060,779	
Change in deferred pension outflows	3,105,959	
Change in deferred pension inflows	(4,196,663)	
Change in other postemployment benefits liability	22,889	
Change in other postemployment benefits outflows	(11,122)	
Change in other postemployment benefits inflows	(46,361)	
Change in inventories	(39,489)	961,411

Change in Net Position of Governmental Activities (Exhibit 2) \$ 10,996,223

FIDUCIARY FUNDS

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

EXHIBIT 7

**STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
DECEMBER 31, 2021**

	Social Welfare Private-Purpose Trust Fund	Custodial Funds
<u>Assets</u>		
Cash and pooled investments	\$ 94,218	\$ 2,893,303
Accounts receivable	-	30,454
Taxes receivable for other governments	-	1,004,569
	\$ 94,218	\$ 3,928,326
<u>Liabilities</u>		
Accounts payable	\$ -	\$ 24,027
Due to other governments	-	891,399
Due to others	-	18,211
	\$ -	\$ 933,637
<u>Net Position</u>		
Restricted for Individuals, organizations, and other governments	\$ 94,218	\$ 2,994,689

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

EXHIBIT 8

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2021**

	<u>Social Welfare Private-Purpose Trust Fund</u>	<u>Custodial Funds</u>
Additions		
Contributions		
Individuals	\$ 433,816	\$ 2,039,412
Investment earnings		
Interest, dividends, and other	-	485
Property tax collections for other governments	-	39,550,323
License and fees collected for the state	-	526,141
Miscellaneous	-	7,100
	<hr/>	<hr/>
Total Additions	\$ 433,816	\$ 42,123,461
Deductions		
Beneficiary payments to individuals	\$ 402,920	\$ 6,224
Medical, dental, and life insurance	-	135,555
Payments of property tax to other governments	-	37,497,159
Payments to the state	-	2,449,451
Administrative expense	-	1,719,940
Payments to other entities	-	78,400
	<hr/>	<hr/>
Total Deductions	\$ 402,920	\$ 41,886,729
Change in net position	\$ 30,896	\$ 236,732
Net Position – January 1	63,322	2,757,957
	<hr/>	<hr/>
Net Position – December 31	\$ 94,218	\$ 2,994,689
	<hr/> <hr/>	<hr/> <hr/>

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2021

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, 2021. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

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

Discretely Presented Component Unit

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

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

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

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Joint Ventures and Jointly-Governed Organizations

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

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (the statement of net position and the statement of activities) display information about the primary government and its component unit. These statements include the financial activities of the overall County government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities.

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**

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 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.

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**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

Custodial funds account for monies held in a fiduciary capacity 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**

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, 2021. 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. The County reports negative pooled investment earnings of (\$24,665) due to a decrease in the market value of investments.

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**

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**

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
TWO HARBORS, MINNESOTA**

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 assets 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 assets 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 amount becomes available. The County also reports deferred inflows of resources associated with pension and OPEB benefits. These inflows arise only under the full accrual basis of accounting and, accordingly, are reported only in the statement of net position.

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

1. Summary of Significant Accounting Policies

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

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 issuance 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**

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

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

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

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

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

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

1. Summary of Significant Accounting Policies

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

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.

2. Stewardship, Compliance and Accountability

Excess of Expenditures Over Appropriations

For the year ended December 31, 2021, expenditures exceeded appropriations in the following nonmajor funds:

	Final Budget	Expenditures	Excess
Resource Development Special Revenue Fund	\$ 175,267	\$ 2,614,092	\$ 2,438,825
Unorganized Townships Special Revenue Fund	143,250	148,673	5,423

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

3. Detailed Notes

A. Assets

1. Deposits and Investments

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

Primary government	
Cash and pooled investments	\$ 28,719,194
Component unit	
Cash and pooled investments	917,124
Restricted cash for security deposits	18,605
Fiduciary funds	
Cash and pooled investments	<u>2,987,521</u>
 Total Cash and Investments	 <u>\$ 32,642,444</u>

a. Deposits

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

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk. As of December 31, 2021, the County's deposits were not exposed to custodial credit risk.

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

3. Detailed Notes

A. Assets

1. Deposits and Investments (Continued)

b. Investments

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

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

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

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

3. Detailed Notes

A. Assets

1. Deposits and Investments

b. Investments

Interest Rate Risk (Continued)

investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Credit Risk

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

Custodial Credit Risk

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

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, 2021, and information relating to potential investment risks:

Investment Type	Credit Risk		Concentration Risk Over 5% of Portfolio	Interest Rate Risk Maturity Date	Carrying (Fair) Value
	Credit Rating	Rating Agency			
U.S. government agency securities					
Federal Home Loan Bank	AAA	Moody	<5%	02/25/2026	\$ 245,313
Federal Home Loan Bank	AAA	Moody	<5%	03/30/2026	248,128
Federal Home Loan Bank	AAA	Moody	<5%	04/29/2026	149,129
Federal Home Loan Bank	AAA	Moody	<5%	06/15/2026	198,504
Total U.S. government agency securities					<u>\$ 841,074</u>
Municipal bonds					
New York NY City	Aa1	Moody	<5%	02/01/2025	\$ 171,698
Lancaster School CA GO Bond	AA	S&P	<5%	08/01/2025	232,159
Total municipal bonds					<u>\$ 403,857</u>
Negotiable certificates of deposit					
JP Morgan Chase Bank	N/A	N/A	<5%	10/30/2026	\$ 193,842
Texas Exchange Bank	N/A	N/A	<5%	12/18/2023	198,868
BMO Harris Bank	N/A	N/A	<5%	04/13/2026	243,106
Sallie Mae Bank	N/A	N/A	<5%	07/21/2026	197,930
Baycoast Bank	N/A	N/A	<5%	01/31/2024	204,462
Hammi Bank Los Angeles	N/A	N/A	<5%	01/18/2022	200,140
Eaglebank	N/A	N/A	<5%	01/17/2023	202,780
Goldman Sachs Bank	N/A	N/A	<5%	07/28/2026	241,874
State Bank of Indi	N/A	N/A	<5%	09/28/2026	243,111
Live Oak Bank	N/A	N/A	<5%	08/11/2028	241,043
Total negotiable certificates of deposit					<u>\$ 2,167,156</u>
Investment pools/mutual funds					
Money market fund	N/R	N/A	N/A	N/A	\$ 2,386
MAGIC Fund	N/R	N/A	88.94%	N/A	27,467,543
Total investment pools/mutual funds					<u>\$ 27,469,929</u>

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

3. Detailed Notes

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5% of Portfolio	Maturity Date	
Total investments					\$ 30,882,016
Deposits – primary government					785,061
Deposits – component unit					935,729
Petty cash and change funds					3,100
Escheat cash					<u>36,538</u>
Total Cash and Investments					<u>\$ 32,642,444</u>

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:

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

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

3. Detailed Notes

A. Assets

1. Deposits and Investments

b. Investments

Fair Value Measurement (Continued)

At December 31, 2021, Lake County had the following recurring fair value measurements.

	December 31, 2021	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level				
Debt securities				
U.S. government agency securities	\$ 841,074	\$ -	\$ 841,074	\$ -
Municipal bonds	403,857	-	403,857	-
Negotiable certificates of deposit	2,167,156	-	2,167,156	-
 Total Investments Included in the Fair Value Hierarchy	 \$ 3,412,087	 \$ -	 \$ 3,412,087	 \$ -
 Investments measured at the net asset value (NAV)				
Money market fund	2,386			
MAGIC Portfolio	27,467,543			
 Total Investments	 \$ 30,882,016			

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

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

3. Detailed Notes

A. Assets

1. Deposits and Investments

b. Investments

Fair Value Measurement (Continued)

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

MAGIC Portfolio is valued using amortized cost. Shares of the MAGIC Portfolio are available to be redeemed upon proper notice without restrictions under normal operating conditions. There are no limits to the number of redemptions that can be made as long as the County has a sufficient number of shares to meet the 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.

The money market mutual fund value is published at NAV per share. The County invests in this money market account for short-term holdings. Shares are available to be redeemed upon proper notice without restriction or limitation.

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

3. Detailed Notes

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2021, for the County's governmental activities are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	\$ 247,147	\$ -
Due from other governments	11,727,322	-
Accounts	1,289,167	-
Interest	5,808	-
Settlement	405,784	383,240
Loans receivable	50,000	50,000
Total Governmental Activities	\$ 13,725,228	\$ 433,240

Loans Receivable

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

Settlement Receivable

During 2022, final settlement agreements were reached with pharmaceutical companies and distributors as part of the National Prescription Opiate Litigation. For Lake County, the amount to be received as part of this litigation is \$405,784, to be received over 18 years, which has been recorded as a settlement receivable in the current year. The Minnesota Opioids State-Subdivision Memorandum of Agreement was signed January 24, 2022.

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

3. Detailed Notes

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2021, 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	\$ 25,052,575	\$ -	\$ -	\$ 25,052,575
Improvements other than buildings	983,549	66,404	-	1,049,953
Machinery, furniture, and equipment	12,725,014	1,054,355	709,579	13,069,790
Infrastructure	114,619,344	7,977,114	-	122,596,458
Total capital assets depreciated	\$ 153,380,482	\$ 9,097,873	\$ 709,579	\$ 161,768,776
Less: accumulated depreciation for				
Buildings	\$ 9,386,103	\$ 518,844	\$ -	\$ 9,904,947
Improvements other than buildings	696,706	31,822	-	728,528
Machinery, furniture, and equipment	10,753,657	647,201	702,843	10,698,015
Infrastructure	40,276,913	2,475,081	-	42,751,994
Total accumulated depreciation	\$ 61,113,379	\$ 3,672,948	\$ 702,843	\$ 64,083,484
Total capital assets depreciated, net	\$ 92,267,103	\$ 5,424,925	\$ 6,736	\$ 97,685,292
Governmental Activities Capital Assets, Net	\$ 96,235,486	\$ 5,424,925	\$ 6,736	\$ 101,653,675

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

Governmental Activities	
General government	\$ 300,808
Public safety	183,323
Highways and streets, including depreciation of infrastructure assets	2,883,164
Human services	4,139
Sanitation	7,239
Culture and recreation	268,663
Conservation of natural resources	25,612
Total Depreciation Expense – Governmental Activities	\$ 3,672,948

**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, 2021, is as follows:

Receivable Fund	Payable Fund	Amount	Purpose
General	Human Services Special Revenue	\$ 521	Reimbursement for services
	Forfeited Tax Special Revenue	116,291	Reimbursement for deficit cash
	Resource Development Special Revenue	<u>670,171</u>	Reimbursement for deficit cash
	Total due to General Fund	<u>\$ 786,983</u>	
Road and Bridge Special Revenue	Forfeited Tax Special Revenue	\$ 2,848	Reimbursement for services
	General	<u>32,694</u>	Reimbursement for services
Total due to Road and Bridge Special Revenue Fund		<u>\$ 35,542</u>	
Forfeited Tax Special Revenue	Road and Bridge Special Revenue	<u>\$ 55,374</u>	Reimbursement for services
Total Due To/From Other Funds		<u>\$ 877,899</u>	

2. Interfund Transfers

Interfund transfers for the year ended December 31, 2021, consisted of the following:

Transfer to General Fund from Debt Service Fund	\$ 70,272	To transfer social services rent
Transfer to General Fund from Forfeited Tax Special Revenue Fund	<u>42,479</u>	Tax forfeit apportionment
Total transfers to General Fund	\$ 112,751	
Transfer to Resource Development Fund from Forfeited Tax Special Revenue Fund	106,199	Tax forfeit apportionment
Transfer to Unorganized Townships Fund from Forfeited Tax Special Revenue Fund	<u>4,300</u>	Tax forfeit apportionment
Total Transfers	<u>\$ 223,250</u>	

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

3. Detailed Notes (Continued)

C. Liabilities

1. Payables

Payables at December 31, 2021, were as follows:

	Governmental Activities
Accounts payable	\$ 913,199
Salaries payable	321,579
Contracts payable	555,664
Due to other governments	424,162
Total Payables	\$ 2,214,604

2. Long-Term Debt

Governmental Activities

Types of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2021
General obligation bonds					
G.O. Capital Improvement Refunding Bonds, Series 2014A	2030	\$60,000 - \$355,000	2.00 - 3.25	\$ 2,410,000	\$ 625,000
G.O. Judgment Bonds, Series 2018A	2033	\$390,000 - \$590,000	3.00 - 3.25	7,235,000	6,035,000
G.O. Capital Improvement Bonds, Series 2018B	2033	\$115,000 - \$235,000	3.00 - 3.50	2,765,000	2,345,000
G.O. Capital Improvement Bonds, Series 2019A	2034	\$70,000 - \$115,000	3.00 - 4.00	1,400,000	1,255,000
Total				\$ 13,810,000	\$ 10,260,000
Plus: unamortized premium					170,807
Total General Obligation Bonds					\$ 10,430,807

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

3. Detailed Notes

C. Liabilities (Continued)

3. Debt Service Requirements

Debt service requirements at December 31, 2021, were as follows:

Governmental Activities

Year Ending December 31	General Obligation Bonds	
	Principal	Interest
2022	\$ 720,000	\$ 326,944
2023	750,000	304,519
2024	770,000	279,569
2025	795,000	253,919
2026	825,000	227,344
2027 - 2031	4,440,000	737,956
2032 - 2034	1,960,000	101,750
Total	\$ 10,260,000	\$ 2,232,001

4. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2021, was as follows:

Governmental Activities

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Bonds payable					
General obligation improvement refunding bonds	\$ 685,000	\$ -	\$ 60,000	\$ 625,000	\$ 60,000
General obligation judgment bonds	6,445,000	-	410,000	6,035,000	425,000
General obligation capital improvement bonds	3,830,000	-	230,000	3,600,000	235,000
Bond premium	185,423	-	14,616	170,807	-
Capital leases payable	146,663	-	146,663	-	-
Compensated absences	1,612,245	638,570	654,256	1,596,559	-
Governmental Activities Long-Term Liabilities	\$ 12,904,331	\$ 638,570	\$ 1,515,535	\$ 12,027,366	\$ 720,000

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

3. Detailed Notes (Continued)

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, 2021, there were no retirees using their sick leave balances for insurance premiums.

Active employees who retire from the County when eligible to receive a retirement benefit from PERA and do not participate in any other health benefits program providing similar coverage will be eligible to continue coverage with respect to both themselves and their eligible dependents under the County's health benefits program. These retirees are required to pay 100 percent of the total premium cost. Since the premium is a blended rate determined on the entire active and retiree population, the retirees are receiving an implicit rate subsidy. As of December 31, 2021, seven retirees were receiving health benefits from the County's health plan, of which, one employee is 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.

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

3. Detailed Notes

D. Other Postemployment Benefits (OPEB) (Continued)

2. Total OPEB Liability

The County's total OPEB liability of \$489,931 was measured as of January 1, 2021, and was determined by an actuarial valuation as of that date. 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, 2021, actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.00 percent
Salary increases	3.00 percent, average wage inflation plus merit/productivity increases
Health care cost trend	6.50 percent, decreasing to 5.00 percent over six years and then to 4.00 percent over the next 48 years

The current year discount rate is 2.00 percent, which is a change from the prior year rate of 2.90 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 the Pub-2010 Public Retirement Plans Headcount-Weighted Mortality tables (General, Safety) with MP-2020 General Improvement Scale.

Retirement and withdrawal assumptions used are similar to those used to value pension liabilities for Minnesota public employees. The state pension plans base their assumptions on periodic experience studies.

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

3. Detailed Notes

D. Other Postemployment Benefits (OPEB) (Continued)

3. Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at December 31, 2020	\$ 512,820
Changes for the year	
Service cost	\$ 53,783
Interest	16,122
Assumption changes	(13,942)
Differences between expected and actual experience	(57,349)
Benefit payments	(21,503)
Net change	\$ (22,889)
Balance at December 31, 2021	\$ 489,931

4. OPEB Liability Sensitivity

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

	Discount Rate	Total OPEB Liability
1% Decrease	1.00%	\$ 525,942
Current	2.00	489,931
1% Increase	3.00	455,620

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

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

3. Detailed Notes

D. Other Postemployment Benefits (OPEB)

4. OPEB Liability Sensitivity (Continued)

	<u>Health Care Trend Rate</u>	<u>Total OPEB Liability</u>
1% Decrease	5.50% Decreasing to 4.00%	\$ 434,666
Current	6.50% Decreasing to 5.00%	489,931
1% Increase	7.50% Decreasing to 6.00%	554,865

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

For the year ended December 31, 2021, the County recognized OPEB expense of \$34,594. 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	\$ -	\$ 99,444
Changes in actuarial assumptions	19,895	20,640
Contributions paid subsequent to the measurement date	14,360	-
Total	<u>\$ 34,255</u>	<u>\$ 120,084</u>

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

<u>Year Ended December 31</u>	<u>OPEB Expense Amount</u>
2022	\$ (20,951)
2023	(20,951)
2024	(20,951)
2025	(20,949)
2026	(6,206)
Thereafter	(10,181)

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

3. Detailed Notes

D. Other Postemployment Benefits (OPEB) (Continued)

6. Changes in Actuarial Methods and Assumptions

The following changes in actuarial assumptions occurred in 2021:

- The health care trend rates were changed to better anticipate short-term and long-term medical increases.
- The mortality tables were updated from the RP-2014 Mortality Tables (Blue Collar for Public Safety, White Collar for others) with MP-2018 Generational Improvement Scale to the Pub-2010 Public Retirement Plans Headcount-Weighted Mortality tables (General, Safety) with MP-2020 Generational Improvement Scale.
- The retirement and withdrawal tables for non-public safety employees were updated.
- The salary increase rates were changed from a flat 3.00 percent per year for all employees to rates which vary by service and contract group.
- The inflation rate was changed from 2.50 percent to 2.00 percent.
- The discount rate was changed from 2.90 percent to 2.00 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.

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

3. Detailed Notes

E. Pension Plans

1. Defined Benefit Pension Plans

a. Plan Description (Continued)

These plans are established and administered in accordance with Minn. Stat. chs. 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

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

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

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

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

3. Detailed Notes

E. Pension Plans

1. Defined Benefit Pension Plans (Continued)

b. Benefits Provided

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

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

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

3. Detailed Notes

E. Pension Plans

1. Defined Benefit Pension Plans

b. Benefits Provided (Continued)

June 30 before the effective date of the increase will receive the full increase. 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
TWO HARBORS, MINNESOTA**

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. Rates did not change from 2020.

In 2021, the County was required to contribute the following percentages of annual covered salary:

	Member Required Contribution	Employer Required Contribution
General Employees Plan – Coordinated Plan members	6.50%	7.50%
Police and Fire Plan	11.80	17.70
Correctional Plan	5.83	8.75

The County’s contributions for the year ended December 31, 2021, to the pension plans were:

General Employees Plan	\$	457,055
Police and Fire Plan		220,561
Correctional Plan		55,157

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

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

3. Detailed Notes

E. Pension Plans

1. Defined Benefit Pension Plans (Continued)

d. Pension Costs

General Employees Plan

At December 31, 2021, the County reported a liability of \$3,561,554 for its proportionate share of the General Employees Plan's net pension liability. The net pension liability was measured as of June 30, 2021, 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, 2020, through June 30, 2021, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2021, the County's proportion was 0.0834 percent. It was 0.0818 percent measured as of June 30, 2020. The County recognized pension expense of (\$11,187) for its proportionate share of the General Employees Plan's pension expense.

The County also recognized \$8,781 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	\$ 3,561,554
State of Minnesota's proportionate share of the net pension liability associated with the County	<u>108,830</u>
Total	<u>\$ 3,670,384</u>

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

3. Detailed Notes

E. Pension Plans

1. Defined Benefit Pension Plans

d. Pension Costs

General Employees Plan (Continued)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 21,042	\$ 108,751
Changes in actuarial assumptions	2,174,611	76,792
Difference between projected and actual investment earnings	-	3,091,747
Changes in proportion	116,175	41,607
Contributions paid to PERA subsequent to the measurement date	241,206	-
Total	\$ 2,553,034	\$ 3,318,897

The \$241,206 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, 2022. 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
2022	\$ (150,344)
2023	(9,353)
2024	(6,079)
2025	(841,293)

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

3. Detailed Notes

E. Pension Plans

1. Defined Benefit Pension Plans

d. Pension Costs (Continued)

Police and Fire Plan

At December 31, 2021, the County reported a liability of \$808,945 for its proportionate share of the Police and Fire Plan's net pension liability. The net pension liability was measured as of June 30, 2021, 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, 2020, through June 30, 2021, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2021, the County's proportion was 0.1048 percent. It was 0.1101 percent measured as of June 30, 2020. The County recognized pension expense of (\$139,468) for its proportionate share of the Police and Fire Plan's pension expense.

The State of Minnesota also contributed \$18 million to the Police and Fire Plan in the plan fiscal year ended June 30, 2021. The contribution consisted of \$9 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 \$9 million on October 1, 2020, 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 \$6,622 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	\$ 808,945
State of Minnesota's proportionate share of the net pension liability associated with the County	<u>36,364</u>
Total	<u>\$ 845,309</u>

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

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 \$9,432 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:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 159,002	\$ -
Changes in actuarial assumptions	1,188,937	495,066
Difference between projected and actual investment earnings	-	1,540,681
Changes in proportion	15,456	171,548
Contributions paid to PERA subsequent to the measurement date	122,200	-
Total	\$ 1,485,595	\$ 2,207,295

The \$122,200 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, 2022. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

3. Detailed Notes

E. Pension Plans

1. Defined Benefit Pension Plans

d. Pension Costs

Police and Fire Plan (Continued)

Year Ended December 31	Pension Expense Amount
2022	\$ (663,594)
2023	(122,407)
2024	(119,806)
2025	(186,731)
2026	248,638

Correctional Plan

At December 31, 2021, the County reported an asset of \$46,672 for its proportionate share of the Correctional Plan's net pension asset. The net pension asset was measured as of June 30, 2021, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of that date. The County's proportion of the net pension asset was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2020, through June 30, 2021, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2021, the County's proportion was 0.2841 percent. It was 0.2792 percent measured as of June 30, 2020. The County recognized pension expense of (\$120,284) 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:

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

3. Detailed Notes

E. Pension Plans

1. Defined Benefit Pension Plans

d. Pension Costs

Correctional Plan (Continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 26,298
Changes in actuarial assumptions	292,154	4,299
Difference between projected and actual investment earnings	-	375,643
Changes in proportion	1,003	452
Contributions paid to PERA subsequent to the measurement date	30,109	-
Total	\$ 323,266	\$ 406,692

The \$30,109 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, 2022. 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
2022	\$ (15,886)
2023	(2,617)
2024	6,819
2025	(101,851)

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

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, 2021, was (\$270,939).

e. Actuarial Assumptions

The total pension liability in the June 30, 2021, actuarial valuation was determined using the individual entry-age normal actuarial cost method and the following additional actuarial assumptions:

	<u>General Employees Fund</u>	<u>Police and Fire Fund</u>	<u>Correctional Fund</u>
Inflation	2.25% per year	2.25% per year	2.25% per year
Active Member Payroll Growth	3.00% per year	3.00% per year	3.00% per year
Investment Rate of Return	6.50%	6.50%	6.50%

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 Pub-2010 Public Safety Employee Mortality table 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, 2021, 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 July 14, 2020. The experience study for the Correctional Plan was dated July 10, 2020. For all plans, a review of inflation and investment assumptions dated June 24, 2021, was utilized.

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

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 6.50 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>
Domestic equities	33.50%	5.10%
International equities	16.50	5.30
Fixed income	25.00	0.75
Private markets	25.00	5.90

f. Discount Rate

The discount rate used to measure the total pension liability was 6.50 percent in 2021, which is a decrease of one percent from 2020. 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.

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

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 2021:

General Employees Plan

- The investment return and single discount rates were changed from 7.50 percent to 6.50 percent.
- The mortality improvement scale was changed from Scale MP-2019 to Scale MP-2020.

Police and Fire Plan

- The investment return and single discount rates were changed from 7.50 percent to 6.50 percent.
- The inflation assumption was changed from 2.50 percent to 2.25 percent.
- The payroll growth assumption was changed from 3.25 percent to 3.00 percent.
- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 Public Safety Mortality table. The mortality improvement scale was changed from Scale MP-2019 to Scale MN-2020.
- The base mortality table for disabled annuitants was changed from the RP-2014 Healthy Annuitant Mortality table (with future mortality improvement according to Scale MP-2019) to the Pub-2010 Public Safety Disabled Annuitant Mortality table (with future mortality improvement according to Scale MP-2020).

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

3. Detailed Notes

E. Pension Plans

1. Defined Benefit Pension Plans

g. Changes in Actuarial Assumptions and Plan Provisions

Police and Fire Plan (Continued)

- Assumed rates of salary increase were modified as recommended in the July 14, 2020, experience study. The overall impact is a decrease in gross salary increase rates.
- Assumed rates of retirement were changed as recommended in the July 14, 2020, experience study. The changes result in slightly more unreduced retirements and fewer assumed early retirements.
- Assumed rates of withdrawal were changed from select and ultimate rates to service-based rates. The changes result in more assumed terminations.
- Assumed rates of disability were increased for ages 25 - 44 and decreased for ages over 49. Overall, proposed rates result in more projected disabilities.
- Assumed percent married for active female members was changed from 60 percent to 70 percent. Minor changes to form of payment assumptions were applied.

Correctional Plan

- The investment return and single discount rates were changed from 7.50 percent to 6.50 percent.
- The inflation assumption was changed from 2.50 percent to 2.25 percent.
- The payroll growth assumption was changed from 3.25 percent to 3.00 percent.

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

3. Detailed Notes

E. Pension Plans

1. Defined Benefit Pension Plans

g. Changes in Actuarial Assumptions and Plan Provisions

Correctional Plan (Continued)

- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 Public Safety Mortality table. The mortality improvement scale was changed from Scale MP-2019 to Scale MN-2020.
- The base mortality table for disabled annuitants was changed from the RP-2014 Healthy Annuitant Mortality table (with future mortality improvement according to Scale MP-2019) to the Pub-2010 Public Safety Disabled Annuitant Mortality table (with future mortality improvement according to Scale MP-2020).
- Assumed rates of salary increase were modified as recommended in the July 10, 2020, experience study. The overall impact is a decrease in gross salary increase rates.
- Assumed rates of retirement were changed as recommended in the July 10, 2020, experience study. The changes result in slightly more unreduced retirements and fewer assumed early retirements.
- Assumed rates of withdrawal were changed as recommended in the July 10, 2020, experience study. The new rates predict more terminations, both in the three-year select period (based on service) and the ultimate rates (based on age).
- Assumed rates of disability were lowered.
- Assumed percent married for active members was lowered from 85 percent to 75 percent.
- Minor changes to form of payment assumptions were applied.

**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:

	Proportionate Share of the					
	General Employees Plan		Police and Fire Plan		Correctional Plan	
	Discount Rate	Net Pension Liability	Discount Rate	Net Pension Liability (Asset)	Discount Rate	Net Pension Liability (Asset)
1% Decrease	5.50%	\$ 7,263,751	5.50%	\$ 2,568,263	5.50%	\$ 485,729
Current	6.50	3,561,554	6.50	808,945	6.50	(46,672)
1% Increase	7.50	523,674	7.50	(633,260)	7.50	(469,188)

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.

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**

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, 2021, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 11,077	\$ 11,077
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**

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 2021, 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**

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 2021 and 2022. 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
TWO HARBORS, MINNESOTA**

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

	Year Ended December 31	
	2021	2020
Unpaid claims, beginning of fiscal year	\$ -	\$ -
Incurred claims (including incurred but not reported)	123,496	98,385
Claims payments	(123,496)	(98,385)
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
TWO HARBORS, MINNESOTA**

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 \$690,354 in funding during 2021.

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Arrowhead Regional Corrections (Continued)

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

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

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

The Community Health Board is composed of nine members. The Carlton, Cook, and Lake County Boards of Commissioners each appoint two members; the St. Louis County Board of Commissioners appoints three members. Financing is obtained through federal and state grants. Lake County provided no funding to this organization in 2021.

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.

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Northeast Minnesota Office of Job Training (Continued)

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

Minnesota Counties Information Systems (MCIS)

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

MCIS is governed by a 13-member board, composed of a member appointed by each of the participating county's Board of Commissioners. Financing is obtained through user charges to the members. 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 2021.

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Northern Counties Land Use Coordinating Board (Continued)

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

North Shore Collaborative

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

Control of the North Shore Collaborative is vested in a Board of Directors. Financing is provided by state and federal grants, appropriations from Collaborative members, and miscellaneous revenues. Lake County is the fiscal agent for the Collaborative and handles all of the financial transactions for the organization. Financial information for the Collaborative for the fiscal year ended December 31, 2021, is as follows:

Total Assets	\$	216,209
Total Liabilities		216,209

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.

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Arrowhead Health Alliance (Continued)

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 2021.

Northeast Minnesota Emergency Communications Board

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

The joint powers are the Counties of Aitkin, Carlton, Cass, Cook, Crow Wing, Itasca, Kanabec, Koochiching, Lake, Pine, and St. Louis, and the Cities of Duluth, Hibbing, International Falls, and Virginia, along with three tribes including Grand Portage Band of Chippewa, Leech Lake Band of Ojibwe, and Mille Lacs Band of Ojibwe. Control of the Northeast Minnesota Emergency Communications Board is vested in a Board of Directors composed of one County Commissioner from each of the member counties, 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 2021.

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

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

D. Joint Ventures (Continued)

Lake Superior Drug and Violent Crime Task Force

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

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

Fiscal agent responsibilities for the Task Force are with St. Louis County. Lake County provided no funding to this organization in 2021.

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 Townships of Duluth and Lakewood. Lake County contributed \$2,500 to the Board in 2021.

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

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

E. Jointly-Governed Organizations

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

are recorded in the Regional Railroad Authority Agency Fund. Financing is obtained through a tax levy and federal, state, and local grants or participation. Lake County did not contribute to the Authority during 2021.

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

5. Component Unit Disclosures

A. Summary of Significant Accounting Policies

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

Reporting Entity

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

Basis of Presentation

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

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

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

5. Component Unit Disclosures

A. Summary of Significant Accounting Policies (Continued)

Measurement Focus and Basis of Accounting

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

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

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

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

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

Cash and Cash Equivalents

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

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

5. Component Unit Disclosures

A. Summary of Significant Accounting Policies (Continued)

Receivables and Payables

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

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

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

Restricted Assets

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

Capital Assets

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

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

5. Component Unit Disclosures

A. Summary of Significant Accounting Policies

Capital Assets (Continued)

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

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

Assets	Years
Buildings and structures	25 - 40
Equipment	7

Long-Term Obligations

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

B. Detailed Notes

1. Assets

Deposits

The Authority's total deposits are reported as follows:

Government-wide statement of net position	
Cash and pooled investments	\$ 737,160
Cash with management company for operations	179,964
Restricted cash with management company for security deposits	18,605
Total Cash	\$ 935,729

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

5. Component Unit Disclosures

B. Detailed Notes

1. Assets

Deposits (Continued)

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

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the Authority's deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk other than complying with the requirements of Minnesota statutes. As of December 31, 2021, the Authority's deposits were not exposed to custodial credit risk.

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

5. Component Unit Disclosures

B. Detailed Notes

1. Assets (Continued)

Capital Assets

Capital asset activity for the year ended December 31, 2021, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets depreciated				
Buildings and structures	\$ 1,951,232	\$ -	\$ -	\$ 1,951,232
Equipment	51,505	-	-	51,505
Total capital assets depreciated	\$ 2,002,737	\$ -	\$ -	\$ 2,002,737
Less: accumulated depreciation for				
Buildings and structures	\$ 1,115,559	\$ 55,419	\$ -	\$ 1,170,978
Equipment	38,229	5,738	-	43,967
Total accumulated depreciation	\$ 1,153,788	\$ 61,157	\$ -	\$ 1,214,945
Capital Assets, Net	\$ 848,949	\$ (61,157)	\$ -	\$ 787,792

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

Business-Type Activities	
Senior housing	\$ 61,157

2. Liabilities

Long-Term Debt

Business-Type Activities

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2021
2012 General Obligation Senior Housing Bonds	2027	Varies	1.0 - 3.5	\$ 860,000	\$ 345,000

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

5. Component Unit Disclosures

B. Detailed Notes

2. Liabilities (Continued)

Debt Service Requirements

Debt service requirements at December 31, 2021, were as follows:

Business-Type Activities

Year Ending December 31	Revenue Bonds	
	Principal	Interest
2022	\$ -	\$ -
2023	60,000	10,038
2024	60,000	8,388
2025	60,000	6,588
2026	65,000	4,556
2027 - 2028	100,000	2,975
Totals	<u>\$ 345,000</u>	<u>\$ 32,545</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	\$ 405,000	\$ -	\$ 60,000	\$ 345,000	\$ -
Less: unamortized discount	(4,812)	-	(803)	(4,009)	-
Total Bonds Payable	<u>\$ 400,188</u>	<u>\$ -</u>	<u>\$ 59,197</u>	<u>\$ 340,991</u>	<u>\$ -</u>

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

5. 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. 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, 2021**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 7,997,367	\$ 7,997,367	\$ 9,282,587	\$ 1,285,220
Licenses and permits	17,350	17,350	26,790	9,440
Intergovernmental	3,449,074	3,449,074	6,762,222	3,313,148
Charges for services	449,312	449,312	526,025	76,713
Fines and forfeits	8,000	8,000	7,481	(519)
Investment earnings	150,634	150,634	(24,665)	(175,299)
Miscellaneous	191,202	191,202	423,756	232,554
Total Revenues	\$ 12,262,939	\$ 12,262,939	\$ 17,004,196	\$ 4,741,257
Expenditures				
Current				
General government				
Commissioners	\$ 329,711	\$ 329,711	\$ 685,621	\$ (355,910)
Courts	38,500	38,500	9,926	28,574
Law library	8,000	8,000	4,436	3,564
County administration	350,922	350,922	331,218	19,704
County auditor	651,148	651,148	642,074	9,074
County assessor	548,232	548,232	508,824	39,408
Elections	9,378	9,378	19,782	(10,404)
Accounting and auditing	90,255	90,255	71,609	18,646
Data processing	702,972	702,972	658,523	44,449
Personnel	231,751	231,751	195,288	36,463
Attorney	433,557	433,557	423,337	10,220
Recorder	351,384	351,384	275,631	75,753
Planning and zoning	515,348	515,348	634,558	(119,210)
Buildings and plant	914,242	914,242	755,963	158,279
Veterans service officer	107,445	107,445	94,073	13,372
Motor pool	50,389	50,389	28,365	22,024
Other general government	-	-	10,551	(10,551)
Total general government	\$ 5,333,234	\$ 5,333,234	\$ 5,349,779	\$ (16,545)
Public safety				
Sheriff	\$ 2,714,691	\$ 2,714,691	\$ 2,431,404	\$ 283,287
Ambulance	551,477	551,477	507,751	43,726
Emergency services	179,660	179,660	237,835	(58,175)
Coroner	37,500	37,500	39,725	(2,225)
County jail	1,206,662	1,206,662	1,083,912	122,750
Community corrections	692,094	692,094	693,285	(1,191)
Sentence to serve	101,820	101,820	73,416	28,404
Emergency management	124,091	124,091	608,580	(484,489)
Other public safety	143,001	143,001	149,395	(6,394)
Total public safety	\$ 5,750,996	\$ 5,750,996	\$ 5,825,303	\$ (74,307)

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

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

**EXHIBIT A-1
(Continued)**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2021**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Sanitation				
Solid waste	\$ 156,113	\$ 156,113	\$ 169,193	\$ (13,080)
Recycling	215,680	215,680	205,427	10,253
Hazardous waste	16,200	16,200	11,455	4,745
Total sanitation	\$ 387,993	\$ 387,993	\$ 386,075	\$ 1,918
Culture and recreation				
Historical society	\$ 35,000	\$ 35,000	\$ 35,000	\$ -
Arenas	196,733	196,733	190,512	6,221
Humane Society	3,500	3,500	3,500	-
Memorial Day observance	3,000	3,000	-	3,000
Recreation board	150,660	150,660	150,550	110
Trails	-	-	250,315	(250,315)
County/regional library	170,000	170,000	170,000	-
Total culture and recreation	\$ 558,893	\$ 558,893	\$ 799,877	\$ (240,984)
Conservation of natural resources				
County extension	\$ 70,402	\$ 70,402	\$ 64,548	\$ 5,854
Soil and water conservation	67,202	67,202	99,688	(32,486)
Agricultural society/County fair	22,002	22,002	24,747	(2,745)
Water planning	4,571	4,571	4,571	-
CWP project	14,488	14,488	14,736	(248)
Wetland challenge	5,000	5,000	5,000	-
Total conservation of natural resources	\$ 183,665	\$ 183,665	\$ 213,290	\$ (29,625)
Economic development				
Information centers	\$ 13,000	\$ 13,000	\$ 13,000	\$ -
Airports	7,500	7,500	7,500	-
Housing and Redevelopment Authority	-	-	117,445	(117,445)
Other economic development	-	-	1,066,714	(1,066,714)
Total economic development	\$ 20,500	\$ 20,500	\$ 1,204,659	\$ (1,184,159)
Total Expenditures	\$ 12,235,281	\$ 12,235,281	\$ 13,778,983	\$ (1,543,702)
Excess of Revenues Over (Under)				
Expenditures	\$ 27,658	\$ 27,658	\$ 3,225,213	\$ 3,197,555

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

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

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2021**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Other Financing Sources (Uses)				
Transfers in	\$ -	\$ -	\$ 112,751	\$ 112,751
Transfers out	(25,000)	(25,000)	-	25,000
Total Other Financing Sources (Uses)	\$ (25,000)	\$ (25,000)	\$ 112,751	\$ 137,751
Net Change in Fund Balance	\$ 2,658	\$ 2,658	\$ 3,337,964	\$ 3,335,306
Fund Balance – January 1	12,936,332	12,936,332	12,936,332	-
Fund Balance – December 31	\$ 12,938,990	\$ 12,938,990	\$ 16,274,296	\$ 3,335,306

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

EXHIBIT A-2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2021**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 2,464,600	\$ 2,464,600	\$ 2,986,997	\$ 522,397
Licenses and permits	-	-	3,130	3,130
Intergovernmental	6,931,298	6,931,298	9,538,354	2,607,056
Charges for services	27,000	27,000	78,317	51,317
Miscellaneous	32,000	32,000	62,275	30,275
Total Revenues	\$ 9,454,898	\$ 9,454,898	\$ 12,669,073	\$ 3,214,175
Expenditures				
Current				
Highways and streets				
Administration	\$ 402,060	\$ 402,060	\$ 368,952	\$ 33,108
Maintenance	2,359,155	2,359,155	1,565,618	793,537
Construction	6,095,701	6,095,701	7,667,313	(1,571,612)
Equipment maintenance and shop	741,422	741,422	797,594	(56,172)
Total highways and streets	\$ 9,598,338	\$ 9,598,338	\$ 10,399,477	\$ (801,139)
Capital outlay				
Highways and streets	-	-	836,872	(836,872)
Total Expenditures	\$ 9,598,338	\$ 9,598,338	\$ 11,236,349	\$ (1,638,011)
Net Change in Fund Balance	\$ (143,440)	\$ (143,440)	\$ 1,432,724	\$ 1,576,164
Fund Balance – January 1	6,296,398	6,296,398	6,296,398	-
Increase (decrease) in inventories	-	-	(39,489)	(39,489)
Fund Balance – December 31	\$ 6,152,958	\$ 6,152,958	\$ 7,689,633	\$ 1,536,675

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

EXHIBIT A-3

**BUDGETARY COMPARISON SCHEDULE
HUMAN SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2021**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 1,911,499	\$ 1,911,499	\$ 1,843,162	\$ (68,337)
Intergovernmental	4,889,889	4,889,889	5,195,575	305,686
Charges for services	190,500	190,500	340,761	150,261
Miscellaneous	123,350	123,350	164,586	41,236
Total Revenues	<u>\$ 7,115,238</u>	<u>\$ 7,115,238</u>	<u>\$ 7,544,084</u>	<u>\$ 428,846</u>
Expenditures				
Current				
Human services				
Income maintenance	\$ 1,070,879	\$ 1,070,879	\$ 855,818	\$ 215,061
Social services	2,995,884	2,995,884	2,591,952	403,932
Total human services	<u>\$ 4,066,763</u>	<u>\$ 4,066,763</u>	<u>\$ 3,447,770</u>	<u>\$ 618,993</u>
Health				
Nursing service	\$ 97,302	\$ 97,302	\$ 64,145	\$ 33,157
Transportation	105,998	105,998	75,143	30,855
Environmental health	140,076	140,076	113,557	26,519
Mental health	2,568,272	2,568,272	2,884,210	(315,938)
Health education	321,674	321,674	404,896	(83,222)
Total health	<u>\$ 3,233,322</u>	<u>\$ 3,233,322</u>	<u>\$ 3,541,951</u>	<u>\$ (308,629)</u>
Total Expenditures	<u>\$ 7,300,085</u>	<u>\$ 7,300,085</u>	<u>\$ 6,989,721</u>	<u>\$ 310,364</u>
Net Change in Fund Balance	<u>\$ (184,847)</u>	<u>\$ (184,847)</u>	<u>\$ 554,363</u>	<u>\$ 739,210</u>
Fund Balance – January 1	<u>5,582,791</u>	<u>5,582,791</u>	<u>5,582,791</u>	<u>-</u>
Fund Balance – December 31	<u>\$ 5,397,944</u>	<u>\$ 5,397,944</u>	<u>\$ 6,137,154</u>	<u>\$ 739,210</u>

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

EXHIBIT A-4

**BUDGETARY COMPARISON SCHEDULE
FORFEITED TAX SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2021**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Licenses and permits	\$ 1,190	\$ 1,190	\$ 1,149	\$ (41)
Intergovernmental	62,000	62,000	141,827	79,827
Charges for services	20,100	20,100	52,726	32,626
Miscellaneous	539,650	539,650	809,946	270,296
Total Revenues	\$ 622,940	\$ 622,940	\$ 1,005,648	\$ 382,708
Expenditures				
Current				
Conservation of natural resources				
Land use	\$ 595,915	\$ 595,915	\$ 684,300	\$ (88,385)
Capital outlay				
Conservation of natural resources	31,000	31,000	28,175	2,825
Total Expenditures	\$ 626,915	\$ 626,915	\$ 712,475	\$ (85,560)
Excess of Revenues Over (Under) Expenditures	\$ (3,975)	\$ (3,975)	\$ 293,173	\$ 297,148
Other Financing Sources (Uses)				
Transfers out	-	-	(152,978)	(152,978)
Net Change in Fund Balance	\$ (3,975)	\$ (3,975)	\$ 140,195	\$ 144,170
Fund Balance – January 1	(85,391)	(85,391)	(85,391)	-
Fund Balance – December 31	\$ (89,366)	\$ (89,366)	\$ 54,804	\$ 144,170

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

EXHIBIT A-5

**SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS
OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2021**

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Total OPEB Liability				
Service cost	\$ 53,783	\$ 37,029	\$ 31,227	\$ 38,756
Interest	16,122	18,175	18,301	17,891
Differences between expected and actual experience	(57,349)	-	(88,004)	-
Changes of assumption or other inputs	(13,942)	27,853	(15,209)	-
Benefit payments	<u>(21,503)</u>	<u>(22,766)</u>	<u>(33,974)</u>	<u>(39,361)</u>
Net change in total OPEB liability	\$ (22,889)	\$ 60,291	\$ (87,659)	\$ 17,286
Total OPEB Liability – Beginning	<u>512,820</u>	<u>452,529</u>	<u>540,188</u>	<u>522,902</u>
Total OPEB Liability – Ending	<u><u>\$ 489,931</u></u>	<u><u>\$ 512,820</u></u>	<u><u>\$ 452,529</u></u>	<u><u>\$ 540,188</u></u>
Covered-employee payroll	\$ 7,545,296	\$ 7,201,631	\$ 6,991,875	\$ 6,963,854
Total OPEB liability (asset) as a percentage of covered-employee payroll	6.49%	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, 2021**

Measurement Date	Employer's Proportion of the Net Pension Liability/ Asset	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	State's Proportionate Share of the Net Pension Liability Associated with Lake County (b)	Employer's Proportionate Share of the Net Pension Liability and the State's Related Share of the Net Pension Liability (Asset) (a + b)	Covered Payroll (c)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2021	0.0834 %	\$ 3,561,554	\$ 108,830	\$ 3,670,384	\$ 6,007,180	59.29 %	87.00 %
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, 2021**

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b - a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
2021	\$ 457,055	\$ 457,055	\$ -	\$ 6,094,066	7.50 %
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, 2021**

Measurement Date	Employer's Proportion of the Net Pension Liability/ Asset	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	State's Proportionate Share of the Net Pension Liability Associated with Lake County (b)	Employer's Proportionate Share of the Net Pension Liability and the State's Related Share of the Net Pension Liability (Asset) (a + b)	Covered Payroll (c)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2021	0.1048 %	\$ 808,945	\$ 36,364	\$ 845,309	\$ 1,238,278	65.33 %	93.66 %
2020	0.1101	1,451,236	34,190	1,485,426	1,242,965	116.76	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, 2021**

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b - a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
2021	\$ 220,561	\$ 220,561	\$ -	\$ 1,246,105	17.70 %
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, 2021**

Measurement Date	Employer's Proportion of the Net Pension Liability/ Asset	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	Covered Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2021	0.2841 %	\$ (46,672)	\$ 628,169	(7.43) %	101.61 %
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
TWO HARBORS, MINNESOTA**

EXHIBIT A-11

**SCHEDULE OF CONTRIBUTIONS
PERA PUBLIC EMPLOYEES LOCAL GOVERNMENT CORRECTIONAL SERVICE RETIREMENT PLAN
DECEMBER 31, 2021**

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b - a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
2021	\$ 55,157	\$ 55,157	\$ -	\$ 630,367	8.75 %
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, 2021**

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, 2021:

	Expenditures	Budget	Excess
Major governmental funds			
General Fund			
Current			
General government			
Commissioners	\$ 685,621	\$ 329,711	\$ 355,910
Elections	19,782	9,378	10,404
Planning and zoning	634,558	515,348	119,210
Other general government	10,551	-	10,551
Public safety			
Emergency services	237,835	179,660	58,175
Coroner	39,725	37,500	2,225
Community corrections	693,285	692,094	1,191
Emergency management	608,580	124,091	484,489
Other public safety	149,395	143,001	6,394
Sanitation			
Solid waste	169,193	156,113	13,080

**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)			
Culture and recreation			
Trails	250,315	-	250,315
Conservation of natural resources			
Soil and water conservation	99,688	67,202	32,486
Agricultural society/County fair	24,747	22,002	2,745
CWP project	14,736	14,488	248
Economic development			
Housing and Redevelopment Authority	117,445	-	117,445
Other economic development	1,066,714	-	1,066,714
Road and Bridge Special Revenue Fund			
Current			
Highways and streets			
Construction	7,667,313	6,095,701	1,571,612
Equipment maintenance and shop	797,594	741,422	56,172
Capital outlay			
Highways and streets	836,872	-	836,872
Human Services Special Revenue Fund			
Current			
Health			
Mental health	2,884,210	2,568,272	315,938
Health education	404,896	321,674	83,222
Forfeited Tax Special Revenue Fund			
Current			
Land use	684,300	595,915	88,385

3. Schedule of Funding Progress - Other Postemployment Benefits

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

4. Employer Contributions to Other Postemployment Benefits

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

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

4. Employer Contributions to Other Postemployment Benefits (Continued)

The following changes in actuarial methods and assumptions occurred:

2021

- The health care trend rates were changed to better anticipate short-term and long-term medical increases.
- The mortality tables were updated from RP-2014 Mortality tables (Blue Collar for Public Safety, White Collar for others) with MP-2018 Generational Improvement Scale to the Pub-2010 Public Retirement Plans Headcount-Weighted Mortality tables (General, Safety) with MP-2020 Generational Improvement Scale.
- The retirement and withdrawal rates for non-public safety personnel were updated.
- The salary increase rates were changed from a flat 3.00 percent per year for all employees to rates which vary by service and contract group.
- The inflation rate was changed from 2.50 percent to 2.00 percent.
- The discount rate was changed from 2.90 percent to 2.00 percent.

2020

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

2019

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

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

4. Employer Contributions to Other Postemployment Benefits

2019 (Continued)

- The discount rate was changed from 3.30 percent to 3.80 percent.

2018

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

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

General Employees Retirement Plan

2021

- The investment return and single discount rates were changed from 7.50 percent to 6.50 percent.
- The mortality improvement scale was changed from Scale MP-2019 to Scale MP-2020.

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.

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

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

General Employees Retirement Plan

2020 (Continued)

- 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.
- 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.

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

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

General Employees Retirement Plan (Continued)

2019

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

2018

- The mortality projection scale was changed from Scale MP-2015 to Scale MP-2017.
- The assumed benefit increase rate was changed from 1.00 percent per year through 2044 and 2.50 percent per year thereafter, to 1.25 percent per year.
- 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 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 retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches normal retirement age; does not apply to the Rule of 90 retirees, disability benefit recipients, or survivors.

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

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

General Employees Retirement Plan

2018 (Continued)

- 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 (30 percent for deferred Minneapolis Employees Retirement Fund members). The revised CSA loads are now 0.00 percent for active member liability, 15 percent for vested deferred member liability, and 3.00 percent for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year for all years to 1.00 percent per year through 2044 and 2.50 percent per year thereafter.
- Minneapolis Employees Retirement Fund plan provisions change the employer supplemental contribution to \$21 million in calendar years 2017 and 2018 and returns to \$31 million through calendar year 2031. The state's required contribution is \$16 million in PERA's fiscal years 2018 and 2019 and returns to \$6 million annually through calendar year 2031.

2016

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2035 and 2.50 percent per year thereafter, to 1.00 percent for all future years.
- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was also changed from 7.90 percent to 7.50 percent.

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

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

General Employees Retirement Plan

2016 (Continued)

- 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

2021

- The investment return and single discount rates were changed from 7.50 percent to 6.50 percent.
- The inflation assumption was changed from 2.50 percent to 2.25 percent.
- The payroll growth assumption was changed from 3.25 percent to 3.00 percent.
- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 Public Safety Mortality table. The mortality improvement scale was changed from Scale MP-2019 to Scale MN-2020.
- The base mortality table for disabled annuitants was changed from the RP-2014 Healthy Annuitant Mortality table (with future mortality improvement according to Scale MP-2019) to the Pub-2010 Public Safety Disabled Annuitant Mortality table (with future mortality improvement according to Scale MP-2020).
- Assumed rates of salary increase were modified as recommended in the July 14, 2020, experience study. The overall impact is a decrease in gross salary increase rates.
- Assumed rates of retirement were changed as recommended in the July 14, 2020, experience study. The changes result in slightly more unreduced retirements and fewer assumed early retirements.

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

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

Public Employees Police and Fire Plan

2021 (Continued)

- Assumed rates of withdrawal were changed from select and ultimate rates to service-based rates. The changes result in more assumed terminations.
- Assumed rates of disability were increased for ages 25 - 44 and decreased for ages over 49. Overall, proposed rates result in more projected disabilities.
- Assumed percent married for active female members was changed from 60 percent to 70 percent. Minor changes to form of payment assumptions were applied.

2020

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

2019

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

2018

- The mortality projection scale was changed from Scale MP-2016 to Scale MP-2017.
- Post-retirement benefit increases changed to 1.00 percent for all years, with no trigger.
- An end date of July 1, 2048, was added to the existing \$9.0 million state contribution. Additionally, annual state aid will equal \$4.5 million in fiscal years 2019 and 2020, and \$9.0 million thereafter, until the plan reaches 100 percent funding, or July 1, 2048, if earlier.

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

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

Public Employees Police and Fire Plan

2018 (Continued)

- 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 load has been changed to 33 percent for vested members and 2.00 percent for non-vested members.
- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the mortality table assumed for healthy retirees.

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

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

Public Employees Police and Fire Plan

2017 (Continued)

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

2016

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2037 and 2.50 percent per year thereafter, to 1.00 percent for all future years.
- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was changed from 7.90 percent to 5.60 percent.
- The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

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

Public Employees Local Government Correctional Service Retirement Plan

2021

- The investment return and single discount rates were changed from 7.50 percent to 6.50 percent.
- The inflation assumption was changed from 2.50 percent to 2.25 percent.
- The payroll growth assumption was changed from 3.25 percent to 3.00 percent.
- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 Public Safety Mortality table. The mortality improvement scale was changed from Scale MP-2019 to Scale MN-2020.
- The base mortality table for disabled annuitants was changed from the RP-2014 Healthy Annuitant Mortality table (with future mortality improvement according to Scale MP-2019) to the Pub-2010 Public Safety Disabled Annuitant Mortality table (with future mortality improvement according to Scale MP-2020).
- Assumed rates of salary increase were modified as recommended in the July 10, 2020, experience study. The overall impact is a decrease in gross salary increase rates.
- Assumed rates of retirement were changed as recommended in the July 10, 2020, experience study. The changes result in slightly more unreduced retirements and fewer assumed early retirements.
- Assumed rates of withdrawal were changed as recommended in the July 10, 2020, experience study. The new rates predict more terminations, both in the three-year select period (based on service) and the ultimate rates (based on age).
- Assumed rates of disability were lowered.
- Assumed percent married for active members was lowered from 85 percent to 75 percent.

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

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

Public Employees Local Government Correctional Service Retirement Plan

2021 (Continued)

- Minor changes to form of payment assumptions were applied.

2020

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

2019

- The mortality projection scale was changed from Scale MP-2017 to Scale 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 Scale MP-2016 to Scale 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.
- Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

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

Public Employees Local Government Correctional Service Retirement Plan

2018 (Continued)

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

2017

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

2016

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

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

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

Public Employees Local Government Correctional Service Retirement Plan

2016 (Continued)

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

The 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, 2021**

	Special Revenue			
<u>Assets</u>	Unorganized Townships	Resource Development	Debt Service	Total
Cash and pooled investments	\$ 398,940	\$ -	\$ 999,608	\$ 1,398,548
Taxes receivable				
Delinquent	1,883	-	22,539	24,422
Due from other governments	-	1,147,739	-	1,147,739
Total Assets	\$ 400,823	\$ 1,147,739	\$ 1,022,147	\$ 2,570,709
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>				
Liabilities				
Accounts payable	\$ -	\$ 92,819	\$ -	\$ 92,819
Due to other funds	-	670,171	-	670,171
Due to other governments	134,923	-	-	134,923
Total Liabilities	\$ 134,923	\$ 762,990	\$ -	\$ 897,913
Deferred Inflows of Resources				
Unavailable revenue – taxes	\$ 1,075	\$ -	\$ 16,558	\$ 17,633
Unavailable revenue – grants	-	297,739	-	297,739
Total Deferred Inflows of Resources	\$ 1,075	\$ 297,739	\$ 16,558	\$ 315,372
Fund Balances				
Restricted for debt service	\$ -	\$ -	\$ 1,005,589	\$ 1,005,589
Committed to unorganized townships emergency services	264,825	-	-	264,825
Assigned to resource development	-	87,010	-	87,010
Total Fund Balances	\$ 264,825	\$ 87,010	\$ 1,005,589	\$ 1,357,424
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 400,823	\$ 1,147,739	\$ 1,022,147	\$ 2,570,709

**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, 2021**

	<u>Special Revenue</u>		<u>Debt Service</u>	<u>Total</u>
	<u>Unorganized Townships</u>	<u>Resource Development</u>		
Revenues				
Taxes	\$ 126,260	\$ -	\$ 994,110	\$ 1,120,370
Licenses and permits	75	-	-	75
Intergovernmental	32,140	2,343,823	135,820	2,511,783
Investment earnings	-	-	333	333
Gifts and contributions	-	7,635	-	7,635
Miscellaneous	-	-	342	342
Total Revenues	\$ 158,475	\$ 2,351,458	\$ 1,130,605	\$ 3,640,538
Expenditures				
Current				
Public safety	\$ 148,673	\$ -	\$ -	\$ 148,673
Culture and recreation	-	2,454,037	-	2,454,037
Conservation of natural resources	-	10,000	-	10,000
Debt service				
Principal	-	146,663	700,000	846,663
Interest	-	3,392	348,694	352,086
Administrative (fiscal) charges	-	-	1,425	1,425
Total Expenditures	\$ 148,673	\$ 2,614,092	\$ 1,050,119	\$ 3,812,884
Excess of Revenues Over (Under) Expenditures	\$ 9,802	\$ (262,634)	\$ 80,486	\$ (172,346)
Other Financing Sources (Uses)				
Transfers in	\$ 4,300	\$ 106,199	\$ -	\$ 110,499
Transfers out	-	-	(70,272)	(70,272)
Total Other Financing Sources (Uses)	\$ 4,300	\$ 106,199	\$ (70,272)	\$ 40,227
Net Change in Fund Balance	\$ 14,102	\$ (156,435)	\$ 10,214	\$ (132,119)
Fund Balance – January 1	250,723	243,445	995,375	1,489,543
Fund Balance – December 31	\$ 264,825	\$ 87,010	\$ 1,005,589	\$ 1,357,424

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

EXHIBIT B-3

**BUDGETARY COMPARISON SCHEDULE
UNORGANIZED TOWNSHIPS SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2021**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 125,620	\$ 125,620	\$ 126,260	\$ 640
Licenses and permits	100	100	75	(25)
Intergovernmental	15,000	15,000	32,140	17,140
Total Revenues	\$ 140,720	\$ 140,720	\$ 158,475	\$ 17,755
Expenditures				
Current				
Public safety				
Emergency services	143,250	143,250	148,673	(5,423)
Excess of Revenues Over (Under) Expenditures	\$ (2,530)	\$ (2,530)	\$ 9,802	\$ 12,332
Other Financing Sources (Uses)				
Transfers in	-	-	4,300	4,300
Net Change in Fund Balance	\$ (2,530)	\$ (2,530)	\$ 14,102	\$ 16,632
Fund Balance – January 1	250,723	250,723	250,723	-
Fund Balance – December 31	\$ 248,193	\$ 248,193	\$ 264,825	\$ 16,632

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

EXHIBIT B-4

**BUDGETARY COMPARISON SCHEDULE
RESOURCE DEVELOPMENT SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2021**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$ 96,000	\$ 96,000	\$ 2,343,823	\$ 2,247,823
Gifts and contributions	-	-	7,635	7,635
Total Revenues	\$ 96,000	\$ 96,000	\$ 2,351,458	\$ 2,255,458
Expenditures				
Current				
Culture and recreation				
Trails	\$ -	\$ -	\$ 2,454,033	\$ (2,454,033)
Conservation of natural resources				
Other conservation	\$ -	\$ -	\$ 10,000	\$ (10,000)
Debt service				
Principal	\$ 146,667	\$ 146,667	\$ 146,663	\$ 4
Interest	28,600	28,600	3,392	25,208
Total debt service	\$ 175,267	\$ 175,267	\$ 150,055	\$ 25,212
Total Expenditures	\$ 175,267	\$ 175,267	\$ 2,614,088	\$ (2,438,821)
Excess of Revenues Over (Under) Expenditures	\$ (79,267)	\$ (79,267)	\$ (262,630)	\$ (183,363)
Other Financing Sources (Uses)				
Transfers in	-	-	106,199	106,199
Net Change in Fund Balance	\$ (79,267)	\$ (79,267)	\$ (156,431)	\$ (77,164)
Fund Balance – January 1	243,445	243,445	243,445	-
Fund Balance – December 31	\$ 164,178	\$ 164,178	\$ 87,014	\$ (77,164)

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

EXHIBIT B-5

**BUDGETARY COMPARISON SCHEDULE
DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2021**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 1,033,679	\$ 1,033,679	\$ 994,110	\$ (39,569)
Intergovernmental	65,000	65,000	135,820	70,820
Investment earnings	145	145	333	188
Miscellaneous	70,337	70,337	342	(69,995)
Total Revenues	\$ 1,169,161	\$ 1,169,161	\$ 1,130,605	\$ (38,556)
Expenditures				
Debt service				
Principal	\$ 700,000	\$ 700,000	\$ 700,000	\$ -
Interest	369,494	369,494	348,694	20,800
Administrative (fiscal) charges	405	405	1,425	(1,020)
Total Expenditures	\$ 1,069,899	\$ 1,069,899	\$ 1,050,119	\$ 19,780
Excess of Revenues Over (Under) Expenditures	\$ 99,262	\$ 99,262	\$ 80,486	\$ (18,776)
Other Financing Sources (Uses)				
Transfers out	-	-	(70,272)	(70,272)
Net Change in Fund Balance	\$ 99,262	\$ 99,262	\$ 10,214	\$ (89,048)
Fund Balance – January 1	995,375	995,375	995,375	-
Fund Balance – December 31	\$ 1,094,637	\$ 1,094,637	\$ 1,005,589	\$ (89,048)

FIDUCIARY FUNDS – OTHER CUSTODIAL FUNDS

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

**COMBINING STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS – OTHER CUSTODIAL FUNDS
DECEMBER 31, 2021**

	<u>Taxes and Penalties</u>	<u>State License and Fees</u>	<u>Jail Canteen</u>
<u>Assets</u>			
Cash and pooled investments	\$ 833,007	\$ 46,592	\$ 19,180
Accounts receivable	-	-	562
Taxes receivable for other governments	1,004,569	-	-
Total Assets	\$ 1,837,576	\$ 46,592	\$ 19,742
<u>Liabilities</u>			
Accounts payable	\$ -	\$ -	\$ 161
Due to other governments	814,796	42,747	-
Due to others	18,211	-	-
Total Liabilities	\$ 833,007	\$ 42,747	\$ 161
<u>Net Position</u>			
Restricted for Individuals, organizations, and other governments	\$ 1,004,569	\$ 3,845	\$ 19,581

EXHIBIT C-1

Minnesota Counties Information Systems	Arrowhead Health Alliance	North Shore Collaborative	Escrow Account	Cities, Towns, and Other Governments	Total Other Custodial Funds
\$ 1,257,089	\$ 150,530	\$ 216,206	\$ 151,925	\$ 218,774	\$ 2,893,303
29,889	-	3	-	-	30,454
-	-	-	-	-	1,004,569
\$ 1,286,978	\$ 150,530	\$ 216,209	\$ 151,925	\$ 218,774	\$ 3,928,326
\$ 16,738	\$ 7,128	\$ -	\$ -	\$ -	\$ 24,027
-	-	-	-	33,856	891,399
-	-	-	-	-	18,211
\$ 16,738	\$ 7,128	\$ -	\$ -	\$ 33,856	\$ 933,637
\$ 1,270,240	\$ 143,402	\$ 216,209	\$ 151,925	\$ 184,918	\$ 2,994,689

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

**COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS – OTHER CUSTODIAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2021**

	<u>Taxes and Penalties</u>	<u>State License and Fees</u>	<u>Jail Canteen</u>
Additions			
Contributions			
Individuals	\$ -	\$ -	\$ 4,360
Investment earnings:			
Interest, dividends, and other	-	-	-
Property tax collections for other governments	25,138,524	-	-
License and fees collected for the state	-	526,141	-
Miscellaneous	-	-	-
	<hr/>	<hr/>	<hr/>
Total Additions	\$ 25,138,524	\$ 526,141	\$ 4,360
Deductions			
Beneficiary payments to individuals	\$ -	\$ -	\$ 6,224
Medical, dental, and life insurance	-	-	-
Payments of property tax to other governments	25,054,593	-	-
Payments to the state	-	524,599	-
Administrative expense	-	-	-
Payments to other entities	-	-	-
	<hr/>	<hr/>	<hr/>
Total Deductions	\$ 25,054,593	\$ 524,599	\$ 6,224
Change in net position	\$ 83,931	\$ 1,542	\$ (1,864)
Net Position – January 1	920,638	2,303	21,445
	<hr/>	<hr/>	<hr/>
Net Position – December 31	\$ 1,004,569	\$ 3,845	\$ 19,581
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EXHIBIT C-2

Minnesota Counties Information Systems	Arrowhead Health Alliance	North Shore Collaborative	Escrow Account	Cities, Towns, and Other Governments	Total Other Custodial Funds
\$ 1,617,259	\$ 240,649	\$ 49,344	\$ 127,800	\$ -	\$ 2,039,412
418	-	67	-	-	485
-	-	-	-	14,411,799	39,550,323
-	-	-	-	-	526,141
7,100	-	-	-	-	7,100
\$ 1,624,777	\$ 240,649	\$ 49,411	\$ 127,800	\$ 14,411,799	\$ 42,123,461
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,224
135,555	-	-	-	-	135,555
-	-	-	-	12,442,566	37,497,159
-	-	-	-	1,924,852	2,449,451
1,395,725	263,803	60,412	-	-	1,719,940
-	-	-	78,400	-	78,400
\$ 1,531,280	\$ 263,803	\$ 60,412	\$ 78,400	\$ 14,367,418	\$ 41,886,729
\$ 93,497	\$ (23,154)	\$ (11,001)	\$ 49,400	\$ 44,381	\$ 236,732
1,176,743	166,556	227,210	102,525	140,537	2,757,957
\$ 1,270,240	\$ 143,402	\$ 216,209	\$ 151,925	\$ 184,918	\$ 2,994,689

OTHER SCHEDULES

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

EXHIBIT D-1

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2021**

Appropriations and Shared Revenue

State

Highway users tax	\$ 4,116,014
County program aid	603,133
Disparity reduction aid	158,977
Aquatic invasive species aid	176,539
Police aid	138,655
Taconite credit	638,232
Enhanced 911	122,691
Market value credit	2,877
	2,877

Total appropriations and shared revenue **\$ 5,957,118**

Reimbursement for Services

State

Minnesota Department of Human Services	\$ 158,307
	158,307

Payments

Federal

Payments in lieu of taxes	\$ 993,987
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State

Payments in lieu of taxes	993,153
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Local

	1,194,450
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Total payments **\$ 3,181,590**

Grants

State

Minnesota Department of	
Public Safety	\$ 40,511
Health	37,646
Natural Resources	5,305,744
Human Services	3,668,085
Management and Budget	256,250
Trial Courts	8,840
Veterans Affairs	7,500
Transportation	65,000
Board of Water and Soil Resources	58,600
Office of Environmental Assistance	71,066
Iron Range Resources and Rehabilitation	450,000
Peace Officers Board	15,456
Pollution Control Agency	2,230
Other	8,271
	8,271

Total state **\$ 9,995,199**

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

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

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2021**

Grants (Continued)

Federal

Department of	
Agriculture	\$ 2,828,744
Housing and Urban Development	117,445
Justice	26,124
Transportation	628,074
Education	64
Health and Human Services	1,071,072
Homeland Security	186,024

Total federal **\$ 4,857,547**

Total state and federal grants **\$ 14,852,746**

Total Intergovernmental Revenue **\$ 24,149,761**

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

EXHIBIT D-2

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2021**

Federal Grantor Pass-Through Agency Program or Cluster Title	Assistance Listing Number	Contract Number/ Pass-Through Grant Numbers	Expenditures	Passed Through to Subrecipients
U.S. Department of Agriculture				
Direct				
U.S. Forest Service Cooperative Agreement	10.U01	16-LE-11090900-002	\$ 13,500	\$ -
State and Private Forestry Hazardous Fuel Reduction Program	10.697		229,814	-
State and Private Forestry Cooperative Fire Assistance	10.698		1,088	-
Passed Through Carlton, Cook, Lake, and St. Louis Community Health Board				
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	202MN004W1003	47,874	-
Passed Through Minnesota Department of Human Services SNAP Cluster				
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	212MN101S2514	114,032	-
Passed Through Minnesota Department of Natural Resources Cooperative Forestry Assistance	10.664	17-DG-11420004-147	3,737	-
Passed Through Minnesota Management and Budget Forest Service Schools and Roads Cluster				
Schools and Roads – Grants to States	10.665	P.L. 117-58	<u>2,653,338</u>	<u>-</u>
Total U.S. Department of Agriculture			<u>\$ 3,063,383</u>	<u>\$ -</u>
U.S. Department of Housing and Urban Development				
Passed Through Minnesota Department of Employment and Economic Development				
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	CDAP-17-0042-O-FY18	\$ 89,178	\$ 89,178
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	CDAP-18-0022-O-FY19	28,267	28,267
(Total Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii 14.228 \$117,445)			<u>117,445</u>	<u>117,445</u>
Total U.S. Department of Housing and Urban Development			<u>\$ 117,445</u>	<u>\$ 117,445</u>
U.S. Department of Justice				
Passed Through Minnesota Department of Public Safety Crime Victim Assistance	16.575	F-CVS-2020-LAKEAO	<u>\$ 26,124</u>	<u>\$ -</u>
U.S. Department of Transportation				
Passed Through Minnesota Department of Transportation Highway Planning and Construction Cluster				
Highway Planning and Construction	20.205	00038	<u>\$ 665,882</u>	<u>\$ -</u>

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

**EXHIBIT D-2
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2021**

Federal Grantor Pass-Through Agency Program or Cluster Title	Assistance Listing Number	Contract Number/ Pass-Through Grant Numbers	Expenditures	Passed Through to Subrecipients
U.S. Department of Education				
Passed Through Carlton, Cook, Lake, and St. Louis Community Health Board				
Special Education – Grants for Infants and Families	84.181	B04MC32551	\$ 64	\$ -
U.S. Department of Health and Human Services				
Passed Through Carlton, Cook, Lake, and St. Louis Community Health Board				
Public Health Emergency Preparedness	93.069	NU90TP922026	\$ 7,667	\$ -
COVID-19 – Immunization Cooperative Agreements	93.268	NH23IP922628	95,596	-
COVID-19 – Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)	93.323	NU50CK000508	70,433	-
Temporary Assistance for Needy Families	93.558	NGA 1801MNTANF	1,104	-
(Total Temporary Assistance for Needy Families 93.558 \$65,075)				
Medicaid Cluster				
Medical Assistance Program	93.778	2105MN5ADM	8,081	-
(Total Medical Assistance Program 93.778 \$437,258)				
Maternal and Child Health Services Block Grant to the States	93.994	B04MC32551	3,715	-
Passed Through Minnesota Department of Human Services				
Promoting Safe and Stable Families	93.556	2101MNFPS	572	-
Temporary Assistance for Needy Families	93.558	2101MNTANF	63,971	-
(Total Temporary Assistance for Needy Families 93.558 \$65,075)				
Child Support Enforcement	93.563	2001MNCES	198,193	-
Child Support Enforcement	93.563	2101MNCSES	67,453	-
(Total Child Support Enforcement 93.563 \$265,646)				
Refugee and Entrant Assistance – State Administered Programs	93.566	2101MNRCA	251	-
CCDF Cluster				
Child Care and Development Block Grant	93.575	2101MNCDF	1,828	-
Community-Based Child Abuse Prevention Grants	93.590	1901MNBCAP	4,009	-
Stephanie Tubbs Jones Child Welfare Services Program	93.645	2001MNCWSS	774	-
COVID-19 – Stephanie Tubbs Jones Child Welfare Services Program	93.645	2001MNCWC3	1,247	-
(Total Stephanie Tubbs Jones Child Welfare Services Program 93.645 \$2,021)				
Foster Care – Title IV-E	93.658	2101MNFOS	31,046	-
Social Services Block Grant	93.667	2101MNSOSR	80,880	-
Child Abuse and Neglect State Grants	93.669	2101MNNCAN	373	-
John H. Chafee Foster Care Program for Successful Transition to Adulthood	93.674	2101MNCILP	1,500	-
COVID-19 – John H. Chafee Foster Care Program for Successful Transition to Adulthood	93.674	2101MNCILC	2,630	-
(Total John H. Chafee Foster Care Program for Successful Transition to Adulthood 93.674 \$4,130)				
Children's Health Insurance Program	93.767	2105MN5R21	572	-
Medicaid Cluster				
Medical Assistance Program	93.778	2105MN5ADM	426,640	-
Medical Assistance Program	93.778	2105MN5MAP	2,537	-
(Total Medical Assistance Program 93.778 \$437,258)				
Total U.S. Department of Health and Human Services			\$ 1,071,072	\$ -

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

**EXHIBIT D-2
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2021**

Federal Grantor Pass-Through Agency Program or Cluster Title	Assistance Listing Number	Contract Number/ Pass-Through Grant Numbers	Expenditures	Passed Through to Subrecipients
U.S. Department of Homeland Security				
Passed Through Minnesota Department of Natural Resources Boating Safety Financial Assistance	97.012	Lake-FBP-100721	\$ 2,902	\$ -
Passed Through Minnesota Department of Public Safety Disaster Grants – Public Assistance (Presidentially Declared Disasters)	97.036	DR4069	66,413	-
Disaster Grants – Public Assistance (Presidentially Declared Disasters) (Total Disaster Grants – Public Assistance (Presidentially Declared Disasters) 97.036 \$79,278)	97.036	DR4531	12,865	-
Emergency Management Performance Grants	97.042	F-EMPG-2020-LAKECO	16,830	-
Homeland Security Grant Program	97.067	F-OPSG-2018-LAKESO	<u>87,014</u>	<u>-</u>
Total U.S. Department of Homeland Security			\$ 186,024	\$ -
Total Federal Awards			\$ 5,129,994	\$ 117,445
Totals by Cluster				
Total expenditures for SNAP Cluster			\$ 114,032	
Total expenditures for Forest Service Schools and Roads Cluster			2,653,338	
Total expenditures for Highway Planning and Construction Cluster			665,882	
Total expenditures for Medicaid Cluster			437,258	

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2021

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, 2021. 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	\$	4,857,547
Grants received more than 90 days after year-end, unavailable in 2021		
State and Private Forestry Hazardous Fuel Reduction Program		229,814
State and Private Forestry Cooperative Fire Assistance		1,088
Cooperative Forestry Assistance		3,833
Highway Planning and Construction		37,808
Unavailable in 2020, recognized as revenue in 2021		
Cooperative Forestry Assistance		(96)
		(96)
Expenditures Per Schedule of Expenditures of Federal Awards	\$	5,129,994

MANAGEMENT AND COMPLIANCE SECTION



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

Independent Auditor's Report

Board of County Commissioners
Lake County
Two Harbors, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the 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, 2021, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 20, 2022.

Report on 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.

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 a 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 a 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. We identified a deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as item 2021-001, to be a significant deficiency.

Report on 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 – bid laws, depositories of public funds and public 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 Finding

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

Purpose of This Report

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

/s/Julie Blaha

JULIE BLAHA
STATE AUDITOR

/s/Dianne Syverson

DIANNE SYVERSON, CPA
DEPUTY STATE AUDITOR

September 20, 2022



**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM
AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

Independent Auditor's Report

Board of County Commissioners
Lake County
Two Harbors, Minnesota

Report on Compliance for the Major Federal Program

Opinion on the Major Federal Program

We have audited Lake County's compliance with the types of compliance requirements identified as subject to audit 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, 2021. 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.

In our opinion, Lake County complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2021.

Basis for Opinion on the Major Federal Program

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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Lake County and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for the major federal program. Our audit does not provide a legal determination of Lake County's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to Lake County's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Lake County's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Lake County's compliance with the requirements of the major federal program as a whole.

In performing an audit in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and the Uniform Guidance, we:

- exercise professional judgment and maintain professional skepticism throughout the audit;
- identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Lake County's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances; and
- obtain an understanding of Lake County's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 Lake County's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

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 2021-002. Our opinion on the major federal program is not modified with respect to this matter.

Government Auditing Standards requires the auditor to perform limited procedures on Lake County's response to the noncompliance finding identified in our audit described in the accompanying Schedule of Findings and Questioned Costs. Lake County's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance 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, as discussed below, we did identify a deficiency in internal control over compliance that we consider to be a significant deficiency.

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 a 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 a 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 attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2021-002 to be a significant deficiency.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on Lake County's response to the internal control over compliance finding identified in our audit described in the accompanying Schedule of Findings and Questioned Costs. Lake County's response was not subjected to the other 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

September 20, 2022

/s/Dianne Syverson

DIANNE SYVERSON, CPA
DEPUTY STATE AUDITOR

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

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

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Internal control over financial reporting:

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

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

Federal Awards

Internal control over the major program:

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

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? **Yes**

The major federal program is:

Assistance Listing Number	Name of Federal Program or Cluster
10.665	Forest Service Schools and Roads Cluster

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

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

**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***

2021-001 Segregation of Duties

Prior Year Finding Number: 2020-001

Repeat Finding Since: 1996

Type of Finding: Internal Control Over Financial Reporting

Severity of Deficiency: Significant Deficiency

Criteria: Management is responsible for establishing and maintaining internal control. 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 a timely period by employees in the normal course of performing their assigned functions.

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

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

View of Responsible Official: Concur

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

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

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

2021-002 Reporting

Prior Year Finding Number: N/A

Repeat Finding Since: N/A

Type of Finding: Internal Control Over Compliance and Compliance

Severity of Deficiency: Significant Deficiency and Other Matter

Federal Agency: U.S. Department of Agriculture

Program: 10.665 Schools and Roads – Grants to States

Award Number and Year: P.L. 117-58, 2021

Pass-Through Agency: Minnesota Management and Budget

Criteria: Per Office of Management and Budget (OMB) No. 0596-0220, not later than February 1 of the year after the year in which any Title III county funds were expended by a participating county, the participating county must submit a certification that the county funds expended in the applicable year have been used for the uses authorized under this title, including a description of the amounts expended and their uses. The participating county certification also must include the amount of Title III funds not obligated by September 30 of the previous year.

Condition: The County did not submit the required certification by February 1, 2022, for Title III funds expended in 2021.

Questioned Costs: None.

Context: The County submitted the required report in August 2022.

Effect: The County did not meet the reporting requirements for the program which could affect future funding.

Cause: Program personnel forgot to submit the yearly certification.

Recommendation: We recommend County staff establish procedures to ensure the required yearly certification for Title III funds is submitted to meet reporting requirements.

View of Responsible Official: Acknowledge



Lake County Auditor/Treasurer

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

REPRESENTATION OF LAKE COUNTY TWO HARBORS, MINNESOTA

CORRECTIVE ACTION PLAN FOR THE YEAR ENDED DECEMBER 31, 2021

Finding Number: 2021-001

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 occurs to ensure increased segregation. Cross-training of all positions also helps this situation.

Anticipated Completion Date:

12-31-2022

Finding Number: 2021-002

Finding Title: Reporting

**Program: Forest Service Schools and Roads Cluster, Schools and Roads – Grants to States
(Assistance Listing # 10.665)**

Name of Contact Person Responsible for Corrective Action:

Matt Huddleston, County Administrator

Corrective Action Planned:

County will ensure that reporting is done on time.

Anticipated Completion Date:

12-31-2022



Lake County Auditor/Treasurer

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

REPRESENTATION OF LAKE COUNTY TWO HARBORS, MINNESOTA

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED DECEMBER 31, 2021

Finding Number: 2020-001
Year of Finding Origination: 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, 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.

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. Management frequently spot checks work and there is always a segregation when handling incoming monies and paying out monies.

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

Yes _____ No X

Finding Number: 2020-002
Year of Finding Origination: 2020
Finding Title: Journal Entry Approval

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

Summary of Corrective Action Previously Reported: Work with programming company to fix the printing problem.

Status: Fully Corrected. Corrective action was taken.

Was corrective action taken significantly different than the action previously reported?
Yes _____ No X

Finding Number: 2020-003
Year of Finding Origination: 2020
Finding Title: Audit Adjustment

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

Summary of Corrective Action Previously Reported: Forestry will work with the Auditor's office to provide the funding worksheet on a regular basis to ensure proper accounting.

Status: Fully Corrected. Corrective action was taken.

Was corrective action taken significantly different than the action previously reported?
Yes _____ No X

Finding Number: 2020-004

Year of Finding Origination: 2020

Finding Title: Reporting

Program: Coronavirus Relief Fund, AL No. 21.019

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

Summary of Corrective Action Previously Reported: These funds have all been requested and received.

Status: Fully Corrected. Corrective action was taken. The duplicate expenditures were reviewed, and notes were made on the reports.

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

Yes _____ No X