STATE OF MINNESOTA
Office of the State Auditor

Rebecca Otto
State Auditor

LAKE COUNTY
TWO HARBORS, MINNESOTA

YEAR ENDED DECEMBER 31, 2016

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

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

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

LAKE COUNTY
TWO HARBORS, MINNESOTA

Year Ended December 31, 2016

Audit Practice Division
Office of the State Auditor
State of Minnesota

This page was left blank intentionally.

LAKE COUNTY
TWO HARBORS, MINNESOTA

TABLE OF CONTENTS

LAKE COUNTY
TWO HARBORS, MINNESOTA

TABLE OF CONTENTS

LAKE COUNTY
TWO HARBORS, MINNESOTA

TABLE OF CONTENTS
(Continued)

This page was left blank intentionally.

This page was left blank intentionally.

LAKE COUNTY
TWO HARBORS, MINNESOTA

ORGANIZATION
DECEMBER 31, 2016

			Term Expires
Elected			
Commissioner	Peter Walsh	District 1	January 2019
Commissioner	Derrick Goutermont	District 2	January 2021
Commissioner	Brad Jones	District 3	January 2017
Commissioner	Jeremy Hurd	District 4	January 2019
Commissioner	Rich Sve	District 5	January 2021
Attorney	Laura M. Auron		January 2019
Auditor/Treasurer	Linda Libal		January 2019
Recorder	Erica Koski		January 2019
Sheriff	Carey Johnson		January 2019
Appointed			
Assessor	Gregg Swartwoudt		December 2020
Examiner of Titles	David Adams (St. Louis County)		Indefinite
Health Officer	Harold B. Leppink, M.D.		Indefinite
Highway Engineer	Krysten Foster		May 2018
Veterans Service Officer	Nazareth V. Sando		January 2019
Clerk of the Board	Laurel Buchanan		Indefinite
County Administrator	Matthew Huddleston		Indefinite

This page was left blank intentionally.

Financial Section

This page was left blank intentionally.

STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

REBECCA OTTO
STATE AUDITOR

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

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

INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Lake County
Two Harbors, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Lake County, Minnesota, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, as listed in the table of contents.

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

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Lake County as of December 31, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 13, 2017, 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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Lake County's internal control over financial reporting and compliance.

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

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

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

September 13, 2017

This page was left blank intentionally.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This page was left blank intentionally.

LAKE COUNTY
TWO HARBORS, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2016
(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, 2016. 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 $108,426,416, of which $83,207,139 is the net investment in capital assets and $5,603,886 is restricted to specific purposes.

- Business-type activities have a total net position of ($3,218,626). Net investment in capital assets represents $18,540,923 of the total.

- Lake County's net position decreased by $5,016,709 for the year ended December 31, 2016. 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 $137,338.

- The net cost of governmental activities was $12,929,331 for the current fiscal year. The net cost was funded by general revenues and other items totaling $11,703,346.

- Governmental funds' fund balances increased by $1,302,930.

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 Funding Progress - Other Postemployment Benefits, the Schedule of Proportionate Share of Net Pension Liability, and the Schedule of Contributions are required to accompany the basic financial statements and, therefore, are included as required supplementary information.

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

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

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

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

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

- Governmental activities--Most of the County's basic services are reported here, including general government, public safety, highways and streets, sanitation, human services, health, culture and recreation, conservation of natural resources, and economic development. Property taxes and state and federal grants finance most of these activities.

- Business-type activities--The County charges a fee to customers to help it cover all or most of the cost of services it provides. The County's broadband activities are reported here.

- Component unit--The County includes another separate legal entity in its report. The entity, the Lake County Housing and Redevelopment Authority, is presented in a separate column. Although legally separate, this "component unit" is important because the County is financially accountable for it. Further financial information for this component unit is available in separately issued and audited financial statements.

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

Fund Financial Statements

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

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

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

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

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

Reporting the County's Fiduciary Responsibilities

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

The fiduciary funds financial statement is Exhibit 10.

LAKE COUNTY AS A WHOLE

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

Table 1
Net Position
(in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
Assets						
Current and other assets	$ 36,205	$ 33,240	$ (16,495)	$ (11,912)	$ 19,710	$ 21,328
Capital assets	85,825	88,789	67,132	68,884	152,957	157,673
Total Assets	$ 122,030	$ 122,029	$ 50,637	$ 56,972	$ 172,667	$ 179,001
Deferred Outflows of Resources	$ 7,419	$ 1,100	$ -	$ -	$ 7,419	$ 1,100
Liabilities						
Long-term liabilities outstanding	$ 17,155	$ 10,835	$ 46,915	$ 47,575	$ 64,070	$ 58,410
Other liabilities	2,205	1,849	6,941	8,825	9,146	10,674
Total Liabilities	$ 19,360	$ 12,684	$ 53,856	$ 56,400	$ 73,216	$ 69,084
Deferred Inflows of Resources	$ 1,663	$ 793	$ -	$ -	$ 1,663	$ 793
Net Position						
Net investment in capital assets	$ 83,207	$ 85,654	$ 18,541	$ 18,154	$ 101,748	$ 103,808
Restricted	5,604	4,337	-	-	6,204	4,337
Unrestricted	19,615	19,661	(21,760)	(17,582)	(2,745)	2,079
Total Net Position, as reported	$ 108,426	$ 109,652	$ (3,219)	$ 572	$ 105,207	$ 110,224

Table 2
Changes in Net Position
(in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
Revenues						
Program revenues						
Fees, fines, charges, and other	$ 2,480	$ 2,131	$ 2,766	$ 934	$ 5,246	$ 3,065
Operating grants and contributions	12,932	13,420	-	-	12,932	13,420
Capital grants and contributions	363	936	-	3,274	363	4,210
General revenues						
Property taxes	8,453	8,666	600	-	9,053	8,666
Other taxes	1,893	1,900	-	-	1,893	1,900
Unrestricted grants and contributions	1,250	1,221	-	-	1,250	1,221
Investment earnings	57	81	-	-	57	81
Gain on sale of capital assets	47	4	-	-	47	4
Miscellaneous	-	156	-	-	-	156
Transfers	3	(731)	(3)	731	-	-
Total Revenues	$ 27,478	$ 27,784	$ 3,363	$ 4,939	$ 30,841	$ 32,723
Expenses						
General government	$ 4,651	$ 4,794	$ -	$ -	$ 4,651	$ 4,794
Public safety	6,332	5,028	-	-	6,332	5,028
Highways and streets	8,188	7,601	-	-	8,188	7,601
Sanitation	417	260	-	-	417	260
Human services	3,599	3,307	-	-	3,599	3,307
Health	2,987	2,670	-	-	2,987	2,670
Culture and recreation	1,007	943	-	-	1,007	943
Conservation of natural resources	961	1,297	-	-	961	1,297
Economic development	495	321	-	-	495	321
Interest	67	79	-	-	67	79
Broadband	-	-	7,154	6,099	7,154	6,099
Total Expenses	$ 28,704	$ 26,300	$ 7,154	$ 6,099	$ 35,858	$ 32,399
Increase (Decrease) in Net Position	$ (1,226)	$ 1,484	$ (3,791)	$ (1,160)	$ (5,017)	$ 324
Net Position, January 1	109,652	108,168	572	1,732	110,224	109,900
Net Position, December 31	$ 108,426	$ 109,652	$ (3,219)	$ 572	$ 105,207	$ 110,224

Lake County's business-type activities is the broadband project that started in 2012. This is primarily funded by capital grants and contributions that included a Broadband Initiatives Program Grant and a Broadband Initiatives Program Loan. The loan balance at December 31, 2016, is $48,590,670.

Governmental Activities

The cost of all governmental activities this year was $28,555,217. 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 $12,780,334, because some of the cost was paid by those who directly benefited from the programs ($2,480,404) or by other governments and organizations that subsidized certain programs with grants and contributions ($13,294,479). 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	
	2016	2015	2016	2015
General government	$ 4,651	$ 4,794	$ 1,047	$ 1,089
Public safety	6,332	5,028	5,509	4,284
Highways and streets	8,188	7,601	3,215	2,290
Human services	3,599	3,307	2,036	1,602
Health	2,987	2,670	(208)	(50)
All others	2,947	2,900	1,330	597
Total	$ 28,704	$ 26,300	$ 12,929	$ 9,812

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 $29,400,918 in 2016, compared with $28,313,516 in 2015, an increase of $1,087,402. Fund balances that are classified as restricted are either nonspendable or restricted and have specific (usually external) constraints placed on their use. Fund balances that are classified as unrestricted are either committed, assigned, or unassigned fund balances. Committed and assigned fund balances are fund balances for which the County has identified a specific purpose. Unassigned fund balances do not have a specific use identified, but generally support cash flows of the County.

Governmental funds reported restricted fund balance for 2016 of $2,322,679, or 7.90 percent, of total fund balance. Restricted fund balance was $247,221 nonspendable and $2,075,458 restricted. Unrestricted fund balance was $27,078,239, or 92.10 percent, of total fund balance. Unrestricted fund balance was $4,725,891 committed, $10,471,924 assigned, and $11,880,424 unassigned. Committed fund balances are approved by the County Board. For example, the Board has decided, by resolution, to set aside monies to fund a portion of the County's broadband project. Assigned fund balances are amounts that are to be used for specific purposes, but are neither restricted nor committed. Unassigned fund balance is fund balance that has not been reported in any other classification and is only used in the General Fund unless there are deficit fund balances in other funds.

The General Fund is the main operating fund of the County. At December 31, 2016, unrestricted fund balance for the General Fund was $15,562,074, compared to $14,675,019 in 2015. 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 131.70 percent of the General Fund's operating revenues and 143.47 percent of operating expenditures.

The Road and Bridge Special Revenue Fund's unrestricted fund balance decreased to $1,503,424 in 2016, compared to unrestricted fund balance of $1,594,048 in 2015. In 2016, there was a decrease in state revenues received for construction projects undertaken by the Road and Bridge Department. Unrestricted fund balance at the end of the year represented 27.09 percent of the fund's operating revenues and 26.51 percent of operating expenditures.

The Human Services Special Revenue Fund's unrestricted fund balance was $8,790,987 in 2016, compared to $8,338,388 in 2015. The increase in the fund balance of the Human Services Special Revenue Fund is attributed to lower expenditures than what was budgeted. Unrestricted fund balance at the end of the year represented 127.65 percent of the fund's operating revenues and 136.63 percent of operating expenditures.

Proprietary Fund

The County's proprietary fund for broadband provides the same type of information found in the government-wide financial statements, only in more detail. The broadband fund's net position was ($3,218,626) in 2016, compared to $572,098 in 2015. Net position decreased due to an increase in operating expense that was not in proportion to operating revenue. In 2014, the County's broadband fund began operations, collecting operating revenues and incurring operating expenditures. The broadband fund was originally started in 2012 to track the construction and related expenses of the County's broadband project.

General Fund Budgetary Highlights

Over the course of the year, the County Board reviews the County's General Fund budget and may make budget amendments. These budget amendments fall into three categories: new information changing original budget estimations, greater than anticipated revenues or costs, and final agreement reached on employee contracts. There were eight immaterial budget amendments in the General Fund budget in 2016.

In the General Fund, the actual charges to appropriations (expenditures) were $13,163 less than the final budget amounts. Unbudgeted expenditures included $275,707 of unbudgeted trail expenditures, $277,983 of unbudgeted small cities development program expenditures, and $364,464 of unbudgeted emergency management expenditures. These were offset by savings in various other General Fund departments.

Resources available for appropriation were also above the final budgeted amount by $240,725. This was primarily due to greater than expected collections in intergovernmental revenues.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2016, the County had $152,956,844 invested in a broad range of capital assets, including land, buildings, highways and streets, and equipment. (See Table 4.)

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

	Governmental Activities		Business-Type Activities		Totals	
	2016	2015	2016	2015	2016	2015
Land	$ 4,021	$ 4,021	$ -	$ -	$ 4,021	$ 4,021
Construction in progress	-	-	5,330	5,313	5,330	5,313
Buildings and improvements	8,905	9,329	1,704	1,745	10,609	11,074
Machinery, vehicles, furniture, and equipment	1,391	1,751	1,701	2,032	3,092	3,783
Infrastructure	71,508	73,688	58,396	59,794	129,904	133,482
Totals	$ 85,825	$ 88,789	$ 67,131	$ 68,884	$ 152,956	$ 157,673

The County's fiscal year 2017 capital budget calls for it to spend another $95,000 for miscellaneous improvements at various buildings, $256,200 on vehicles for various departments, $401,952 on equipment for various departments, and $6,875,016 for road construction. The road construction will be funded by state-aid construction funds.

Debt

At year-end, the County had $1,790,000 in bonds and notes outstanding versus $2,130,000 last year--a decrease of 16.0 percent--as shown in Table 5. Capital leases payable decreased by $176,464. The Rural Utilities Service Broadband Loan on the business-type activities portion has a balance of $48,590,670.

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

	Governmental Activities		Business-Type Activities		Totals	
	2016	2015	2016	2015	2016	2015
General obligation bonds	$ 1,790	$ 2,130	$ -	$ -	$ 1,790	$ 2,130
Capital leases	828	1,005	-	-	828	1,005
Loans payable	-	-	48,591	50,731	48,591	50,731
Compensated absences	1,464	1,445	-	-	1,464	1,445
Net pension liability	13,165	6,376	-	-	13,165	6,376
Net other postemployment benefits	420	396	-	-	420	396
Total	$ 17,667	$ 11,352	$ 48,591	$ 50,731	$ 66,258	$ 62,083

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 2017 budget and tax rates.

- County General Fund expenditures for 2017 are budgeted to increase 3.13 percent over 2016.

- Property tax levies increased 6.00 percent for 2016.

On June 13, 2017, the Lake County Board of Commissioners adopted a resolution declaring the intent to sell the network and all of its assets of the Broadband Enterprise Fund.

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

This page was left blank intentionally.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

LAKE COUNTY
TWO HARBORS, MINNESOTA

EXHIBIT 1

STATEMENT OF NET POSITION
DECEMBER 31, 2016

	Primary Government			Housing and Redevelopment Authority
	Governmental Activities	Business-Type Activities	Total	Component Unit
Assets				
Cash and pooled investments	$ 9,347,529	$ -	$ 9,347,529	$ 801,338
Receivables	8,962,417	470,900	9,433,317	11,790
Internal balances	17,684,571	(17,684,571)	-	-
Inventories	197,221	718,198	915,419	-
Prepaid items	13,096	-	13,096	-
Restricted assets for security deposits	-	-	-	16,987
Capital assets				
Non-depreciable capital assets	4,021,386	5,330,424	9,351,810	-
Depreciable capital assets - net of accumulated depreciation	81,803,865	61,801,169	143,605,034	987,621
Total Assets	**$ 122,030,085**	**$ 50,636,120**	**$ 172,666,205**	**$ 1,817,736**
Deferred Outflows of Resources				
Deferred pension outflows	**$ 7,418,664**	**$ -**	**$ 7,418,664**	**$ -**
Liabilities				
Accounts payable and other current liabilities	$ 1,670,839	$ 4,196,326	$ 5,867,165	$ 4,010
Accrued interest payable	21,895	-	21,895	-
Unearned revenue	-	1,067,750	1,067,750	2,197
Payable from restricted assets				
Security deposits payable	-	-	-	16,987
Long-term liabilities				
Due within one year	512,508	1,675,618	2,188,126	55,000
Due in more than one year	3,569,609	46,915,052	50,484,661	561,975
Net pension liability	13,164,670	-	13,164,670	-
Net other postemployment benefits	420,379	-	420,379	-
Total Liabilities	**$ 19,359,900**	**$ 53,854,746**	**$ 73,214,646**	**$ 640,169**
Deferred Inflows of Resources				
Deferred pension inflows	**$ 1,662,433**	**$ -**	**$ 1,662,433**	**$ -**

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

LAKE COUNTY
TWO HARBORS, MINNESOTA

EXHIBIT 1
(Continued)

STATEMENT OF NET POSITION
DECEMBER 31, 2016

	Primary Government			Housing and Redevelopment Authority
	Governmental Activities	Business-Type Activities	Total	Component Unit
Net Position				
Net investment in capital assets	$ 83,207,139	$ 18,540,923	$ 101,748,062	$ 370,646
Restricted for				
General government	641,057	-	641,057	-
Public safety	668,531	-	668,531	-
Highways and streets	3,528,428	-	3,528,428	-
Conservation of natural resources	76,075	-	76,075	-
Debt service	689,795	-	689,795	-
Unrestricted	19,615,391	(21,759,549)	(2,144,158)	806,921
Total Net Position	**$ 108,426,416**	**$ (3,218,626)**	**$ 105,207,790**	**$ 1,177,567**

LAKE COUNTY
TWO HARBORS, MINNESOTA

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016

		Program Revenues	
	Expenses	Fees, Charges, Fines, and Other	Operating Grants and Contributions
Functions/Programs			
Primary government			
Governmental activities			
General government	$ 4,650,432	$ 621,934	$ 2,981,085
Public safety	6,332,057	173,213	649,631
Highways and streets	8,188,180	229,534	4,380,719
Sanitation	417,185	32,166	-
Human services	3,599,268	111,466	1,451,459
Health	2,986,807	317,715	2,877,322
Culture and recreation	1,007,403	-	62,440
Conservation of natural resources	961,124	994,376	497,920
Economic development	495,172	-	31,120
Interest	66,586	-	-
Total governmental activities	**$ 28,704,214**	**$ 2,480,404**	**$ 12,931,696**
Business-type activities			
Broadband	7,153,744	2,765,765	-
Total Primary Government	**$ 35,857,958**	**$ 5,246,169**	**$ 12,931,696**
Component unit			
Housing and Redevelopment Authority	**$ 281,410**	**$ 210,255**	**$ -**

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

Total general revenues, transfers, and special item

Change in net position

Net Position - Beginning

Net Position - Ending

Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position — Primary Government — Governmental Activities	Business-Type Activities	Total	Discretely Presented Component Unit
$ -	$ (1,047,413)	$ -	$ (1,047,413)	
-	(5,509,213)	-	(5,509,213)	
362,783	(3,215,144)	-	(3,215,144)	
-	(385,019)	-	(385,019)	
-	(2,036,343)	-	(2,036,343)	
-	208,230	-	208,230	
-	(944,963)	-	(944,963)	
-	531,172	-	531,172	
-	(464,052)	-	(464,052)	
-	(66,586)	-	(66,586)	
$ 362,783	**$ (12,929,331)**	**$ -**	**$ (12,929,331)**	
-		(4,387,979)	(4,387,979)	
$ 362,783	**$ (12,929,331)**	**$ (4,387,979)**	**$ (17,317,310)**	
$ -				**$ (71,155)**
	$ 8,452,950	$ 600,000	$ 9,052,950	$ 112,453
	675,490	-	675,490	-
	902,062	-	902,062	-
	316,000	-	316,000	-
	1,250,119	-	1,250,119	7,685
	57,201	-	57,201	5,315
	46,779	-	46,779	-
	-	-	-	5,702
	2,745	(2,745)	-	-
	-	-	-	77,338
	$ 11,703,346	**$ 597,255**	**$ 12,300,601**	**$ 208,493**
	$ (1,225,985)	**$ (3,790,724)**	**$ (5,016,709)**	**$ 137,338**
	109,652,401	**572,098**	**110,224,499**	**1,040,229**
	$ 108,426,416	**$ (3,218,626)**	**$ 105,207,790**	**$ 1,177,567**

This page was left blank intentionally.

FUND FINANCIAL STATEMENTS

This page was left blank intentionally.

GOVERNMENTAL FUNDS

This page was left blank intentionally.

LAKE COUNTY
TWO HARBORS, MINNESOTA

EXHIBIT 3

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2016

	General	Road and Bridge	Human Services	Nonmajor Funds	Total
Assets					
Cash and pooled investments	$ -	$ 1,884,147	$ 4,759,478	$ 2,093,897	$ 8,737,522
Escheat cash	36,538	-	-	-	36,538
Petty cash and change funds	1,050	1,000	1,000	50	3,100
Undistributed cash in agency funds	351,425	83,309	114,349	21,286	570,369
Taxes receivable - delinquent	181,060	45,246	67,283	10,433	304,022
Accounts receivable	62,657	516	7,408	946,111	1,016,692
Accrued interest receivable	6,083	-	-	-	6,083
Loans receivable	68,051	-	-	-	68,051
Due from other funds	14,337,324	13,408	3,363,008	242,864	17,956,604
Due from other governments	2,618,076	3,798,921	828,487	72,085	7,317,569
Prepaid expense	-	-	13,096	-	13,096
Inventories	-	197,221	-	-	197,221
Leases receivable	250,000	-	-	-	250,000
Total Assets	**$ 17,912,264**	**$ 6,023,768**	**$ 9,154,109**	**$ 3,386,726**	**$ 36,476,867**
Liabilities, Deferred Inflows of Resources, and Fund Balances					
Liabilities					
Accounts payable	$ 166,158	$ 358,071	$ 133,902	$ 82,096	$ 740,227
Escheat payable	36,538	-	-	-	36,538
Salaries payable	223,729	80,661	79,946	17,474	401,810
Contracts payable	-	212,984	-	-	212,984
Due to other funds	15,792	-	13,377	242,864	272,033
Due to other governments	40,083	12,734	82,297	144,166	279,280
Total Liabilities	**$ 482,300**	**$ 664,450**	**$ 309,522**	**$ 486,600**	**$ 1,942,872**
Deferred Inflows of Resources					
Unavailable revenue - taxes	$ 139,009	$ 35,277	$ 53,600	$ 7,886	$ 235,772
Unavailable revenue - grants	35,167	3,623,396	-	72,085	3,730,648
Unavailable revenue - long-term receivables	258,051	-	-	908,606	1,166,657
Total Deferred Inflows of Resources	**$ 432,227**	**$ 3,658,673**	**$ 53,600**	**$ 988,577**	**$ 5,133,077**

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

LAKE COUNTY
TWO HARBORS, MINNESOTA

EXHIBIT 3
(Continued)

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2016

	General	Road and Bridge	Human Services	Nonmajor Funds	Total
Liabilities, Deferred Inflows of Resources, and Fund Balances (Continued)					
Fund Balances					
Nonspendable					
Loans receivables	$ 50,000	$ -	$ -	$ -	$ 50,000
Inventories	-	197,221	-	-	197,221
Restricted for					
Law library	40,506	-	-	-	40,506
Recorder's technology equipment	319,446	-	-	-	319,446
Enhanced 911	605,577	-	-	-	605,577
County property recorder's fee	270,658	-	-	-	270,658
Law and prosecutorial equipment	58,906	-	-	-	58,906
Election equipment	10,447	-	-	-	10,447
Sheriff's contingency fund	4,048	-	-	-	4,048
Title III forest	76,075	-	-	-	76,075
Debt service	-	-	-	689,795	689,795
Committed to					
Broadband project	3,500,000	-	-	-	3,500,000
Rescue squad capital expenditures	25,019	-	-	-	25,019
Out-of-home placement costs	-	-	1,000,000	-	1,000,000
Forestry road grant	-	-	-	4,195	4,195
Unorganized townships					
Emergency services	-	-	-	196,677	196,677
Assigned to					
Capital assets	15,568	-	-	-	15,568
Wellness grant	577	-	-	-	577
Highways and streets	-	1,503,424	-	-	1,503,424
Human services	-	-	7,790,987	-	7,790,987
Resource development	-	-	-	1,161,368	1,161,368
Unassigned	12,020,910	-	-	(140,486)	11,880,424
Total Fund Balances	**$ 16,997,737**	**$ 1,700,645**	**$ 8,790,987**	**$ 1,911,549**	**$ 29,400,918**
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	**$ 17,912,264**	**$ 6,023,768**	**$ 9,154,109**	**$ 3,386,726**	**$ 36,476,867**

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, 2016

Fund balances - total governmental funds (Exhibit 3)		**$ 29,400,918**
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.		85,825,251
Deferred outflows of resources resulting from pension obligations are not available resources and, therefore, are not reported in governmental funds.		7,418,664
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		5,133,077
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	$ (1,790,000)	
Capital leases payable	(828,112)	
Compensated absences	(1,464,005)	
Net pension liability	(13,164,670)	
Net other postemployment benefits payable	(420,379)	
Accrued interest payable	(21,895)	(17,689,061)
Deferred inflows resulting from pension obligations are not due and payable in the current period and, therefore, are not reported in the governmental funds.		(1,662,433)
Net Position of Governmental Activities (Exhibit 1)		**$ 108,426,416**

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

EXHIBIT 5

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016**

	General	Road and Bridge	Human Services	Nonmajor Funds	Total
Revenues					
Taxes	$ 5,493,658	$ 1,747,364	$ 1,866,442	$ 354,490	$ 9,461,954
Licenses and permits	16,251	-	-	1,878	18,129
Intergovernmental	5,452,283	3,573,128	4,591,288	262,471	13,879,170
Charges for services	463,989	167,285	345,603	38,849	1,015,726
Fines and forfeits	5,028	-	-	-	5,028
Investment earnings	55,232	-	-	1,969	57,201
Miscellaneous	329,775	62,249	83,578	909,532	1,385,134
Total Revenues	**$ 11,816,216**	**$ 5,550,026**	**$ 6,886,911**	**$ 1,569,189**	**$ 25,822,342**
Expenditures					
Current					
General government	$ 4,391,695	$ -	$ -	$ 5,596	$ 4,397,291
Public safety	4,722,559	-	-	125,813	4,848,372
Highways and streets	-	5,638,246	-	-	5,638,246
Sanitation	402,650	-	-	-	402,650
Human services	-	-	3,454,562	-	3,454,562
Health	-	-	2,979,750	-	2,979,750
Culture and recreation	757,507	-	-	74,010	831,517
Conservation of natural resources	167,099	-	-	728,982	896,081
Economic development	405,071	-	-	90,101	495,172
Capital outlay					
Conservation of natural resources	-	-	-	50,833	50,833
Debt service					
Principal	-	29,797	-	486,667	516,464
Interest	-	4,032	-	65,585	69,617
Administrative (fiscal) charges	-	-	-	450	450
Total Expenditures	**$ 10,846,581**	**$ 5,672,075**	**$ 6,434,312**	**$ 1,628,037**	**$ 24,581,005**
Excess of Revenues Over (Under) Expenditures	**$ 969,635**	**$ (122,049)**	**$ 452,599**	**$ (58,848)**	**$ 1,241,337**
Other Financing Sources (Uses)					
Transfers in	$ -	$ 31,425	$ -	$ 242,864	$ 274,289
Transfers out	(28,680)	-	-	(242,864)	(271,544)
Total Other Financing Sources (Uses)	**$ (28,680)**	**$ 31,425**	**$ -**	**$ -**	**$ 2,745**
Net Change in Fund Balances	**$ 940,955**	**$ (90,624)**	**$ 452,599**	**$ (58,848)**	**$ 1,244,082**
Fund Balances - January 1	**16,056,782**	**1,947,949**	**8,338,388**	**1,970,397**	**28,313,516**
Increase (decrease) in inventories	**-**	**(156,680)**	**-**	**-**	**(156,680)**
Fund Balances - December 31	**$ 16,997,737**	**$ 1,700,645**	**$ 8,790,987**	**$ 1,911,549**	**$ 29,400,918**

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

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, 2016

Net change in fund balances - total governmental funds (Exhibit 5)		**$ 1,244,082**
Amounts reported for governmental activities in the statement of activities are different because:		
In the funds, under the modified accrual basis, receivables not available for expenditure are deferred. In the statement of activities, those revenues are recognized when earned. The adjustment to revenue between the fund statements and the statement of activities is the increase or decrease in revenue deferred as unavailable.		
Deferred revenue - December 31	$ 5,133,077	
Deferred revenue - January 1	(3,619,902)	1,513,175
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	$ 2,442,588	
Decreases to capital assets	(2,226,384)	
Net book value of assets sold	(47,969)	
Current year depreciation	(3,131,636)	(2,963,401)
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	$ 340,000	
Capital lease	176,464	516,464
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		
Change in accrued interest payable	$ 3,481	
Change in compensated absences	(19,071)	
Change in net pension liability	(6,788,353)	
Change in deferred outflows of resources	6,318,157	
Change in deferred inflows of resources	(869,038)	
Change in net other postemployment benefits	(24,801)	
Change in inventories	(156,680)	(1,536,305)
Change in Net Position of Governmental Activities (Exhibit 2)		**$ (1,225,985)**

This page was left blank intentionally.

PROPRIETARY FUND

This page was left blank intentionally.

LAKE COUNTY
TWO HARBORS, MINNESOTA

EXHIBIT 7

STATEMENT OF NET POSITION
PROPRIETARY FUND
DECEMBER 31, 2016

		Broadband
Assets		
Current assets		
Accounts receivable	$	470,900
Inventories		718,198
Capital assets		
Non-depreciable capital assets		5,330,424
Depreciable - net of accumulated depreciation		61,801,169
Total Assets	**$**	**68,320,691**
Liabilities		
Current liabilities		
Accounts payable	$	363,631
Contracts payable		1,475,270
Retainage payable		2,351,957
Due to other governments		5,468
Due to other funds		17,684,571
Unearned revenue		1,067,750
Loans payable - current		1,675,618
Total current liabilities	**$**	**24,624,265**
Noncurrent liabilities		
Loans payable - noncurrent		46,915,052
Total Liabilities	**$**	**71,539,317**
Net Position		
Net investment in capital assets	$	18,540,923
Unrestricted		(21,759,549)
Total Net Position	**$**	**(3,218,626)**

LAKE COUNTY
TWO HARBORS, MINNESOTA

EXHIBIT 8

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2016

		Broadband
Operating Revenues		
Charges for services	$	2,744,834
Miscellaneous		20,931
Total Operating Revenues	**$**	**2,765,765**
Operating Expenses		
Contracted services	$	935,817
Professional services		121,226
Administration and fiscal services		199,196
Supplies		52,503
Utilities		66,483
Telephone		15,087
Fuel		1,014
Advertising		49,728
Consulting services		868,093
Insurance		76,549
Travel		29,444
Training		235
License and dues		265
Postage		24,049
Rent and leased equipment		102,556
Repairs and maintenance		447,647
Video and internet services		403,942
Miscellaneous		31,810
Other services and charges		72,270
Depreciation		2,438,684
Total Operating Expenses	**$**	**5,936,598**
Operating Income (Loss)	**$**	**(3,170,833)**
Nonoperating Revenues (Expenses)		
Taxes	$	600,000
Interest expense		(1,217,146)
Total Nonoperating Revenues (Expenses)	**$**	**(617,146)**
Income (Loss) Before Transfers	**$**	**(3,787,979)**
Transfers out		(2,745)
Change in Net Position	**$**	**(3,790,724)**
Net Position - January 1		**572,098**
Net Position - December 31	**$**	**(3,218,626)**

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

LAKE COUNTY
TWO HARBORS, MINNESOTA

EXHIBIT 9

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2016

		Broadband
Cash Flows from Operating Activities		
Cash received from customers	$	2,453,584
Other operating revenues		20,931
Cash paid to suppliers		(3,338,885)
Net cash provided by (used in) operating activities	**$**	**(864,370)**
Cash Flows from Noncapital Financing Activities		
Taxes	**$**	**600,000**
Cash Flows from Capital and Related Financing Activities		
Acquisition of capital assets	$	(2,139,107)
Intergovernmental receipts		1,067,750
Advance		4,701,177
Principal paid on loan		(2,140,156)
Interest paid on loan		(1,225,294)
Net cash provided by (used in) capital and related financing activities	**$**	**264,370**
Net Increase (Decrease) in Cash and Cash Equivalents	**$**	**-**
Cash and Cash Equivalents at January 1		**-**
Cash and Cash Equivalents at December 31	**$**	**-**
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities	**$**	**(3,170,833)**
Adjustments to reconcile net operating income (loss) to net cash provided by (used in) operating activities		
Depreciation	$	2,438,684
(Increase) decrease in receivables		(291,250)
(Increase) decrease in inventories		173,035
Increase (decrease) in payables		(14,006)
Total adjustments	**$**	**2,306,463**
Net Cash Provided by (Used in) Operating Activities	**$**	**(864,370)**

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

This page was left blank intentionally.

FIDUCIARY FUNDS

This page was left blank intentionally.

LAKE COUNTY
TWO HARBORS, MINNESOTA

EXHIBIT 10

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
DECEMBER 31, 2016

		Agency
Assets		
Cash and pooled investments	**$**	**1,101,043**
Liabilities		
Accounts payable	$	436,217
Taxes collected in advance		10,253
Due to other governments		595,098
Customer deposits - current		59,475
Total Liabilities	**$**	**1,101,043**

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

This page was left blank intentionally.

1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with accounting principles generally accepted in the United State of America (GAAP) as of and for the year ended December 31, 2016. 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 P. O. Box 103 Silver Bay, Minnesota 55614

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

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 7.F. The County also participates in jointly-governed organizations described in Note 7.G.

   B. Basic Financial Statements

      1. Government-Wide Statements

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

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

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

1. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

2. Fund Financial Statements

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

The County reports the following major governmental funds:

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

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

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

The County reports the following major proprietary fund:

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

1. Summary of Significant Accounting Policies

   B. Basic Financial Statements

      2. Fund Financial Statements (Continued)

         Additionally, the County reports the following fund types:

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

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

   C. Measurement Focus and Basis of Accounting

   The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus and the 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. 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 general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

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

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

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

1. Cash and Cash Equivalents

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

2. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Auditor/Treasurer for the purpose of increasing earnings through investment activities. Investments are reported at their fair value at December 31, 2016. A market approach is used to value all investments other than external investment pools, which are measured at fair value per share. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2016 were $57,201 at the governmental fund level.

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

1. Summary of Significant Accounting Policies

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

3. Receivables and Payables

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

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

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

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

4. Inventories and Prepaid Items

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

Inventories in proprietary funds and at the government-wide level are recorded as expenses when consumed.

The Broadband Enterprise Fund inventory consists of materials and supplies held for customer installations, system expansion, and repair stock. Inventory is based on lower of cost or market using the first-in, first-out method and are based on an annual physical inventory.

1. Summary of Significant Accounting Policies

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

4. Inventories and Prepaid Items (Continued)

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

5. Capital Assets

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

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

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

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

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

1. Summary of Significant Accounting Policies

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

6. Unearned Revenue

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

7. 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 by the General Fund, the Road and Bridge Special Revenue Fund, the Human Services Special Revenue Fund, and the Forfeited Tax Special Revenue Fund.

8. Compensated Absences

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

Lake County's employees (except for Highway Department employees) participate in a postretirement health savings plan administered by the Minnesota State Retirement System. At retirement, depending on the employee's years of service, he or she is issued a lump sum payout of either 10 or 20 percent of the vested sick

1. Summary of Significant Accounting Policies

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

8. Compensated Absences (Continued)

leave as well as two to three years of insurance coverage. The lump sum payouts are paid directly into the postretirement 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.

9. Deferred Outflows/Inflows of Resources

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

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

1. Summary of Significant Accounting Policies

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

9. Deferred Outflows/Inflows of Resources (Continued)

available. The County also has deferred pension inflows. These inflows arise only under the full accrual basis of accounting and consist of differences between expected and actual pension plan economic experience and also pension plan changes in proportionate share and, accordingly, are reported only in the statement of net position.

10. Long-Term Obligations

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

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

11. Classification of Net Position

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

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

1. Summary of Significant Accounting Policies

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

11. Classification of Net Position (Continued)

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.

12. Classification of Fund Balances

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

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

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

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

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

1. Summary of Significant Accounting Policies

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

12. Classification of Fund Balances (Continued)

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

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

13. Use of Estimates

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

2. Stewardship, Compliance, and Accountability

Deficit Fund Equity

At December 31, 2016, the Forfeited Tax Special Revenue Fund had a deficit fund balance of $136,291. This deficit will be made up with future tax levies and other revenue sources.

2. Stewardship, Compliance, and Accountability

Deficit Fund Equity (Continued)

For the year ended December 31, 2016, expenditures exceeded appropriations in the following nonmajor funds:

	Final Budget	Expenditures	Excess
Special Revenue Funds			
Resource Development	$ 185,267	$ 289,476	$ 104,209
Unorganized Townships	116,250	131,409	15,159
Forfeited Tax	601,851	729,976	128,125
Debt Service Fund	389,289	477,176	87,887

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Primary government	
Cash and pooled investments	$ 9,347,529
Component unit	
Cash and pooled investments	801,338
Restricted cash with management company for security deposits	16,987
Fiduciary funds	
Cash and pooled investments	1,101,043
Total Cash and Investments	$ 11,266,897

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.

3. Detailed Notes on All Funds

   A. Assets

      1. Deposits and Investments

         a. Deposits (Continued)

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, 2016, the County’s deposits were not exposed to custodial credit risk.

         b. Investments

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

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

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

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

(3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;

(4) bankers' acceptances of United States banks;

(5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and

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

Interest Rate Risk

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

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.

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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.

The following table presents the County's deposit and investment balances at December 31, 2016, and information relating to potential investment risks:

	Credit Risk		Concentration Risk	Interest Rate Risk	
Investment Type	Credit Rating	Rating Agency	Over 5% of Portfolio	Maturity Date	Carrying (Fair) Value
U.S. government agency securities					
Federal National Mortgage Association	N/R	N/A	<5%	02/01/2019	$ 15,320
Federal Home Loan Mortgage Corporation Note	Aaa	Moody's	<5%	06/30/2021	$ 538,406
Negotiable certificates of deposit					
Comenity Bank	N/A	N/A		10/21/2019	$ 200,550
Bank United National Association	N/A	N/A		02/20/2018	244,740
Worlds Foremost Bank	N/A	N/A		04/15/2020	100,000
			7.36%		
Total negotiable certificates of deposit					$ 545,290

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Investment Type	Credit Risk: Credit Rating	Credit Risk: Rating Agency	Concentration Risk: Over 5% of Portfolio	Interest Rate Risk: Maturity Date	Carrying (Fair) Value
Investment pools/mutual funds					
MAGIC Fund	N/R	N/A	76.67%	N/A	$ 5,812,526
Total investments					$ 6,911,542
Deposits - primary government					3,497,242
Deposits - component unit					818,325
Petty cash and change funds					3,250
Escheat cash					36,538
Total Cash and Investments					$ 11,266,897

N/A - Not Applicable
N/R - Not Rated
<5% - Concentration is less than 5% of investments

Lake County measures and records its investments using fair value measurement guidelines established by accounting principles generally accepted in the United State 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.

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

At December 31, 2016, Lake County had the following recurring fair value measurements.

		Fair Value Measurements Using		
	December 31, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level				
Debt securities				
U.S. agencies	$ 553,726	$ -	$ 553,726	$ -
Negotiable certificates of deposit	545,290	-	545,290	-
Total debt securities	$ 1,099,016	$ -	$ 1,099,016	$ -
Investments measured at the net asset value (NAV)				
MAGIC Portfolio	5,812,526			
Total Investments	$ 6,911,542			

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

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

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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

2. Receivables

Receivables as of December 31, 2016, for the County's governmental and business-type activities are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	$ 304,022	$ -
Due from other governments	7,317,569	-
Accounts	1,016,692	-
Interest	6,083	-
Loans receivable	68,051	57,775
Leases receivable	250,000	250,000
Total Governmental Activities	$ 8,962,417	$ 307,775
Business-Type Activities		
Accounts	$ 470,900	$ -

3. Detailed Notes on All Funds

A. Assets

2. Receivables (Continued)

Loans Receivable

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

Leases Receivable

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

3. Capital Assets

Capital asset activity for the year ended December 31, 2016, was as follows:

Governmental Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	$ 4,021,386	$ -	$ -	$ 4,021,386
Capital assets depreciated				
Buildings	$ 16,457,308	$ -	$ -	$ 16,457,308
Improvements other than buildings	794,131	28,804	-	822,935
Machinery, furniture, and equipment	12,703,273	389,322	382,573	12,710,022
Infrastructure	103,604,792	2,024,462	2,346,418	103,282,836
Total capital assets depreciated	$ 133,559,504	$ 2,442,588	$ 2,728,991	$ 133,273,101

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets

Governmental Activities (Continued)

	Beginning Balance	Increase	Decrease	Ending Balance
Less: accumulated depreciation for				
Buildings	$ 7,417,168	$ 414,944	$ -	$ 7,832,112
Improvements other than buildings	505,658	37,802	-	543,460
Machinery, furniture, and equipment	10,952,536	700,784	334,604	11,318,716
Infrastructure	29,916,876	1,978,106	120,034	31,774,948
Total accumulated depreciation	$ 48,792,238	$ 3,131,636	$ 454,638	$ 51,469,236
Total capital assets depreciated, net	$ 84,767,266	$ (689,048)	$ 2,274,353	$ 81,803,865
Governmental Activities Capital Assets, Net	$ 88,788,652	$ (689,048)	$ 2,274,353	$ 85,825,251

Business-Type Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Construction in progress	$ 5,313,226	$ 17,198	$ -	$ 5,330,424
Capital assets depreciated				
Buildings	$ 748,815	$ 13,064	$ -	$ 761,879
Improvements other than buildings	1,135,835	-	-	1,135,835
Machinery, furniture, and equipment	2,799,077	103,550	-	2,902,627
Infrastructure	62,216,387	552,012	-	62,768,399
Total capital assets depreciated	$ 66,900,114	$ 668,626	$ -	$ 67,568,740

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets

Business-Type Activities (Continued)

	Beginning Balance	Increase	Decrease	Ending Balance
Less: accumulated depreciation for				
Buildings	$ 43,912	$ 20,357	$ -	$ 64,269
Improvements other than buildings	95,727	34,042	-	129,769
Machinery, furniture, and equipment	766,627	434,714	-	1,201,341
Infrastructure	2,422,621	1,949,571	-	4,372,192
Total accumulated depreciation	$ 3,328,887	$ 2,438,684	$ -	$ 5,767,571
Total capital assets depreciated, net	$ 63,571,227	$ (1,770,058)	$ -	$ 61,801,169
Business-Type Activities Capital Assets, Net	$ 68,884,453	$ (1,752,860)	$ -	$ 67,131,593

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

Governmental Activities	
General government	$ 218,999
Public safety	442,064
Highways and streets, including depreciation of infrastructure assets	2,160,590
Human services	92,588
Sanitation	8,878
Culture and recreation	175,886
Conservation of natural resources	32,631
Total Depreciation Expense - Governmental Activities	$ 3,131,636
Business-Type Activities	
Broadband	$ 2,438,684

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

1. Due To/From Other Funds

The composition of interfund balances as of December 31, 2016, is as follows:

Receivable Fund	Payable Fund	Amount	Purpose
General	Broadband Enterprise	$ 14,323,947	Deficit cash balance
	Human Services	13,377	Reimbursement for services
		$ 14,337,324	
Road and Bridge	General	$ 13,408	Correct grant receipt
Human Services	Broadband Enterprise	$ 3,360,624	Deficit cash balance
	General	2,384	Reimbursement for services
		$ 3,363,008	
Nonmajor governmental funds	Nonmajor governmental funds	$ 242,864	Forfeited tax apportionment
Total Due To/From Other Funds		$ 17,956,604	

2. Interfund Transfers

Interfund transfers for the year ended December 31, 2016, consisted of the following:

Transfers to Road and Bridge Special Revenue Fund from General Fund	$ 28,680	Reimbursement for services
Transfers to Road and Bridge Special Revenue Fund from Broadband Enterprise Fund	2,745	Reimbursement for services
Transfer to Resource Development Fund from Tax Forfeited Fund	242,864	Land lease payment
Total Transfers to Governmental Funds	$ 274,289	

3. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Payables

Payables at December 31, 2016, were as follows:

	Governmental Activities	Business-Type Activities
Accounts payable	$ 740,227	$ 363,631
Escheat property payable	36,538	-
Salaries payable	401,810	-
Contracts payable	212,984	1,475,270
Retainage payable	-	2,351,957
Due to other governments	279,280	5,468
Total Payables	$ 1,670,839	$ 4,196,326

2. Long-Term Debt

Governmental Activities

Types of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2016
General Obligation Bonds					
G.O. Capital Improvement Refunding Bonds, Series 2014A	2030	$60,000 - $355,000	2.00 - 3.25	$ 2,410,000	$ 1,790,000
Other Long-Term Debt					
Capital lease - Land	2021	$146,667	3.25 - 5.375	$ 2,200,000	$ 733,331
Capital lease - Chieftain	2020	$14,302 - $27,823	3.70	178,065	94,781
Total Other Long-Term Debt				$ 2,378,065	$ 828,112

3. Detailed Notes on All Funds

C. Liabilities

2. Long-Term Debt (Continued)

Business-Type Activities

Types of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2016
Rural Utilities Service Broadband Loans	2029	$2,853,378 - $4,260,807	2.0154 - 3.2870	$ 54,696,588	$ 48,590,670

3. Debt Service Requirements

Debt service requirements at December 31, 2016, were as follows:

Governmental Activities

Year Ending December 31	General Obligation Bonds Principal	General Obligation Bonds Interest	Other Long-Term Debt Principal	Other Long-Term Debt Interest
2017	$ 340,000	$ 39,825	$ 172,508	$ 18,655
2018	350,000	32,925	173,481	14,566
2019	355,000	25,875	174,490	10,440
2020	60,000	21,725	160,970	6,387
2021	60,000	20,225	146,663	3,117
2022 - 2026	325,000	72,850	-	-
2027 - 2030	300,000	19,900	-	-
Total	$ 1,790,000	$ 233,325	$ 828,112	$ 53,165

Business-Type Activities

Year Ending December 31	RUS Broadband Loan Principal	RUS Broadband Loan Interest
2017	$ 1,675,618	$ 1,384,899
2018	3,424,001	1,302,165
2019	3,523,398	1,202,768
2020	3,625,721	1,100,445
2021	3,731,057	995,109
2022 - 2026	20,347,243	3,285,213
2027 - 2029	12,263,632	497,130
Total	$ 48,590,670	$ 9,767,729

3. Detailed Notes on All Funds

C. Liabilities (Continued)

4. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2016, was as follows:

Governmental Activities

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
General obligation improvement refunding bonds	$ 2,130,000	$ -	$ 340,000	$ 1,790,000	$ 340,000
Capital lease payable	1,004,576	-	176,464	828,112	172,508
Compensated absences	1,444,934	644,704	625,633	1,464,005	-
Governmental Activities Long-Term Liabilities	$ 4,579,510	$ 644,704	$ 1,142,097	$ 4,082,117	$ 512,508

Business-Type Activities

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Broadband loans	$ 50,730,826	$ -	$ 2,140,156	$ 48,590,670	$ 1,675,618

4. Pension Plans

A. Defined Benefit Pension Plans

1. 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 Public Employees Police and Fire Plan, and the Local Government Correctional Service Retirement Plan (the Public Employees Correctional Plan), which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with Minn. Stat. chs. 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

4. <u>Pension Plans</u>

   A. <u>Defined Benefit Pension Plans</u>

      1. <u>Plan Description</u> (Continued)

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

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

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

4. Pension Plans

A. Defined Benefit Pension Plans (Continued)

2. Benefits Provided

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

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

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for General Employees Retirement Plan Coordinated and Basic Plan members. Members hired prior to July 1, 1989, receive the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years of service and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. Only Method 2 is used for members hired after June 30, 1989. Minneapolis Employees Retirement Fund members have an annuity accrual rate of 2.0 percent of average salary for each of the first ten years of service and 2.5 percent for each remaining year. For Public Employees Police and Fire Plan members, the annuity accrual rate is 3.0 percent of average salary for each year of service. For Public Employees Correctional Plan members, the annuity accrual rate is 1.9 percent of average salary for each year of service.

4. Pension Plans

A. Defined Benefit Pension Plans

2. Benefits Provided (Continued)

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

3. Contributions

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the state legislature. General Employees Retirement Plan Basic members, Coordinated Plan members, and Minneapolis Employees Retirement Fund members were required to contribute 9.10 percent, 6.50 percent, and 9.75 percent, respectively, of their annual covered salary in 2016. Public Employees Police and Fire Plan members were required to contribute 10.80 percent of their annual covered salary in 2016. Public Employees Correctional Plan members were required to contribute 5.83 percent of their annual covered salary in 2016.

In 2016, the County was required to contribute the following percentages of annual covered salary:

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

4. Pension Plans

A. Defined Benefit Pension Plans

3. Contributions (Continued)

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

The County's contributions for the year ended December 31, 2016, to the pension plans were:

General Employees Retirement Plan	$	416,317
Public Employees Police and Fire Plan		191,785
Public Employees Correctional Plan		50,114

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

4. Pension Costs

General Employees Retirement Plan

At December 31, 2016, the County reported a liability of $7,128,924 for its proportionate share of the General Employees Retirement Plan's net pension liability. The net pension liability was measured as of June 30, 2016, 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, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the County's proportion was 0.0878 percent. It was 0.0932 percent measured as of June 30, 2015. The County recognized pension expense of $882,467 for its proportionate share of the General Employees Retirement Plan's pension expense.

The County also recognized $27,779 as revenue, which results in a reduction of the net pension liability, for its proportionate share of the State of Minnesota's contribution to the General Employees Retirement Plan, which qualifies as a special

4. Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs

General Employees Retirement Plan (Continued)

funding situation. Legislation requires the State of Minnesota to contribute $6 million to the General Employees Retirement Plan each year, starting September 15, 2015, through September 15, 2031.

County's proportionate share of the net pension liability	$ 7,128,924
State of Minnesota's proportionate share of the net pension liability associate with the County	93,162
Total	$ 7,222,086

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ -	$ 588,525
Changes in actuarial assumptions	1,395,850	-
Difference between projected and actual investment earnings	1,372,970	-
Changes in proportion	-	402,489
Contributions paid to PERA subsequent to the measurement date	208,213	-
Total	$ 2,977,033	$ 991,014

4. Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs

General Employees Retirement Plan (Continued)

The $208,213 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, 2017. 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
2017	$ 447,607
2018	447,607
2019	625,079
2020	257,513

Public Employees Police and Fire Plan

At December 31, 2016, the County reported a liability of $4,976,336 for its proportionate share of the Public Employees Police and Fire Plan’s net pension liability. The net pension liability was measured as of June 30, 2016, 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, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA’s participating employers. At June 30, 2016, the County’s proportion was 0.1240 percent. It was 0.1320 percent measured as of June 30, 2015. The County recognized pension expense of $851,378 for its proportionate share of the Public Employees Police and Fire Plan’s pension expense.

The County also recognized $11,160 as revenue, which results in a reduction of the net pension liability, for its proportionate share of the State of Minnesota’s on-behalf contribution to the Public Employees Police and Fire Plan. Legislation requires the State of Minnesota to contribute $9 million to the Public Employees Police and Fire Fund each year, starting in fiscal year 2014, until the plan is 90 percent funded.

4. Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs

Public Employees Police and Fire Plan (Continued)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ -	$ 582,672
Changes in actuarial assumptions	2,738,695	-
Difference between projected and actual investment earnings	771,302	-
Changes in proportion	14,401	75,749
Contributions paid to PERA subsequent to the measurement date	96,154	-
Total	$ 3,620,552	$ 658,421

The $96,154 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, 2017. 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
2017	$ 619,083
2018	619,083
2019	619,083
2020	553,753
2021	454,975

4. Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs (Continued)

Public Employees Correctional Plan

At December 31, 2016, the County reported a liability of $1,059,410 for its proportionate share of the Public Employees Correctional Plan's net pension liability. The net pension liability was measured as of June 30, 2016, 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, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the County's proportion was 0.2900 percent. It was 0.3000 percent measured as of June 30, 2015. The County recognized pension expense of $299,130 for its proportionate share of the Public Employees Correctional Plan's pension expense.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 829	$ 11,838
Changes in actuarial assumptions	674,972	-
Difference between projected and actual investment earnings	119,995	-
Changes in proportion	-	1,160
Contributions paid to PERA subsequent to the measurement date	25,283	-
Total	$ 821,079	$ 12,998

4. Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs

Public Employees Correctional Plan (Continued)

The $25,283 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, 2017. 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
2017	$ 251,377
2018	251,377
2019	257,296
2020	22,748

Total Pension Expense

The total pension expense for all plans recognized by the County for the year ended December 31, 2016, was $2,032,975.

5. Actuarial Assumptions

The total pension liability in the June 30, 2016, actuarial valuation was determined using the individual entry-age normal actuarial cost method and the following additional actuarial assumptions:

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

4. Pension Plans

   A. Defined Benefit Pension Plans

      5. Actuarial Assumptions (Continued)

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants in the General Employees Retirement Plan were based on RP-2014 tables, while mortality rates for the Public Employees Police and Fire Plan and the Public Employees Correctional Plan were based on RP-2000 tables for males or females, as appropriate, with slight adjustments. For the General Employees Retirement Plan and the Public Employees Police and Fire Plan, cost of living benefit increases for retirees are assumed to be 1.0 percent. Cost of living benefit increases for retirees are assumed to be 2.5 percent for all years for the Public Employees Correctional Plan.

Actuarial assumptions used in the June 30, 2016, valuation were based on the results of actuarial experience studies. The experience study in the General Employees Retirement Plan was for the period 2008 through 2015. The experience study for the Public Employees Police and Fire Plan was for the period 2004 through 2009. The experience study for the Public Employees Correctional Plan was for the period 2006 through 2011.

On August 16, 2016, an updated experience study was done for PERA's Public Employees Police and Fire Plan for the period 2011 through 2015, which would result in a larger pension liability. However, PERA will implement the changes in assumptions for its June 30, 2017, estimate of pension liability.

The long-term expected rate of return on pension plan investments is 7.5 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 rate of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

4. Pension Plans

A. Defined Benefit Pension Plans

5. Actuarial Assumptions (Continued)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic stocks	45%	5.50%
International stocks	15	6.00
Bonds	18	1.45
Alternative assets	20	6.40
Cash	2	0.50

6. Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent in 2016, a reduction of the 7.90 percent used in 2015. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, the fiduciary net position of the General Employees Retirement Plan was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. In the Public Employees Police and Fire Plan and the Public Employees Correctional Plan, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members through June 30, 2056, and June 30, 2058, respectively. Beginning in fiscal years ended June 30, 2057, for the Public Employee Police and Fire Plan and June 30, 2059, for the Public Employees Correctional Plan, when projected benefit payments exceed the Plan's projected fiduciary net position, benefit payments were discounted at the municipal bond rate of 2.85 percent based on an index of 20-year general obligation bonds with an average AA credit rating at the measurement date. An equivalent single discount rate of 5.60 percent for the Public Employees Police and Fire Plan and 5.31 percent for the Public Employees Correctional Plan was determined that produced approximately the same present value of the projected benefits when applied to all years of projected benefits as the present value of projected benefits using 7.50 percent applied to all years of projected benefits through the point of asset depletion and 2.85 percent thereafter.

4. Pension Plans

A. Defined Benefit Pension Plans (Continued)

7. Changes in Actuarial Assumptions

The following changes in actuarial assumption occurred in 2016:

General Employees Retirement Plan

- 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.

- 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

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

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

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

4. Pension Plans

A. Defined Benefit Pension Plans

7. Changes in Actuarial Assumptions (Continued)

Public Employees Correctional Plan

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

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

8. Pension Liability Sensivity

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

	Proportionate Share of the General Employees Retirement Plan		Proportionate Share of the Public Employees Police and Fire Plan		Proportionate Share of the Public Employees Correctional Plan	
	Discount Rate	Net Pension Liability	Discount Rate	Net Pension Liability	Discount Rate	Net Pension Liability
1% Decrease	6.50%	$ 10,125,186	4.60%	$ 6,966,210	4.31%	$ 1,595,145
Current	7.50	7,128,924	5.60	4,976,336	5.31	1,059,410
1% Increase	8.50	4,660,821	6.60	3,350,458	6.31	641,167

9. Pension Plan Fiduciary Net Position

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

4. Pension Plans (Continued)

B. Defined Contribution Plan

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

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. For those qualified personnel who elect to participate, Minn. Stat. § 353D.03 specifies plan provisions, including the employee and employer contribution rates. An eligible elected official who decides to participate contributes 5.00 percent of salary, which is matched by the employer. Employee and employer contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2.00 percent of employer contributions and 0.25 percent of the assets in each member account annually.

Total contributions by dollar amount and percentage of covered payroll made by the County during the year ended December 31, 2016, were:

	Employee	Employer
Contribution amount	$ 5,205	$ 5,205
Percentage of covered payroll	5%	5%

5. Other Postemployment Benefits (OPEB)

A. Plan Description and Funding Policy

Lake County explicitly subsidizes the cost of retiree health insurance coverage for certain retired employees through a sick leave reserve program under a single employer self-insured plan. Highway Department employees with at least 10 years of service who are eligible to receive a retirement benefit from PERA are eligible for up to 2 years of health insurance premiums paid by the County at the single rate. Highway Department employees with 20 or more years of service are eligible for up to 3 years of health insurance premiums. At retirement, each eligible employee's sick leave hours are converted to a dollar amount using the employee's hourly pay rate at retirement. The

5. Other Postemployment Benefits (OPEB)

A. Plan Description and Funding Policy (Continued)

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, 2016, there was 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, who do not qualify for the aforementioned benefits and do not participate in any other health benefits program providing similar coverage, will be eligible to continue coverage with respect to both themselves and their eligible dependents under the County's health benefits program. These retirees are required to pay 100 percent of the total premium cost. Since the premium is a blended rate determined on the entire active and retiree population, the retirees are receiving an implicit rate subsidy. As of December 31, 2016, three retirees were receiving health benefits from the County's health plan. The authority to provide these benefits is established in Minn. Stat. § 471.61, subd. 2a.

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

B. Annual OPEB Cost and Net OPEB Obligation

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

ARC	$	83,523
Interest on net OPEB obligation		17,801
Adjustment to ARC		(24,680)
Annual OPEB cost	$	76,644
Contributions during the year		(51,843)
Increase in net OPEB obligation	$	24,801
Net OPEB - Beginning of Year		395,578
Net OPEB - End of Year	$	420,379

5. Other Postemployment Benefits (OPEB)

B. Annual OPEB Cost and Net OPEB Obligation (Continued)

The County's annual OPEB cost; the percentage of annual OPEB cost contributed to the plan; and the net OPEB obligation for 2016, 2015, and 2014 were as follows:

	2016	2015	2014
Percentage of annual OPEB cost contributed	67.6%	49.8%	41.2%
Annual OPEB cost	$ 76,644	$ 77,320	$ 78,119
Employer contributions	(51,843)	(38,479)	(32,161)
Net Increase in Net OPEB Obligation	$ 24,801	$ 38,841	$ 45,958

C. Funded Status and Funding Progress

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

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

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

5. Other Postemployment Benefits (OPEB)

C. Funded Status and Funding Progress (Continued)

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

The net other postemployment benefits liability is generally 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.

6. Postemployment Health Care Plans

A. MSRS Health Care Savings Plan

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

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

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

6. Postemployment Health Care Plans (Continued)

   B. VEBA Plan

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

   In 2016, the maximum County contribution for active employees is $1,690 for employees with single coverage and $3,250 for employees with family coverage. Any balance remaining in an employee's account at year-end rolls over into the subsequent year. Upon retirement, any balance remaining in the VEBA account may be used to pay medical expenses.

   Eligibility requirements include:

   - be an active employee or retiree of a public entity,

   - active employees must have a high deductible health care plan, and

   - be a member of a bargaining unit that has approved the VEBA plan.

7. Summary of Significant Contingencies and Other Items

   A. Risk Management

   The County is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. To manage its workers' compensation and property and casualty risks, the County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Intergovernmental Trust (MCIT). The County is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. The County self-insures for employee dental coverage and participates in a health insurance pool for employee health coverage. For other risks, the County carries commercial insurance.

7. Summary of Significant Contingencies and Other Items

A. Risk Management (Continued)

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 2016 and 2017. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

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

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

7. Summary of Significant Contingencies and Other Items

A. Risk Management (Continued)

	Year Ended December 31 2016	2015
Unpaid claims, beginning of fiscal year	$ -	$ -
Incurred claims (including incurred but not reported)	118,516	106,721
Claims payments	(118,516)	(106,721)
Unpaid Claims, End of Fiscal Year	$ -	$ -

B. Contingent Liabilities

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

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

C. Other Commitments

Lake County has entered into a joint powers agreement with the Town of Silver Creek to assist the Town in financing a wastewater collection, treatment, and disposal system in the Castle Danger area. The County has agreed to contribute $65,586 per year through the year 2017 to help finance this project. The total amount to be contributed is $1,035,000, of which $1,009,376 has been paid through December 31, 2016. The outstanding commitment at December 31, 2016, is $25,624. The agreement may be terminated by the mutual agreement of the two parties. This amount has not been recorded as a liability in Lake County's financial statements.

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

D. Other Item

On December 14, 2016, a fire significantly damaged the Lake County Highway Department Facility and its contents, which included equipment, inventory, and office supplies. The County is working with their insurance company to reach an agreement for the loss of items, and the total amount of the impairment is not known as of December 31, 2016.

E. 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.

F. Joint Ventures

Arrowhead Regional Corrections

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

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

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

Arrowhead Regional Corrections is financed through state grants and contributions from the participating counties. Lake County provided $417,177 in funding during 2016.

7. Summary of Significant Contingencies and Other Items

F. 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 County Community Health Board. This agreement was entered into January 1, 1977, and is established pursuant to Minn. Stat. § 471.59.

The Community Health Board is composed of nine members. The Carlton, Cook, and Lake County Boards of Commissioners each appoint two members; the St. Louis County Board of Commissioners appoints three members. Financing is obtained through federal and state grants. Lake County provided no funding to this organization in 2016.

Separate financial information can be obtained from:

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

Northeast Minnesota Office of Job Training

Aitkin, Carlton, Cook, Itasca, Koochiching, Lake, and St. Louis Counties (excluding the City of Duluth) entered into a joint powers agreement, pursuant to Minn. Stat. § 471.59 for the purpose of developing and implementing a private and public job training program. The United States Congress, through the Job Training Partnership Act of 1982, authorized states to establish "service delivery areas" to provide programs to achieve full

7. Summary of Significant Contingencies and Other Items

F. Joint Ventures

Northeast Minnesota Office of Job Training (Continued)

employment through the use of grants. The counties identified above are defined as such a "service delivery area," and the Northeast Minnesota Office of Job Training is designated as the grant recipient and administrator for such service delivery area. Lake County is not a funding mechanism for this organization.

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

Separate financial information can be obtained from:

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

Minnesota Counties Information Systems (MCIS)

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

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

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

Separate financial information can be obtained from:

Minnesota Counties Information Systems
413 Southeast 7th Avenue
Grand Rapids, Minnesota 55744

7. Summary of Significant Contingencies and Other Items

F. Joint Ventures (Continued)

Northern Counties Land Use Coordinating Board

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

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

Lake County provided no funding to this organization during 2016.

Separate financial information can be obtained from:

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

North Shore Collaborative

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

7. Summary of Significant Contingencies and Other Items

F. Joint Ventures

North Shore Collaborative (Continued)

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, 2016, is as follows:

Total Assets	$	169,530
Total Liabilities		169,530

Separate financial information can be obtained from:

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

Arrowhead Health Alliance

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

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

Lake County contributed $78,697 in start-up funds to the Arrowhead Health Alliance in 2007. Lake County provided no further funding in 2016.

7. Summary of Significant Contingencies and Other Items

F. Joint Ventures (Continued)

Northeast Minnesota Regional Radio Board

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

The joint powers are the Counties of Aitkin, Carlton, Cass, Cook, Crow Wing, Itasca, Kanabec, Koochiching, Lake, Pine, and St. Louis and the Cities of Duluth, Hibbing, International Falls, and Virginia. Control of the Northeast Minnesota Regional Radio Board is vested in a Board of Directors composed of one County Commissioner from each of the member counties and one City Council member from each of the member cities. In addition, there is one member from the Northeast Minnesota Regional Advisory Committee, one member from the Northeast Minnesota Regional Radio System User Committee, and one member from the Northeast Minnesota Owners and Operators Committee who are also voting members of the Board.

Itasca County is the fiscal agent for the Northeast Minnesota Regional Radio Board. Funding is provided by grants and contributions from participating members. Lake County provided no funding in 2016.

Separate financial information can be obtained from:

Itasca County
123 Northeast 4th Street
Grand Rapids, Minnesota 55744-2847

Lake Superior Drug and Violent Crime Task Force

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

7. Summary of Significant Contingencies and Other Items

F. Joint Ventures

Lake Superior Drug and Violent Crime Task Force (Continued)

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

Fiscal agent responsibilities for the Task Force are with St. Louis County. Lake County provided no funding to this organization in 2016.

G. Jointly-Governed Organizations

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

North Shore Management Board

The North Shore Management Board provides Lake Superior Shoreline planning for Cook, Lake, and St. Louis Counties; the Cities of Beaver Bay, Grand Marais, Silver Bay, and Two Harbors; and the Towns of Duluth and Lakewood. Lake County contributed $2,500 to the Board in 2016.

St. Louis and Lake Counties Regional Railroad Authority

The St. Louis and Lake Counties Regional Railroad Authority was established under the Regional Railroad Authorities Act, Minn. Stat. § 398A.03. The Authority is governed by a Board composed of three members from the St. Louis County Board of Commissioners and two members from the Lake County Board of Commissioners. St. Louis County is the fiscal agent for the Authority, and all of its financial transactions are recorded in the Regional Railroad Authority Agency Fund. Financing is obtained through a tax levy, and federal, state, and local grants or participation. Lake County did not contribute to the Authority during 2016.

7. Summary of Significant Contingencies and Other Items

   G. Jointly-Governed Organizations

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

   Separate financial information can be obtained from:

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

8. 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 a major enterprise fund, the Silverpointe Enterprise Fund.

8. 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 general long-term debt, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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

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

Cash and Cash Equivalents

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

8. 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.

Restricted Assets

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

Capital Assets

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

8. Component Unit Disclosures

A. Summary of Significant Accounting Policies

Capital Assets (Continued)

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

B. Detailed Notes on All Funds

1. Assets

Deposits

The Authority's total deposits are reported as follows:

Government-wide statement of net position		
Cash	$	765,662
Cash with management company for operations		35,676
Restricted cash with management company for security deposits		16,987
Total Cash	$	818,325

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.

8. Component Unit Disclosures

B. Detailed Notes on All Funds

1. Assets

Deposits (Continued)

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, 2016, the Authority's deposits were not exposed to custodial credit risk.

Capital Assets

Capital asset activity for the year ended December 31, 2016, was as follows:

Governmental Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets depreciated				
Equipment	$ 1,866	$ -	$ -	$ 1,866
Less: accumulated depreciation for				
Equipment	1,866	-	-	1,866
Governmental Activities Capital Assets, Net	$ -	$ -	$ -	$ -

8. Component Unit Disclosures

B. Detailed Notes on All Funds

1. Assets

Capital Assets (Continued)

Business-Type Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets depreciated				
Buildings and structures	$ 1,886,572	$ -	$ -	$ 1,886,572
Equipment	32,192	9,126	-	41,318
Total capital assets depreciated	$ 1,918,764	$ 9,126	$ -	$ 1,927,890
Less: accumulated depreciation for				
Buildings and structures	$ 875,980	$ 48,469	$ -	$ 924,449
Equipment	10,476	5,344	-	15,820
Total accumulated depreciation	$ 886,456	$ 53,813	$ -	$ 940,269
Business-Type Activities Capital Assets, Net	$ 1,032,308	$ (44,687)	$ -	$ 987,621

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

Business-Type Activities	
Senior housing	$ 53,813

2. Liabilities

Long-Term Debt

Business-Type Activities

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2016
2012 General Obligation Senior Housing Bonds	2028	Varies	1.0 - 3.5	$ 860,000	$ 625,000

8. Component Unit Disclosures

B. Detailed Notes on All Funds

2. Liabilities (Continued)

Debt Service Requirements

Debt service requirements at December 31, 2016, were as follows:

Business-Type Activities

Year Ending December 31	Revenue Bonds Principal	Revenue Bonds Interest
2017	$ 55,000	$ 17,863
2018	55,000	16,763
2019	55,000	15,594
2020	55,000	14,356
2021	60,000	13,050
2022 - 2026	310,000	41,181
2027 - 2028	35,000	2,975
Totals	$ 625,000	$ 121,782

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	$ 680,000	$ -	$ 55,000	$ 625,000	$ 55,000
Less: unamortized discount	(8,828)	-	(803)	(8,025)	-
Total Bonds Payable	$ 671,172	$ -	$ 54,197	$ 616,975	$ 55,000

8. Component Unit Disclosures

B. Detailed Notes on All Funds (Continued)

Special Item

Lake County issued general obligation bonds for Tax Increment Financing District Number 2, which were paid off in 2009. The County collected and paid the debt service payment pursuant to the amended Tax Increment Pledge Agreement. Tax Increment collections were not sufficient to cover bond payments on the Cove Point and Superior Shores tax increment bonds. The Authority was obligated to Lake County for these shortfalls, resulting in liability on the Authority's 2015 financial statements in the amount of $196,189. This liability was partially offset by a receivable from the developer in the amount of $118,851. In 2016, Lake County and the Authority agreed to write off the remaining liability of $196,189, which is reported as a special item in the Lake County Housing and Redevelopment Authority's financial statements for the year ended December 31, 2016. The Authority also determined in 2016, the receivable from the developer could not be collected, resulting in a reduction of the special item.

C. Summary of Significant Contingencies and Other Items

Risk Management

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

This page was left blank intentionally.

REQUIRED SUPPLEMENTARY INFORMATION

This page was left blank intentionally.

LAKE COUNTY
TWO HARBORS, MINNESOTA

EXHIBIT A-1

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2016

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 6,605,651	$ 6,605,651	$ 5,493,658	$ (1,111,993)
Licenses and permits	7,500	7,500	16,251	8,751
Intergovernmental	4,439,287	4,439,287	5,452,283	1,012,996
Charges for services	365,673	365,673	463,989	98,316
Fines and forfeits	1,500	1,500	5,028	3,528
Investment earnings	60,764	60,764	55,232	(5,532)
Miscellaneous	95,116	95,116	329,775	234,659
Total Revenues	**$ 11,575,491**	**$ 11,575,491**	**$ 11,816,216**	**$ 240,725**
Expenditures				
Current				
General government				
Commissioners	$ 395,997	$ 395,997	$ 386,434	$ 9,563
Courts	47,000	47,000	51,060	(4,060)
Law library	10,000	10,000	4,191	5,809
County administration	300,490	300,490	283,855	16,635
County auditor	552,277	552,277	521,269	31,008
County assessor	488,100	488,100	494,929	(6,829)
Elections	30,768	30,768	29,491	1,277
Accounting and auditing	70,600	70,600	97,958	(27,358)
Data processing	767,376	767,376	642,545	124,831
Personnel	262,774	262,774	218,263	44,511
Attorney	406,130	406,130	376,668	29,462
Recorder	274,787	274,787	224,434	50,353
Planning and zoning	430,614	430,614	301,419	129,195
Buildings and plant	745,574	745,574	632,230	113,344
Veterans service officer	80,780	80,780	94,606	(13,826)
Motor pool	40,273	40,273	32,343	7,930
Total general government	**$ 4,903,540**	**$ 4,903,540**	**$ 4,391,695**	**$ 511,845**
Public safety				
Sheriff	$ 2,388,219	$ 2,388,219	$ 2,156,186	$ 232,033
Ambulance	314,420	314,420	313,936	484
Emergency services	107,183	107,183	87,220	19,963
Coroner	37,500	37,500	36,815	685
County jail	1,027,924	1,027,924	1,018,156	9,768
Community corrections	386,825	386,825	417,828	(31,003)
Sentence to serve	92,477	92,477	87,396	5,081
Emergency management	92,353	92,353	456,817	(364,464)
Other public safety	124,092	124,092	148,205	(24,113)
Total public safety	**$ 4,570,993**	**$ 4,570,993**	**$ 4,722,559**	**$ (151,566)**

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, 2016

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Expenditures				
Current (Continued)				
Sanitation				
Solid waste	$ 301,772	$ 301,772	$ 208,454	$ 93,318
Recycling	171,846	171,846	179,137	(7,291)
Hazardous waste	23,700	23,700	15,059	8,641
Total sanitation	**$ 497,318**	**$ 497,318**	**$ 402,650**	**$ 94,668**
Culture and recreation				
Historical society	$ 35,000	$ 35,000	$ 35,000	$ -
Arenas	183,498	183,498	166,551	16,947
Humane Society	3,500	3,500	3,500	-
Memorial Day observance	3,000	3,000	3,500	(500)
Recreation board	153,685	153,685	150,949	2,736
Trails	-	-	275,707	(275,707)
County/regional library	122,300	122,300	122,300	-
Total culture and recreation	**$ 500,983**	**$ 500,983**	**$ 757,507**	**$ (256,524)**
Conservation of natural resources				
County extension	$ 61,572	$ 64,735	$ 60,658	$ 4,077
Soil and water conservation	58,820	58,820	58,114	706
Agricultural society/County fair	21,428	21,428	24,020	(2,592)
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	**$ 165,879**	**$ 169,042**	**$ 167,099**	**$ 1,943**
Economic development				
Information centers	$ 13,000	$ 13,000	$ 13,000	$ -
Airports	8,000	8,000	8,000	-
Housing and Redevelopment Authority	-	-	277,983	(277,983)
Other economic development	(10,000)	-	106,088	(106,088)
Total economic development	**$ 11,000**	**$ 21,000**	**$ 405,071**	**$ (384,071)**
Total Expenditures	**$ 10,649,713**	**$ 10,662,876**	**$ 10,846,581**	**$ (183,705)**

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, 2016

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Excess of Revenues Over (Under) Expenditures	**$ 925,778**	**$ 912,615**	**$ 969,635**	**$ 57,020**
Other Financing Sources (Uses)				
Transfers out	54,000	54,000	(28,680)	(82,680)
Net Change in Fund Balance	**$ 979,778**	**$ 966,615**	**$ 940,955**	**$ (25,660)**
Fund Balance - January 1	**16,056,782**	**16,056,782**	**16,056,782**	**-**
Fund Balance - December 31	**$ 17,036,560**	**$ 17,023,397**	**$ 16,997,737**	**$ (25,660)**

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

EXHIBIT A-2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 1,866,828	$ 1,866,828	$ 1,747,364	$ (119,464)
Intergovernmental	5,302,075	5,302,075	3,573,128	(1,728,947)
Charges for services	17,100	17,100	167,285	150,185
Miscellaneous	11,000	11,000	62,249	51,249
Total Revenues	**$ 7,197,003**	**$ 7,197,003**	**$ 5,550,026**	**$ (1,646,977)**
Expenditures				
Current				
Highways and streets				
Administration	$ 364,297	$ 369,620	$ 386,418	$ (16,798)
Maintenance	1,929,714	2,100,387	2,153,048	(52,661)
Construction	3,760,441	3,750,441	2,356,972	1,393,469
Equipment maintenance and shop	954,559	828,559	741,808	86,751
Total highways and streets	**$ 7,009,011**	**$ 7,049,007**	**$ 5,638,246**	**$ 1,410,761**
Debt service				
Principal	$ 4,000	$ 35,000	$ 29,797	$ 5,203
Interest	-	-	4,032	(4,032)
Total debt service	**$ 4,000**	**$ 35,000**	**$ 33,829**	**$ 1,171**
Total Expenditures	**$ 7,013,011**	**$ 7,084,007**	**$ 5,672,075**	**$ 1,411,932**
Excess of Revenues Over (Under) Expenditures	**$ 183,992**	**$ 112,996**	**$ (122,049)**	**$ (235,045)**
Other Financing Sources (Uses)				
Transfers in	-	-	31,425	31,425
Net Change in Fund Balance	**$ 183,992**	**$ 112,996**	**$ (90,624)**	**$ (203,620)**
Fund Balance - January 1	**1,947,949**	**1,947,949**	**1,947,949**	**-**
Increase (decrease) in inventories	**-**	**-**	**(156,680)**	**(156,680)**
Fund Balance - December 31	**$ 2,131,941**	**$ 2,060,945**	**$ 1,700,645**	**$ (360,300)**

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

LAKE COUNTY
TWO HARBORS, MINNESOTA

EXHIBIT A-3

BUDGETARY COMPARISON SCHEDULE
HUMAN SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2016

	Budgeted Amounts		Actual	Variance with
	Original	**Final**	**Amounts**	**Final Budget**
Revenues				
Taxes	$ 2,011,499	$ 2,011,499	$ 1,866,442	$ (145,057)
Intergovernmental	4,040,460	4,773,354	4,591,288	(182,066)
Charges for services	337,281	337,281	345,603	8,322
Miscellaneous	31,100	31,100	83,578	52,478
Total Revenues	**$ 6,420,340**	**$ 7,153,234**	**$ 6,886,911**	**$ (266,323)**
Expenditures				
Current				
Human services				
Income maintenance	$ 976,271	$ 984,021	$ 900,554	$ 83,467
Social services	2,823,628	2,888,691	2,554,008	334,683
Total human services	**$ 3,799,899**	**$ 3,872,712**	**$ 3,454,562**	**$ 418,150**
Health				
Nursing service	$ 103,513	$ 111,345	$ 69,704	$ 41,641
Transportation	93,735	94,806	106,290	(11,484)
Environmental health	111,396	112,946	95,316	17,630
Mental health	2,155,637	2,888,531	2,510,859	377,672
Health education	271,662	285,455	197,581	87,874
Total health	**$ 2,735,943**	**$ 3,493,083**	**$ 2,979,750**	**$ 513,333**
Total Expenditures	**$ 6,535,842**	**$ 7,365,795**	**$ 6,434,312**	**$ 931,483**
Net Change in Fund Balance	**$ (115,502)**	**$ (212,561)**	**$ 452,599**	**$ 665,160**
Fund Balance - January 1	**8,338,388**	**8,338,388**	**8,338,388**	**-**
Fund Balance - December 31	**$ 8,222,886**	**$ 8,125,827**	**$ 8,790,987**	**$ 665,160**

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

EXHIBIT A-4

**SCHEDULE OF FUNDING PROGRESS
OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2016**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
January 1, 2008	$ -	$ 618,083	$ 618,083	0.00%	$ 5,722,969	10.80%
January 1, 2011	-	638,272	638,272	0.00	6,162,682	10.36
January 1, 2014	-	546,471	546,471	0.00	6,594,400	8.29

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

LAKE COUNTY
TWO HARBORS, MINNESOTA

EXHIBIT A-5

SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA GENERAL EMPLOYEES RETIREMENT PLAN
DECEMBER 31, 2016

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
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-6

SCHEDULE OF CONTRIBUTIONS
PERA GENERAL EMPLOYEES RETIREMENT PLAN
DECEMBER 31, 2016

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)
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.
Lake County's year-end is December 31.

LAKE COUNTY
TWO HARBORS, MINNESOTA

EXHIBIT A-7

SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA PUBLIC EMPLOYEES POLICE AND FIRE PLAN
DECEMBER 31, 2016

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
2016	0.1240%	$ 4,976,336	$ 1,195,000	416.43%	63.88%
2015	0.1320	1,499,829	1,205,980	124.37	86.61

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

LAKE COUNTY
TWO HARBORS, MINNESOTA

EXHIBIT A-8

SCHEDULE OF CONTRIBUTIONS
PERA PUBLIC EMPLOYEES POLICE AND FIRE PLAN
DECEMBER 31, 2016

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)
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.
Lake County's year-end is December 31.

LAKE COUNTY
TWO HARBORS, MINNESOTA

EXHIBIT A-9

SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA PUBLIC EMPLOYEES CORRECTIONAL PLAN
DECEMBER 31, 2016

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
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-10

SCHEDULE OF CONTRIBUTIONS
PERA PUBLIC EMPLOYEES CORRECTIONAL PLAN
DECEMBER 31, 2016

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)
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.
Lake County's year-end is December 31.

LAKE COUNTY
TWO HARBORS, MINNESOTA

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2016

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, 2016:

	Expenditures	Budget	Excess
Major governmental funds			
General Fund			
Current			
General government			
Courts	$ 51,060	$ 47,000	$ 4,060
County assessor	494,929	488,100	6,829
Accounting and auditing	97,958	70,600	27,358
Veterans service officer	94,606	80,780	13,826
Public safety			
Community corrections	417,828	386,825	31,003
Emergency management	456,817	92,353	364,464
Other public safety	148,205	124,092	24,113

2. Excess of Expenditures Over Appropriations (Continued)

	Expenditures	Budget	Excess
Major governmental funds			
General Fund			
Current (Continued)			
Sanitation			
Recycling	179,137	171,846	7,291
Culture and recreation			
Memorial Day observance	3,500	3,000	500
Trails	275,707	-	275,707
Conservation of natural resources			
Agricultural society/County fair	24,020	21,428	2,592
CWP project	14,736	14,488	248
Economic development			
Housing and Redevelopment Authority	277,983	-	277,983
Other economic development	106,088	-	106,088
Road and Bridge Special Revenue Fund			
Current			
Highways and streets			
Administration	386,418	369,620	16,798
Maintenance	2,153,048	2,100,387	52,661
Debt service			
Interest	4,032	-	4,032
Human Services Special Revenue Fund			
Current			
Health			
Transportation	106,290	94,806	11,484

3. Schedule of Funding Progress - Other Postemployment Benefits

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

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

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

The following changes were reflected in the valuation performed on behalf of the Public Employees Retirement Association for the year ended June 30, 2016:

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

General Employees Retirement Plan

- 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.

- 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

- 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.

Public Employees Correctional Plan

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

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

This page was left blank intentionally.

SUPPLEMENTARY INFORMATION

This page was left blank intentionally.

NONMAJOR GOVERNMENTAL FUNDS

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

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

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

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

This page was left blank intentionally.

LAKE COUNTY
TWO HARBORS, MINNESOTA

EXHIBIT B-1

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2016

	Special Revenue				
	Resource Development	Unorganized Townships	Forfeited Tax	Debt Service	Total
Assets					
Cash and pooled investments	$ 918,504	$ 302,052	$ 200,090	$ 673,251	$ 2,093,897
Petty cash and change funds	-	-	50	-	50
Undistributed cash in agency funds	-	6,510	-	14,776	21,286
Taxes receivable					
Delinquent	-	1,766	-	8,667	10,433
Accounts receivable	-	-	946,111	-	946,111
Due from other funds	242,864	-	-	-	242,864
Due from other governments	72,085	-	-	-	72,085
Total Assets	**$ 1,233,453**	**$ 310,328**	**$ 1,146,251**	**$ 696,694**	**$ 3,386,726**
Liabilities, Deferred Inflows of Resources, and Fund Balances					
Liabilities					
Accounts payable	$ -	$ -	$ 82,096	$ -	$ 82,096
Salaries payable	-	-	17,474	-	17,474
Due to other funds	-	-	242,864	-	242,864
Due to other governments	-	112,664	31,502	-	144,166
Total Liabilities	**$ -**	**$ 112,664**	**$ 373,936**	**$ -**	**$ 486,600**
Deferred Inflows of Resources					
Unavailable revenue - taxes	$ -	$ 987	$ -	$ 6,899	$ 7,886
Unavailable revenue - grants	72,085	-	-	-	72,085
Unavailable revenue - long-term receivables	-	-	908,606	-	908,606
Total Deferred Inflows of Resources	**$ 72,085**	**$ 987**	**$ 908,606**	**$ 6,899**	**$ 988,577**
Fund Balances					
Restricted for debt service	$ -	$ -	$ -	$ 689,795	$ 689,795
Committed forestry road grant	-	-	4,195	-	4,195
Committed to unorganized townships emergency services	-	196,677	-	-	196,677
Assigned to resource development	1,161,368	-	-	-	1,161,368
Unassigned	-	-	(140,486)	-	(140,486)
Total Fund Balances	**$ 1,161,368**	**$ 196,677**	**$ (136,291)**	**$ 689,795**	**$ 1,911,549**
Total Liabilities, Deferred Inflows Resources, and Fund Balances	**$ 1,233,453**	**$ 310,328**	**$ 1,146,251**	**$ 696,694**	**$ 3,386,726**

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, 2016

	Special Revenue				
	Resource Development	Unorganized Townships	Forfeited Tax	Debt Service	Total
Revenues					
Taxes	$ -	$ 113,134	$ -	$ 241,356	$ 354,490
Licenses and permits	-	105	1,773	-	1,878
Intergovernmental	158,679	31,189	52,101	20,502	262,471
Charges for services	-	-	38,849	-	38,849
Investment earnings	-	-	-	1,969	1,969
Miscellaneous	-	-	839,080	70,452	909,532
Total Revenues	**$ 158,679**	**$ 144,428**	**$ 931,803**	**$ 334,279**	**$ 1,569,189**
Expenditures					
Current					
General government	$ -	$ 5,596	$ -	$ -	$ 5,596
Public safety	-	125,813	-	-	125,813
Culture and recreation	74,010	-	-	-	74,010
Conservation of natural resources	49,839	-	679,143	-	728,982
Economic development	-	-	-	90,101	90,101
Capital outlay					
Conservation of natural resources	-	-	50,833	-	50,833
Debt service					
Principal	146,667	-	-	340,000	486,667
Interest	18,960	-	-	46,625	65,585
Administrative (fiscal) charges	-	-	-	450	450
Total Expenditures	**$ 289,476**	**$ 131,409**	**$ 729,976**	**$ 477,176**	**$ 1,628,037**
Excess of Revenues Over (Under) Expenditures	**$ (130,797)**	**$ 13,019**	**$ 201,827**	**$ (142,897)**	**$ (58,848)**
Other Financing Sources (Uses)					
Transfers in	$ 242,864	$ -	$ -	$ -	$ 242,864
Transfers out	-	-	(242,864)	-	(242,864)
Total Other Financing Sources (Uses)	**$ 242,864**	**$ -**	**$ (242,864)**	**$ -**	**$ -**
Net Change in Fund Balance	**$ 112,067**	**$ 13,019**	**$ (41,037)**	**$ (142,897)**	**$ (58,848)**
Fund Balance - January 1	**1,049,301**	**183,658**	**(95,254)**	**832,692**	**1,970,397**
Fund Balance - December 31	**$ 1,161,368**	**$ 196,677**	**$ (136,291)**	**$ 689,795**	**$ 1,911,549**

LAKE COUNTY
TWO HARBORS, MINNESOTA

EXHIBIT B-3

BUDGETARY COMPARISON SCHEDULE
RESOURCE DEVELOPMENT SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2016

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Intergovernmental	$ 96,000	$ 96,000	$ 158,679	$ 62,679
Expenditures				
Current				
Culture and recreation				
Trails	$ 10,000	$ 10,000	$ 74,010	$ (64,010)
Conservation of natural resources				
Other conservation	$ -	$ -	$ 49,839	$ (49,839)
Debt service				
Principal	$ 146,667	$ 146,667	$ 146,667	$ -
Interest	28,600	28,600	18,960	9,640
Total debt service	$ 175,267	$ 175,267	$ 165,627	$ 9,640
Total Expenditures	$ 185,267	$ 185,267	$ 289,476	$ (104,209)
Excess of Revenues Over (Under) Expenditures	$ (89,267)	$ (89,267)	$ (130,797)	$ (41,530)
Other Financing Sources (Uses)				
Transfers in	-	-	242,864	242,864
Net Change in Fund Balance	$ (89,267)	$ (89,267)	$ 112,067	$ 201,334
Fund Balance - January 1	1,049,301	1,049,301	1,049,301	-
Fund Balance - December 31	$ 960,034	$ 960,034	$ 1,161,368	$ 201,334

LAKE COUNTY
TWO HARBORS, MINNESOTA

EXHIBIT B-4

BUDGETARY COMPARISON SCHEDULE
UNORGANIZED TOWNSHIPS SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2016

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 120,620	$ 120,620	$ 113,134	$ (7,486)
Licenses and permits	100	100	105	5
Intergovernmental	15,000	15,000	31,189	16,189
Total Revenues	**$ 135,720**	**$ 135,720**	**$ 144,428**	**$ 8,708**
Expenditures				
Current				
General government				
Elections	$ -	$ -	$ 5,596	$ (5,596)
Public safety				
Emergency services	116,250	116,250	125,813	(9,563)
Total Expenditures	**$ 116,250**	**$ 116,250**	**$ 131,409**	**$ (15,159)**
Net Change in Fund Balance	**$ 19,470**	**$ 19,470**	**$ 13,019**	**$ (6,451)**
Fund Balance - January 1	**183,658**	**183,658**	**183,658**	**-**
Fund Balance - December 31	**$ 203,128**	**$ 203,128**	**$ 196,677**	**$ (6,451)**

LAKE COUNTY
TWO HARBORS, MINNESOTA

EXHIBIT B-5

BUDGETARY COMPARISON SCHEDULE
FORFEITED TAX SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2016

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Licenses and permits	$ 1,020	$ 1,020	$ 1,773	$ 753
Intergovernmental	26,241	26,241	52,101	25,860
Charges for services	15,000	15,000	38,849	23,849
Miscellaneous	583,490	583,490	839,080	255,590
Total Revenues	**$ 625,751**	**$ 625,751**	**$ 931,803**	**$ 306,052**
Expenditures				
Current				
Conservation of natural resources				
Land use	$ 572,951	$ 572,951	$ 679,143	$ (106,192)
Capital outlay				
Conservation of natural resources	28,900	28,900	50,833	(21,933)
Total Expenditures	**$ 601,851**	**$ 601,851**	**$ 729,976**	**$ (128,125)**
Excess of Revenues Over (Under) Expenditures	**$ 23,900**	**$ 23,900**	**$ 201,827**	**$ 177,927**
Other Financing Sources (Uses)				
Transfers out	-	-	(242,864)	(242,864)
Net Change in Fund Balance	**$ 23,900**	**$ 23,900**	**$ (41,037)**	**$ (64,937)**
Fund Balance - January 1	**(95,254)**	**(95,254)**	**(95,254)**	**-**
Fund Balance - December 31	**$ (71,354)**	**$ (71,354)**	**$ (136,291)**	**$ (64,937)**

LAKE COUNTY
TWO HARBORS, MINNESOTA

EXHIBIT B-6

BUDGETARY COMPARISON SCHEDULE
DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2016

	Budgeted Amounts		Actual	Variance with
	Original	**Final**	**Amounts**	**Final Budget**
Revenues				
Taxes	$ 261,080	$ 261,080	$ 241,356	$ (19,724)
Intergovernmental	-	-	20,502	20,502
Investment earnings	145	145	1,969	1,824
Miscellaneous	70,337	70,337	70,452	115
Total Revenues	**$ 331,562**	**$ 331,562**	**$ 334,279**	**$ 2,717**
Expenditures				
Current				
Economic development	**$ -**	**$ -**	**$ 90,101**	**$ (90,101)**
Debt service				
Principal	$ 355,000	$ 355,000	$ 340,000	$ 15,000
Interest	33,884	33,884	46,625	(12,741)
Administrative (fiscal) charges	405	405	450	(45)
Total debt service	**$ 389,289**	**$ 389,289**	**$ 387,075**	**$ 2,214**
Total Expenditures	**$ 389,289**	**$ 389,289**	**$ 477,176**	**$ (87,887)**
Net Change in Fund Balance	**$ (57,727)**	**$ (57,727)**	**$ (142,897)**	**$ (85,170)**
Fund Balance - January 1	**832,692**	**832,692**	**832,692**	**-**
Fund Balance - December 31	**$ 774,965**	**$ 774,965**	**$ 689,795**	**$ (85,170)**

FIDUCIARY FUNDS

This page was left blank intentionally.

LAKE COUNTY
TWO HARBORS, MINNESOTA

EXHIBIT C-1

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016

	Balance January 1	Additions	Deductions	Balance December 31
CITIES, TOWNS, AND OTHER GOVERNMENTS				
Assets				
Cash and pooled investments	**$ 8,619**	**$ 13,470,733**	**$ 13,452,107**	**$ 27,245**
Liabilities				
Due to other governments	**$ 8,619**	**$ 13,470,733**	**$ 13,452,107**	**$ 27,245**
TAXES AND PENALTIES				
Assets				
Cash and pooled investments	$ **797,251**	**$ 20,784,398**	**$ 21,045,100**	**$ 536,549**
Liabilities				
Taxes collected in advance	$ 6,539	$ 10,253	$ 6,539	$ 10,253
Due to other governments	790,712	20,774,145	21,038,561	526,296
Total Liabilities	**$ 797,251**	**$ 20,784,398**	**$ 21,045,100**	**$ 536,549**
STATE				
Assets				
Cash and pooled investments	**$ 36,218**	**$ 281,772**	**$ 276,433**	**$ 41,557**
Liabilities				
Due to other governments	**$ 36,218**	**$ 281,772**	**$ 276,433**	**$ 41,557**

LAKE COUNTY
TWO HARBORS, MINNESOTA

EXHIBIT C-1
(Continued)

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016

	Balance January 1	Additions	Deductions	Balance December 31
SEWER SYSTEM DEPOSITS				
Assets				
Cash and pooled investments	$ 87,310	$ 19,800	$ 47,635	$ 59,475
Liabilities				
Customer deposits - current	$ 87,310	$ 19,800	$ 47,635	$ 59,475
NORTH SHORE COLLABORATIVE				
Assets				
Cash and pooled investments	$ 152,245	$ 73,928	$ 56,643	$ 169,530
Liabilities				
Accounts payable	$ 152,245	$ 73,928	$ 56,643	$ 169,530
ARROWHEAD HEALTH ALLIANCE				
Assets				
Cash and pooled investments	$ 251,021	$ 262,331	$ 246,665	$ 266,687
Liabilities				
Accounts payable	$ 251,021	$ 262,331	$ 246,665	$ 266,687

LAKE COUNTY
TWO HARBORS, MINNESOTA

EXHIBIT C-1
(Continued)

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016

	Balance January 1	Additions	Deductions	Balance December 31
TOTAL ALL AGENCY FUNDS				
Assets				
Cash and pooled investments	**$ 1,332,664**	**$ 34,892,962**	**$ 35,124,583**	**$ 1,101,043**
Liabilities				
Accounts payable	$ 403,266	$ 336,259	$ 303,308	$ 436,217
Taxes collected in advance	6,539	10,253	6,539	10,253
Due to other governments	835,549	34,526,650	34,767,101	595,098
Customer deposits - current	87,310	19,800	47,635	59,475
Total Liabilities	**$ 1,332,664**	**$ 34,892,962**	**$ 35,124,583**	**$ 1,101,043**

This page was left blank intentionally.

OTHER SCHEDULES

This page was left blank intentionally.

LAKE COUNTY
TWO HARBORS, MINNESOTA

EXHIBIT D-1

SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016

Appropriations and Shared Revenue		
State		
Highway users tax	$	3,041,405
County program aid		428,456
PERA rate reimbursement		24,330
Disparity reduction aid		158,977
Aquatic invasive species aid		125,818
Police aid		140,570
Taconite credit		596,154
Enhanced 911		82,317
Market value credit		3,263
Total appropriations and shared revenue	**$**	**4,601,290**
Reimbursement for Services		
State		
Minnesota Department of Human Services	**$**	**187,005**
Payments		
State		
Payments in lieu of taxes	$	902,062
Local		62,440
Total payments	**$**	**964,502**
Grants		
State		
Minnesota Department of		
Public Safety	$	33,744
Health		56,957
Natural Resources		314,807
Human Services		3,119,995
Veterans Affairs		10,000
Board of Water and Soil Resources		35,890
Office of Environmental Assistance		68,710
Total state	**$**	**3,640,103**

LAKE COUNTY
TWO HARBORS, MINNESOTA

EXHIBIT D-1
(Continued)

SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016

Grants (Continued)		
Federal		
Department of		
Agriculture	$	2,691,746
Commerce		6,428
Housing and Urban Development		31,120
Interior		263,391
Justice		16,965
Transportation		229,049
Education		1,933
Health and Human Services		941,487
Homeland Security		304,151
Total federal	**$**	**4,486,270**
Total state and federal grants	**$**	**8,126,373**
Total Intergovernmental Revenue	**$**	**13,879,170**

EXHIBIT D-2

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2016**

Federal Grantor Pass-Through Agency Program or Cluster Title	Federal CFDA Number	Contract Number/ Pass-Through Grant Numbers	Expenditures	Passed Through to Subrecipients
U.S. Department of Agriculture				
Direct				
U.S. Forest Service Cooperative Agreement	Unavailable	11-LE-11090903-022	$ 13,500	$ -
U.S. Forest Service Cooperative Agreement - Aquatic Passages	Unavailable	11-PA-11090903-027	13,408	-
Passed Through Carlton, Cook, Lake, and St. Louis Community Health Board				
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	16162MN004W1003	60,674	-
Passed Through Minnesota Department of Human Services				
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	16162MN101S2514	99,528	-
Passed Through Minnesota Department of Natural Resources				
Cooperative Forestry Assistance	10.664	14-DG-11420004-252	67,132	-
Cooperative Forestry Assistance	10.664	13-DG-11420004-141	1,669	-
(Total Cooperative Forestry Assistance 10.664 $68,801)				
Passed Through Minnesota Management and Budget				
Schools and Roads - Grants to States	10.665	P.L. 114-10	2,426,113	-
Total U.S. Department of Agriculture			**$ 2,682,024**	**$ -**
U.S. Department of Commerce				
Passed Through Minnesota Department of Natural Resources				
Coastal Zone Management Administration Awards	11.419	NA15NOS4190126	$ 6,428	$ -
Coastal Zone Management Administration Awards	11.419	NA14NOS4190055	8,456	-
(Total Coastal Zone Management Administration Awards 11.419 $14,884)				
Total U.S. Department of Commerce			**$ 14,884**	**$ -**
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-12-0077-O-FY13	**$ 11,320**	**$ 11,320**
U.S. Department of the Interior				
Direct				
Payments in Lieu of Taxes	15.226		**$ 263,391**	**$ -**
U.S. Department of Justice				
Passed Through Minnesota Department of Public Safety				
Crime Victim Assistance	16.575	A-CVSP-2017-LAKEAO-00038	**$ 16,965**	**$ -**
U.S. Department of Transportation				
Passed Through Minnesota Department of Transportation				
Highway Planning and Construction	20.205	00038	**$ 212,184**	**$ -**

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

EXHIBIT D-2
(Continued)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2016

Federal Grantor Pass-Through Agency Program or Cluster Title	Federal CFDA Number	Contract Number/ Pass-Through Grant Numbers	Expenditures	Passed Through to Subrecipients
U.S. Department of Education				
Passed Through Carlton, Cook, Lake, and St. Louis Community Health Board				
Special Education - Grants for Infants and Families	84.181	H18A150029	**$ 1,933**	**$ -**
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	U90TP000529	$ 17,032	$ -
Immunization Cooperative Agreement	93.268	H23IP000737	400	-
Temporary Assistance for Needy Families	93.558	2015G996115	5,169	-
(Total Temporary Assistance for Needy Families 93.558 $55,915)				
State Public Health Actions to Prevent and Control Diabetes, Heart Disease, Obesity, and Associated Risk Factors and Promote School Health Financed in Part by Prevention and Public Health Funding (PPHF)	93.757	U58DP005452	2,610	-
Maternal and Child Health Services Block Grant to the States	93.994	B04MC28107	9,721	-
Passed Through Minnesota Department of Human Services				
Promoting Safe and Stable Families	93.556	G-1601MNFPSS	2,794	-
Temporary Assistance for Needy Families	93.558	1601MNTANF	24,368	-
Temporary Assistance for Needy Families	93.558	1601MFTANF	26,378	-
(Total Temporary Assistance for Needy Families 93.558 $55,915)				
Child Support Enforcement	93.563	1604MNCSES	43,224	-
Child Support Enforcement	93.563	1604MNCEST	207,830	-
(Total Child Support Enforcement 93.563 $251,054)				
Refugee and Entrant Assistance - State-Administered Programs	93.566	1601MNRCMA	92	-
Child Care and Development Block Grant	93.575	G1601MNCCDF	2,343	-
Community-Based Child Abuse Prevention Grants	93.590	G-1502MNFRPG	4,928	-
Stephanie Tubbs Jones Child Welfare Services Program	93.645	G-1601MNCWSS	1,670	-
Foster Care - Title IV-E	93.658	1601MNFOST	74,867	-
Social Services Block Grant	93.667	16-01MNSOSR	80,817	-
Chafee Foster Care Independence Program	93.674	G-1601MNCILP	1,157	-
Medical Assistance Program	93.778	05-1605MN5ADM	431,709	-
Medical Assistance Program	93.778	05-1605MN5MAP	4,378	-
(Total Medical Assistance Program 93.778 $436,087)				
Total U.S. Department of Health and Human Services			**$ 941,487**	**$ -**

EXHIBIT D-2
(Continued)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2016

Federal Grantor / Pass-Through Agency / Program or Cluster Title	Federal CFDA Number	Contract Number/ Pass-Through Grant Numbers	Expenditures	Passed Through to Subrecipients
U.S. Department of Homeland Security				
Passed Through Minnesota Department of Natural Resources				
Boating Safety Financial Assistance	97.012	R29G4CGSFY15	$ 3,875	$ -
Passed Through Minnesota Department of Public Safety				
Hazard Mitigation Grant	97.039	FEMA-1982-DR-MN	61,563	-
Hazard Mitigation Grant	97.039	A-HMGP-DR4113-LAKECO*-0011	119,391	-
Hazard Mitigation Grant	97.039	A-HMGP-DR4131-LAKECO*-0018	27,638	-
(Total Hazard Mitigation Grant 97.039 $208,592)				
Emergency Management Performance Grants	97.042	A-EMPG-2016-LAKECO-040	17,019	-
Homeland Security Grant Program	97.067	A-OPSG-2015-LAKESO-004	36,253	-
Total U.S. Department of Homeland Security			**$ 265,739**	**$ -**
Total Federal Awards			**$ 4,409,927**	**$ 11,320**

This page was left blank intentionally.

LAKE COUNTY
TWO HARBORS, MINNESOTA

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2016

1. Reporting Entity

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

2. Basis of Presentation

   The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Lake County under programs of the federal government for the year ended December 31, 2016. 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.

3. Summary of Significant Accounting Policies

   Expenditures reported on the schedule are reported on the basis of accounting used by the individual funds of Lake County. Such expenditures are recognized following, as applicable, either the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Lake County has elected to not use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

4. Balance of Federal Loan

   Lake County was the recipient of the U.S. Department of Agriculture's Broadband Initiatives Program Loan, CFDA No. 10.787. In 2016, the County did not incur any federal loan program expenditures. As of December 31, 2016, Lake County reported a balance outstanding of $48,590,670.

5. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	$ 4,486,270
Grants received more than 90 days after year-end, deferred in 2016	
Highway Planning and Construction	23,031
Hazard Mitigation Grant	35,167
Deferred in 2015, recognized as revenue in 2016	
Cooperative Forestry Assistance	(1,266)
Highway Planning and Construction	(39,896)
Hazard Mitigation Grant	(73,579)
Program Income	
Community Development Block Grants/State's Program	(19,800)
Expenditures Per Schedule of Expenditures of Federal Awards	$ 4,409,927

Management and Compliance Section

This page was left blank intentionally.

STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

REBECCA OTTO
STATE AUDITOR

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

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

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

Independent Auditor's Report

Board of County Commissioners
Lake County
Two Harbors, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Lake County, Minnesota, as of and for the year ended December 31, 2016, 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 13, 2017.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as items 1996-011, 2003-002, and 2015-001, that we consider to be significant deficiencies.

Compliance and Other Matters

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

Minnesota Legal Compliance

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

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

Other Matter

Also included in the Schedule of Findings and Questioned Costs is an unresolved other matter described as item 2015-002.

Lake County's Response to Findings

Lake County's responses to the internal control findings and to the other matter identified in our audit are described in the Corrective Action Plan. The County's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of This Report

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

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

September 13, 2017

This page was left blank intentionally.

STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

REBECCA OTTO
STATE AUDITOR

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

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

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

Independent Auditor's Report

Board of County Commissioners
Lake County
Two Harbors, Minnesota

Report on Compliance for the Major Federal Program

We have audited Lake County's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on the County's major federal program for the year ended December 31, 2016. Lake County's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

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

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

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

Opinion on the Major Federal Program

In our opinion, Lake County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2016.

Report on Internal Control Over Compliance

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

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

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

Purpose of This Report

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

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

September 13, 2017

This page was left blank intentionally.

LAKE COUNTY
TWO HARBORS, MINNESOTA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2016

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Internal control over financial reporting:

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

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

Federal Awards

Internal control over major program:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **None reported**

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)? **No**

The major federal program is:

Schools and Roads - Grants to States	CFDA No. 10.665

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

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

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding Number 1996-011

Segregation of Duties

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

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

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

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

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

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

View of Responsible Official: Concur

Finding Number 2003-002

Capital Assets

Criteria: A physical inventory should be taken of capital assets at least every five years.

Condition: There has not been a physical inventory of capital assets since the records were first established in 2003.

Context: The County maintains its capital asset records on a capital asset software system. Additions and deletions are entered into this system, and depreciation is calculated by the system. A capital asset policy was formally approved by the County Board during 2015.

Effect: Without a physical inventory of capital assets, it is possible that items that were disposed of will not be properly deleted from inventory.

Cause: No one has been assigned the responsibility of developing a process to do a physical inventory of capital assets.

Recommendation: We recommend a physical inventory of capital assets be performed at least once every five years. This physical inventory can be rotated so that a portion of the capital assets is inventoried each year.

View of Responsible Official: Concur

Finding Number 2015-001

Broadband Inventory

Criteria: A policy over inventory related to the Broadband Enterprise Fund should be adopted which defines the County's accounting policies and procedures as to how items are added and removed from inventory, how inventory is priced and tracked, and how and when inventory counts are completed and reconciled to the inventory records. Inventory should also have physical controls to prevent unauthorized access, which includes limiting access to inventory to certain staff and maintaining inventory in a secure area.

Condition: In 2016, the management company implemented physical controls over inventory, which included storing inventory in a locked room and restricting staff access to inventory. However; the County Board has not adopted a formal inventory policy over Broadband inventory.

Context: The management company that oversees inventory maintains inventory records in Excel. When items are added to or removed from inventory, the Excel records are manually updated, but inventory is not updated in the management company's general ledger at year-end. A physical count of inventory was completed at year-end but was not accurate due to miscounts.

Effect: Without the proper controls over inventory, inventory records are more susceptible to errors or manipulation.

Cause: The County Board has not established or approved a Broadband inventory policy.

Recommendation: We recommend that the County Board establish an inventory policy that defines the County's accounting policies and procedures over Broadband inventory. This policy should address how inventory is tracked and maintained. The policy should also address the physical controls over inventory, such as who has access to inventory and how inventory is secured.

View of Responsible Official: Concur

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

Finding Number 2015-002

Subrecipient Monitoring

Program: U.S. Department of Housing and Urban Development's Community Development Block Grant/State's Program and Non-Entitlement Grants in Hawaii (CFDA No. 14.228), Award #CDAP-12-0077-0-FY13, 2013

Pass-Through Agency: Minnesota Department of Employment and Economic Development

Criteria: Title 2 U.S. *Code of Federal Regulations* § 200.303 states that the auditee must establish and maintain effective internal control over the federal award that provides reasonable assurance that the auditee is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award. In addition, Lake County was required to comply with the provisions for Subrecipient Monitoring in Part 3 of the 2016 U.S. Office of Management and Budget (OMB) *Compliance Supplement*, including monitoring the activities to provide reasonable assurance that the subrecipient administers the federal award in compliance with federal requirements.

Condition: The County properly approved a contract with the subrecipient that included the specific duties and responsibilities required under the grant, but the County did not perform any subrecipient monitoring procedures.

Questioned Costs: None

Context: During the spring of 2016, the County evaluated and determined the contractor was, in fact, a subrecipient during 2015 and 2016.

Effect: The County is not meeting federal requirements pertaining to subrecipient monitoring. Also, without performing monitoring procedures, the County cannot be assured that its subrecipient is in compliance with federal regulations over the federal award.

Cause: Until the time an evaluation was completed, the County considered its subrecipient to be a contractor, where subrecipient monitoring requirements would not apply.

Recommendation: We recommend the County evaluate all new contractors to determine if the County shall consider them a contractor or a subrecipient. Also, we recommend the County develop subrecipient monitoring procedures that are in compliance with OMB Circular A-133 for grants awarded before December 26, 2014, or with Title 2 U.S. *Code of Federal Regulations* §§ 200.303 and 200.331 for grants awarded after December 26, 2014.

View of Responsible Official: Concur

V. PREVIOUSLY REPORTED ITEM RESOLVED

2006-003 Audit Adjustments

This page was left blank intentionally.

REPRESENTATION OF LAKE COUNTY
TWO HARBORS, MINNESOTA

CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED DECEMBER 31, 2016

Finding Number: 1996-011
Finding Title: Segregation of Duties

Name of Contact Person Responsible for Corrective Action:

Matt Huddleston, County Administrator

Corrective Action Planned:

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

Anticipated Completion Date:

Ongoing

Finding Number: 2003-002
Finding Title: Capital Assets

Name of Contact Person Responsible for Corrective Action:

Matt Huddleston, County Administrator

Corrective Action Planned:

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

Anticipated Completion Date:

As time permits on an ongoing basis

Finding Number: 2015-001
Finding Title: Broadband Inventory

Name of Contact Person Responsible for Corrective Action:

Matt Huddleston, County Administrator

Corrective Action Planned:

The Lake County Board of Commissioners will work with the broadband management company to establish and approve a Broadband Inventory Policy that will be included as part of the County's Accounting Policies and Procedures Manual. The County is in the process of selling broadband. It is anticipated that the sale will occur in 2018. A full inventory of broadband inventory will be included as part of the sale documentation.

Anticipated Completion Date:

May 1, 2018

Finding Number: 2015-002
Finding Title: Subrecipient Monitoring
Program: U.S. Department of Housing and Urban Development's Community Development Block Grant/State's Program and Non-Entitlement Grants in Hawaii (CFDA No. 14.228)

Name of Contact Person Responsible for Corrective Action:

Matthew Huddleston, County Administrator

Corrective Action Planned:

Lake County will evaluate all new contractors to determine if the County shall consider them a contractor or a sub-recipient. Lake County has adopted the "Clifton Larson Allen-Subrecipient Risk Assessment Matrix and Monitoring Workbook" as per Resolution No. 17082204.05 as the monitoring procedures that are in compliance with OMB Circular A-133 for grants awarded before December 26, 2014, or with Title 2 U.S. Code of Federal Regulations §§ 200.303 and 200.331 for grants awarded after December 26, 2014.

Anticipated Completion Date:

August, 22, 2017

REPRESENTATION OF LAKE COUNTY
TWO HARBORS, MINNESOTA

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2016

Finding Number: 1996-011
Finding Title: Segregation of Duties

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

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

Status: Partially Corrected. The Auditor's office is in the process of cross training all positions. At this time, it is estimated that 80 percent of the cross training has been completed with the remaining 20 percent in process.

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

Finding Number: 2003-002
Finding Title: Capital Assets

Summary of Condition: The County Board adopted a capital asset policy in 2015; however, there has not been a physical inventory of capital assets since the records were first established in 2003.

Summary of Corrective Action Previously Reported: The County intends to develop policies and procedures for capital assets and determine a process of doing a physical inventory as time permits.

Status: Not Corrected. The County intends to develop policies and procedures for capital assets and determine a process of doing a physical inventory as time permits.

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

Finding Number: 2006-003
Finding Title: Audit Adjustments

Summary of Condition: During the audit, there were material adjustments that resulted in significant changes to the County's financial statements.

Summary of Corrective Action Previously Reported: The Financial Coordinator and the County Auditor/Treasurer are reviewing trial balance and journal entries. The County Auditor/Treasurer is signing off on journal entries.

The County Board has instructed the Broadband Chief Financial Officer and the County Auditor's staff to work together in order to reconcile the Broadband accounting system to the County's accounting system. Meetings for this have begun and will continue until reconciliation can be accomplished.

Status: Fully Corrected. The Financial Coordinator and the County Auditor/Treasurer review trial balances and journal entries. The County Auditor/Treasurer signs off on journal entries. Meetings were held between the Broadband Chief Financial Officer and the County Auditor's staff. A decision was made by Lake County Commissioners not to renew the contract with the Broadband Management Company, Lake Communications, Inc. A new Broadband management company was hired, Consolidated Telecommunications Company (CTC). CTC has begun using the eLations software package for all accounting. As of the end of 2016, CTC was in the process of inputting all relevant broadband data. This continues to happen.

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

Finding Number: 2015-001
Finding Title: Broadband Inventory

Summary of Condition: The County Board has not adopted a formal inventory policy over Broadband inventory.

Summary of Corrective Action Previously Reported: The Lake County Board of Commissioners will work with the broadband management company to establish and approve a Broadband Inventory Policy that will be included as part of the County's Accounting Policies and Procedures Manual.

Status: Not Corrected. A decision was made by Lake County Commissioners not to renew the contract with the Broadband Management Company, Lake Communications, Inc. A new Broadband management company was hired, Consolidated Telecommunications Company (CTC). CTC has begun using the eLations software package for all accounting. As of the end of 2016, CTC was in the process of inputting all relevant broadband data. Inventory has not been added to the eLations program as of yet, but the long-term plan is to have inventory tracked in the software.

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

Finding Number: 2015-002
Finding Title: Subrecipient Monitoring
Program: Community Development Block Grant/State's Program and Non-Entitlement Grants in Hawaii (CFDA No. 14.228)

Summary of Condition: The County properly approved a contract with the sub-recipient that included the specific duties and responsibilities required under the grant, but the County did not perform any sub-recipient monitoring procedures.

Summary of Corrective Action Previously Reported: Lake County will evaluate all new contractors to determine if the County shall consider them a contractor or a sub-recipient. Lake County will develop sub-recipient monitoring procedures that are in compliance with OMB Circular A-133 for grants awarded before December 26, 2014, or with the Title 2 U.S. Code of Federal Regulations 200.303 and 200.331 for grants awarded after December 26, 2014.

Status: Partially Corrected. Lake County Auditor's office adopted the CliftonLarsonAllen Subrecipient Risk Assessment Matrix and Monitoring Workbook to use as a checklist for ensuring proper monitoring of sub-recipients.

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