

PRELIMINARY OFFICIAL STATEMENT DATED JUNE 14, 2018

In the opinion of Kennedy & Graven, Chartered, Bond Counsel, based on present federal and Minnesota laws, regulations, rulings and decisions (which exclude any pending legislation which may have a retroactive effect), and assuming compliance with certain covenants, interest to be paid on the Bonds is excluded from gross income for federal income tax purposes and, to the same extent, from taxable net income of individuals, estates and trusts for Minnesota income tax purposes, and is not a preference item for purposes of computing the federal alternative minimum tax (although interest on the Bonds is included in adjusted current earnings in calculating corporate alternative minimum taxable income for taxable years that began prior to January 1, 2018) or the Minnesota alternative minimum tax imposed on individuals, trusts, and estates. Such interest is subject to Minnesota franchise taxes on corporations (including financial institutions) measured by income. No opinion will be expressed by Bond Counsel regarding other state or federal tax consequences caused by the receipt or accrual of interest on the Bonds or arising with respect to ownership of the Bonds. See "Tax Exemption" herein.

The County will designate the Bonds as "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended, relating to the ability of financial institutions to deduct from income for federal income tax purposes, interest expense that is allocable to carrying and acquiring tax-exempt obligations.

New Issue

Rating Application Made: S&P Global Ratings

LAKE COUNTY, MINNESOTA

\$2,765,000* GENERAL OBLIGATION CAPITAL IMPROVEMENT PLAN BONDS, SERIES 2018B

PROPOSAL OPENING: June 26, 2018, 10:00 A.M., C.T.

CONSIDERATION: June 26, 2018, 2:00 P.M., C.T.

PURPOSE/AUTHORITY/SECURITY: The \$2,765,000* General Obligation Capital Improvement Plan Bonds, Series 2018B (the "Bonds") are being issued by Lake County, Minnesota (the "County"), pursuant to Minnesota Statutes, Section 373.40, as amended and Chapter 475, as amended, for the purpose of financing the construction of a new highway maintenance facility. The Bonds will be general obligations of the County for which the County will pledge its full faith, credit and taxing powers. Delivery is subject to receipt of an approving legal opinion of Kennedy & Graven, Chartered, Minneapolis, Minnesota.

DATE OF BONDS: July 18, 2018

MATURITY: December 1 as follows:

<u>Year</u>	<u>Amount*</u>	<u>Year</u>	<u>Amount*</u>	<u>Year</u>	<u>Amount*</u>
2019	\$125,000	2024	\$175,000	2029	\$200,000
2020	155,000	2025	180,000	2030	205,000
2021	160,000	2026	180,000	2031	215,000
2022	165,000	2027	190,000	2032	220,000
2023	170,000	2028	195,000	2033	230,000

MATURITY ADJUSTMENTS: * The County reserves the right to increase or decrease the principal amount of the Bonds on the day of sale, in increments of \$5,000 each. Increases or decreases may be made in any maturity. If any principal amounts are adjusted, the purchase price proposed will be adjusted to maintain the same gross spread per \$1,000.

TERM BONDS: See "Term Bond Option" herein.

INTEREST: June 1, 2019 and semiannually thereafter.

OPTIONAL REDEMPTION: Bonds maturing December 1, 2028 and thereafter are subject to call for prior redemption on December 1, 2027 and any date thereafter, at a price of par plus accrued interest.

MINIMUM PROPOSAL: \$2,731,820

GOOD FAITH DEPOSIT: A good faith deposit in the amount of \$55,300 shall be made by the winning bidder by wire transfer of funds.

PAYING AGENT: Bond Trust Services Corporation

BOND COUNSEL: Kennedy & Graven, Chartered

MUNICIPAL ADVISOR: Ehlers and Associates, Inc.

BOOK-ENTRY-ONLY: See "Book-Entry-Only System" herein (unless otherwise specified by the purchaser).

This Preliminary Official Statement and the information contained herein are subject to completion and amendment. These securities may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy these securities nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction. This Preliminary Official Statement is in a form deemed final as of its date for purposes of SEC Rule 15c2-12(b) (1), but is subject to revision, amendment and completion in a Final Official Statement.



REPRESENTATIONS

No dealer, broker, salesperson or other person has been authorized by the County to give any information or to make any representation other than those contained in this Preliminary Official Statement and, if given or made, such other information or representations must not be relied upon as having been authorized by the County. *This Preliminary Official Statement does not constitute an offer to sell or a solicitation of an offer to buy any of the Bonds in any jurisdiction to any person to whom it is unlawful to make such an offer or solicitation in such jurisdiction.*

This Preliminary Official Statement is not to be construed as a contract with the Syndicate Manager or Syndicate Members. Statements contained herein which involve estimates or matters of opinion are intended solely as such and are not to be construed as representations of fact. Ehlers & Associates, Inc. prepared this Preliminary Official Statement and any addenda thereto relying on information of the County and other sources for which there is reasonable basis for believing the information is accurate and complete. Bond Counsel has not participated in the preparation of this Preliminary Official Statement and is not expressing any opinion as to the completeness or accuracy of the information contained therein. Compensation of Ehlers & Associates, Inc., payable entirely by the County, is contingent upon the sale of the issue.

COMPLIANCE WITH S.E.C. RULE 15c2-12

Certain municipal obligations (issued in an aggregate amount over \$1,000,000) are subject to Rule 15c2-12 promulgated by the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended (the "Rule").

Preliminary Official Statement: This Preliminary Official Statement was prepared for the County for dissemination to potential investors. Its primary purpose is to disclose information regarding the Bonds to prospective underwriters in the interest of receiving competitive proposals in accordance with the sale notice contained herein. Unless an addendum is posted prior to the sale, this Preliminary Official Statement shall be deemed nearly final for purposes of the Rule subject to completion, revision and amendment in a Final Official Statement as defined below.

Review Period: This Preliminary Official Statement has been distributed to prospective bidders for review. Comments or requests for the correction of omissions or inaccuracies must be submitted to Ehlers & Associates, Inc. at least two business days prior to the sale. Requests for additional information or corrections in the Preliminary Official Statement received on or before this date will not be considered a qualification of a proposal received from an underwriter. If there are any changes, corrections or additions to the Preliminary Official Statement, interested bidders will be informed by an addendum prior to the sale.

Final Official Statement: Copies of the Final Official Statement will be delivered to the underwriter (Syndicate Manager) within seven business days following the proposal acceptance.

Continuing Disclosure: Subject to certain exemptions, issues in an aggregate amount over \$1,000,000 may be required to comply with provisions of the Rule which require that underwriters obtain from the issuers of municipal securities (or other obligated party) an agreement for the benefit of the owners of the securities to provide continuing disclosure with respect to those securities. This Preliminary Official Statement describes the conditions under which the Bonds are exempt or required to comply with the Rule.

CLOSING CERTIFICATES

Upon delivery of the Bonds, the underwriter (Syndicate Manager) will be furnished with the following items: (1) a certificate of the appropriate officials to the effect that at the time of the sale of the Bonds and all times subsequent thereto up to and including the time of the delivery of the Bonds, this Preliminary Official Statement did not and does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (2) a receipt signed by the appropriate officer evidencing payment for the Bonds; (3) a certificate evidencing the due execution of the Bonds, including statements that (a) no litigation of any nature is pending, or to the knowledge of signers, threatened, restraining or enjoining the issuance and delivery of the Bonds, (b) neither the corporate existence or boundaries of the County nor the title of the signers to their respective offices is being contested, and (c) no authority or proceedings for the issuance of the Bonds have been repealed, revoked or rescinded; and (4) a certificate setting forth facts and expectations of the County which indicates that the County does not expect to use the proceeds of the Bonds in a manner that would cause them to be arbitrage bonds within the meaning of Section 148 of the Internal Revenue Code of 1986, as amended, or within the meaning of applicable Treasury Regulations.

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LAKE COUNTY BOARD OF COMMISSIONERS

		<u>Term Expires</u>
Rich Sve	Chairperson	December 2021
Jeremy Hurd	Vice Chairperson	December 2019
Peter Walsh	Commissioner	December 2019
Derrick Goutermount	Commissioner	December 2021
Richard Hogenson	Commissioner	December 2021

ADMINISTRATION

Matthew Huddleston, County Administrator
Linda Libal, County Auditor/Treasurer
Ronelle Radle, Deputy County Auditor/Treasurer
Russ Conrow, County Attorney

PROFESSIONAL SERVICES

Kennedy & Graven, Chartered, Bond Counsel, Minneapolis, Minnesota

Ehlers & Associates, Inc., Municipal Advisors, Roseville, Minnesota
(Other offices located in Waukesha, Wisconsin, Chicago, Illinois and Denver, Colorado)

INTRODUCTORY STATEMENT

This Preliminary Official Statement contains certain information regarding Lake County, Minnesota (the "County") and the issuance of its \$2,765,000* General Obligation Capital Improvement Plan Bonds, Series 2018B (the "Bonds"). Any descriptions or summaries of the Bonds, statutes, or documents included herein are not intended to be complete and are qualified in their entirety by reference to such statutes and documents and the form of the Bonds to be included in the resolution authorizing the sale of the Bonds ("Award Resolution") to be adopted by the Board of Commissioners on June 26, 2018.

Inquiries may be directed to Ehlers & Associates, Inc. ("Ehlers" or the "Municipal Advisor"), Roseville, Minnesota, (651) 697-8500, the County's Municipal Advisor. A copy of this Preliminary Official Statement may be downloaded from Ehlers' web site at www.ehlers-inc.com by connecting to the link to the Bond Sales link and following the directions at the top of the site.

THE BONDS

GENERAL

The Bonds will be issued in fully registered form as to both principal and interest in denominations of \$5,000 each or any integral multiple thereof, and will be dated, as originally issued, as of July 18, 2018. The Bonds will mature on December 1 in the years and amounts set forth on the cover of this Preliminary Official Statement. Interest will be payable on December 1 and June 1 of each year, commencing June 1, 2019, to the registered owners of the Bonds appearing of record in the bond register as of the close of business on the 15th day (whether or not a business day) of the immediately preceding month. Interest will be computed upon the basis of a 360-day year of twelve 30-day months and will be rounded pursuant to rules of the Municipal Securities Rulemaking Board ("MSRB"). **The rate for any maturity may not be more than 1.00% less than the rate for any preceding maturity. (For example, if a rate of 4.50% is proposed for the 2020 maturity, then the lowest rate that may be proposed for any later maturity is 3.50%.)** All Bonds of the same maturity must bear interest from the date of issue until paid at a single, uniform rate. Each rate must be expressed in an integral multiple of 5/100 or 1/8 of 1%.

Unless otherwise specified by the purchaser, the Bonds will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). (See "Book-Entry-Only System" herein.) As long as the Bonds are held under the book-entry system, beneficial ownership interests in the Bonds may be acquired in book-entry form only, and all payments of principal of, premium, if any, and interest on the Bonds shall be made through the facilities of DTC and its participants. If the book-entry system is terminated, principal of, premium, if any, and interest on the Bonds shall be payable as provided in the Award Resolution.

The County has selected Bond Trust Services Corporation, Roseville, Minnesota, to act as paying agent (the "Paying Agent"). Bond Trust Services Corporation and Ehlers are affiliate companies. The County will pay the charges for Paying Agent services. The County reserves the right to remove the Paying Agent and to appoint a successor.

*Preliminary, subject to change.

OPTIONAL REDEMPTION

At the option of the County, the Bonds maturing on or after December 1, 2028 shall be subject to optional redemption prior to maturity on December 1, 2027 and on any date thereafter, at a price of par plus accrued interest.

Redemption may be in whole or in part of the Bonds subject to prepayment. If redemption is in part, the selection of the amounts and maturities of the Bonds to be redeemed shall be at the discretion of the County. If only part of the Bonds having a common maturity date are called for redemption, then the County or Paying Agent, if any, will notify DTC of the particular amount of such maturity to be redeemed. DTC will determine by lot the amount of each participant's interest in such maturity to be redeemed and each participant will then select by lot the beneficial ownership interest in such maturity to be redeemed.

Notice of redemption shall be sent by mail not more than 60 days and not less than 30 days prior to the date fixed for redemption to the registered owner of each Bond to be redeemed at the address shown on the registration books.

AUTHORITY; PURPOSE

The Bonds are being issued by the County pursuant to Minnesota Statutes, Section 373.40, as amended and Chapter 475, as amended, for the purpose of financing the construction of a new highway maintenance facility.

Minnesota Statutes, Section 373.40, allows counties to plan for and finance the acquisition and betterment of public lands, buildings, and other improvements within the county, including public works facilities. The maximum annual principal and interest payments on general obligation capital improvement bonds are limited to 0.12% of the County's estimated market value. The estimated market value of the County for taxes collectible in 2018 is \$1,799,439,800. This results in a maximum annual debt service allowable of \$2,159,327.76 for general obligation capital improvement bonds outstanding at any time.

ESTIMATED SOURCES AND USES*

Sources		
Par Amount of Bonds	<u>\$2,765,000</u>	
Total Sources		\$2,765,000
Uses		
Total Underwriter's Discount (1.200%)	\$33,180	
Costs of Issuance	44,000	
Deposit to Project Fund	<u>2,687,820</u>	
Total Uses		\$2,765,000

*Preliminary, subject to change

SECURITY

The Bonds are general obligations of the County for which its full faith, credit and taxing powers are pledged without limitation as to rate or amount. In accordance with Minnesota Statutes, the County will levy each year an amount not less than 105% of the debt service requirements on the Bonds. In the event funds on hand for payment of principal and interest are at any time insufficient, the County is required to levy additional ad valorem taxes upon all taxable properties within its boundaries without limit as to rate or amount to make up any deficiency.

RATING

General obligation debt of the County, with the exception of any outstanding credit enhanced issues, is currently rated "A" by S&P Global Ratings.

The County has requested a rating on this issue from S&P Global Ratings, and bidders will be notified as to the assigned rating prior to the sale. Such rating reflects only the views of such organization and explanations of the significance of such rating may be obtained from S&P Global Ratings. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by such rating agency, if in the judgment of such rating agency circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

Such rating is not to be construed as a recommendation of the rating agency to buy, sell or hold the Bonds, and the rating assigned by the rating agency should be evaluated independently. Except as may be required by the Disclosure Undertaking described under the heading "CONTINUING DISCLOSURE" neither the County nor the underwriter undertake responsibility to bring to the attention of the owner of the Bonds any proposed changes in or withdrawal of such rating or to oppose any such revision or withdrawal.

CONTINUING DISCLOSURE

In order to assist the Underwriters in complying with SEC Rule 15c2-12 promulgated by the Securities and Exchange Commission, pursuant to the Securities Exchange Act of 1934 (hereinafter the "Rule"), the County shall covenant to take certain actions pursuant to the Award Resolution by entering into a Continuing Disclosure Certificate (the "Disclosure Undertaking") for the benefit of holders, including beneficial holders. The Disclosure Undertaking requires the County to provide electronically or in the manner otherwise prescribed certain financial information annually and to provide notices of the occurrence of certain events enumerated in the Rule. The details and terms of the Disclosure Undertaking for this issue are set forth in Appendix D to be executed and delivered by the County at the time of delivery of the Bonds. Such Disclosure Undertaking will be in substantially the form attached hereto.

Other than what is described below, to the best of its knowledge, the County has complied in all material respects with its previous disclosure undertakings in the last five years. Except to the extent that the following are deemed to be material, the County believes it has not failed to comply in all material respects with its prior undertakings under the Rule. In the interest of full disclosure, the County notes the following: Prior continuing disclosure undertakings entered into by the County included language stating that an Annual Report including the County's audited financial statements and operating data would be filed "as soon as available." Although the County did not always comply with this requirement, the Annual Reports were timely filed within the required twelve (12) month timeframe as provided for in each undertaking. The County has reviewed its continuing disclosure responsibilities to help ensure compliance in the future.

Disclosure Deficiency Description	Due Date/Date of Event	Date Filed
Annual Financial Information and Operating Data Report for Fiscal Year ending December 31, 2013 was filed late.	December 31, 2014	December 21, 2015

A failure by the County to comply with any Disclosure Undertaking will not constitute an event of default on this issue or any issue outstanding. However, such a failure may adversely affect the transferability and liquidity of the Bonds and their market price.

The County will file its continuing disclosure information using the Electronic Municipal Market Access ("EMMA") system or any system that may be prescribed in the future. Investors will be able to access continuing disclosure information filed with the MSRB at www.emma.msrb.org. Ehlers is currently engaged as disclosure dissemination agent for the County.

LEGAL OPINION

An opinion as to the validity of the Bonds and the exemption from taxation of the interest thereon will be furnished by Kennedy & Graven, Chartered, Minneapolis, Minnesota, Bond Counsel to the County, and will be available at the time of delivery of the Bonds. The legal opinion will state that the Bonds are valid and binding general obligations of the County; provided that the rights of the owners of the Bonds and the enforceability of the Bonds may be limited by bankruptcy, insolvency, reorganization, moratorium, and other similar laws affecting creditors' rights and by equitable principles (which may be applied in either a legal or equitable proceeding). See "FORM OF LEGAL OPINION" found in Appendix B.

TAX EXEMPTION

In the opinion of Bond Counsel, under existing statutes, regulations, rulings and decisions, interest on the Bonds is excluded from gross income of the owners thereof for purposes of federal income taxation and is excluded from taxable net income of individuals, estates or trusts for purposes of State of Minnesota income taxation, but is subject to State of Minnesota franchise taxes measured by income that are imposed upon corporations, including financial institutions.

Noncompliance following the issuance of the Bonds with certain requirements of the Internal Revenue Code of 1986, as amended (the "Code") and covenants of the Award Resolution may result in the inclusion of interest on the Bonds in gross income (for federal tax purposes) and taxable net income (for State of Minnesota tax purposes) of the owners thereof retroactively to the date of issuance of the Bonds. No provision has been made for redemption of the Bonds, or for an increase in the interest rate on the Bonds, in the event that interest on the Bonds becomes subject to United States or State of Minnesota income taxation.

The Code imposes an alternative minimum tax with respect to individuals on alternative minimum taxable income. Adjusted current earnings include income received that is otherwise exempt from taxation such as interest on the Bonds.

The Code provides that in the case of an insurance company subject to the tax imposed by Section 831 of the Code, the amount which otherwise would be taken into account as "losses incurred" under Section 832(b)(5) shall be reduced by an amount equal to the applicable percentage of the interest on the Bonds that is received or accrued during the taxable year. For purposes hereof, the applicable percentage is 5.25% divided by the highest rate in effect under Section 11(b) of the Code.

Interest on the Bonds may be included in the income of a foreign corporation for purposes of the branch profits tax imposed by Section 884 of the Code. Under certain circumstances, interest on the Bonds may be subject to the tax on "excess net passive income" of Subchapter S corporations imposed by Section 1375 of the Code.

The above is not a comprehensive list of all federal tax consequences which may arise from the receipt of interest on the Bonds. The receipt of interest on the Bonds may otherwise affect the federal or state income tax liability of the recipient based on the particular taxes to which the recipient is subject and the particular tax status of other items or deductions. Bond Counsel expresses no opinion regarding any such consequences. All prospective purchasers of the Bonds are advised to consult their own tax advisors as to the tax consequences of, or tax considerations for, purchasing or holding the Bonds.

Legislative proposals

Bond Counsel's opinion is given as of its date and Bond Counsel assumes no obligation to update, revise, or supplement such opinion to reflect any changes in facts or circumstances or any changes in law that may hereafter occur. Proposals are regularly introduced in both the United States House of Representatives and the United States Senate that, if enacted, could alter or affect the tax-exempt status on municipal bonds. For example, legislation has been proposed that would, among other things, limit the amount of exclusions (including tax-exempt interest) or deductions that certain higher-income taxpayers could use to reduce their tax liability. The likelihood of adoption of this or any other such legislative proposal relating to tax-exempt bonds cannot be reliably predicted. If enacted into law, current or future proposals may have a prospective or retroactive effect and could affect the value or marketability of tax-exempt bonds (including the Bonds). Prospective purchasers of the Bonds should consult their own tax advisors regarding the impact of any such change in law.

QUALIFIED TAX-EXEMPT OBLIGATIONS

The County will designate the Bonds as "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Code relating to the ability of financial institutions to deduct from income for federal income tax purposes, interest expense that is allocable to carrying and acquiring tax-exempt obligations. "Qualified tax-exempt obligations" are treated as acquired by a financial institution before August 8, 1986. Interest allocable to such obligations remains subject to the 20% disallowance under prior law.

MUNICIPAL ADVISOR

Ehlers has served as municipal advisor to the County in connection with the issuance of the Bonds. The Municipal Advisor cannot participate in the underwriting of the Bonds. The financial information included in this Preliminary Official Statement has been compiled by the Municipal Advisor. Such information does not purport to be a review, audit or certified forecast of future events and may not conform with accounting principles applicable to compilations of financial information. Ehlers is not a firm of certified public accountants. Ehlers is registered with the Securities and Exchange Commission and the MSRB as a Municipal Advisor.

MUNICIPAL ADVISOR AFFILIATED COMPANIES

Bond Trust Services Corporation ("BTSC") and Ehlers Investment Partners, LLC ("EIP") are affiliate companies of Ehlers. BTSC is chartered by the State of Minnesota and authorized in Minnesota, Wisconsin, and Illinois to transact the business of a limited purpose trust company. BTSC provides paying agent services to debt issuers. EIP is a Registered Investment Advisor with the Securities and Exchange Commission. EIP assists issuers with the investment of bond proceeds or investing other issuer funds. This includes escrow bidding agent services. Issuers, such as the County, have retained or may retain BTSC and/or EIP to provide these services. If hired, BTSC and/or EIP would be retained by the County under an agreement separate from Ehlers.

INDEPENDENT AUDITORS

The basic financial statements of the County for the fiscal year ended December 31, 2016, have been audited by the State of Minnesota, Office of the State Auditor, St. Paul, Minnesota, independent auditors (the "Auditor"). The report of the Auditor, together with the basic financial statements, component units financial statements, and notes to the financial statements are attached hereto as "APPENDIX A – FINANCIAL STATEMENTS". The Auditor has not been engaged to perform and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. The Auditor also has not performed any procedures relating to this Preliminary Official Statement. The County's audited financial statements for the fiscal year ended December 31, 2017, are not yet publicly available.

RISK FACTORS

Following is a description of possible risks to holders of the Bonds without weighting as to probability. This description of risks is not intended to be all-inclusive, and there may be other risks not now perceived or listed here.

Taxes: The Bonds are general obligations of the County, the ultimate payment of which rests in the County's ability to levy and collect sufficient taxes to pay debt service. In the event of delayed billing, collection or distribution of property taxes, sufficient funds may not be available to the County in time to pay debt service when due.

State Actions: Many elements of local government finance, including the issuance of debt and the levy of property taxes, are controlled by state government. Future actions of the state may affect the overall financial condition of the County, the taxable value of property within the County, and the ability of the County to levy and collect property taxes.

Future Changes in Law: Various State and federal laws, regulations and constitutional provisions apply to the County and to the Bonds. The County can give no assurance that there will not be a change in or interpretation of any such applicable laws, regulations and provisions which would have a material effect on the County or the taxing authority of the County.

Ratings; Interest Rates: In the future, the County's credit rating may be reduced or withdrawn, or interest rates for this type of obligation may rise generally, either possibility resulting in a reduction in the value of the Bonds for resale prior to maturity.

Tax Exemption: If the federal government or the State of Minnesota taxes all or a portion of the interest on municipal obligations, directly or indirectly, or if there is a change in federal or state tax policy, the value of the Bonds may fall for purposes of resale. Noncompliance following the issuance of the Bonds with certain requirements of the Code and covenants of the Award Resolution may result in the inclusion of interest on the Bonds in gross income of the recipient for United States income tax purposes or in taxable net income of individuals, estates or trusts for State of Minnesota income tax purposes. No provision has been made for redemption of the Bonds, or for an increase in the interest rate on the Bonds, in the event that interest on the Bonds becomes subject to federal or State of Minnesota income taxation, retroactive to the date of issuance.

Continuing Disclosure: A failure by the County to comply with the Disclosure Undertaking for continuing disclosure (see "CONTINUING DISCLOSURE") will not constitute an event of default on the Bonds. Any such failure must be reported in accordance with the Rule and must be considered by any broker, dealer, or municipal securities dealer before recommending the purchase or sale of the Bonds in the secondary market. Such a failure may adversely affect the transferability and liquidity of the Bonds and their market price.

State Economy; State Aids: State of Minnesota cash flow problems could affect local governments and possibly increase property taxes.

Book-Entry-Only System: The timely credit of payments for principal and interest on the Bonds to the accounts of the Beneficial Owners of the Bonds may be delayed due to the customary practices, standing instructions or for other unknown reasons by DTC participants or indirect participants. Since the notice of redemption or other notices to holders of these obligations will be delivered by the County to DTC only, there may be a delay or failure by DTC, DTC participants or indirect participants to notify the Beneficial Owners of the Bonds.

Economy: A combination of economic, climatic, political or civil disruptions or terrorist actions outside of the control of the County, including loss of major taxpayers or major employers, could affect the local economy and result in reduced tax collections and/or increased demands upon local government. Real or perceived threats to the financial stability of the County may have an adverse effect on the value of the Bonds in the secondary market.

Secondary Market for the Bonds: No assurance can be given that a secondary market will develop for the purchase and sale of the Bonds or, if a secondary market exists, that such Bonds can be sold for any particular price. The underwriters are not obligated to engage in secondary market trading or to repurchase any of the Bonds at the request of the owners thereof. Prices of the Bonds as traded in the secondary market are subject to adjustment upward and downward in response to changes in the credit markets and other prevailing circumstances. No guarantee exists as to the future market value of the Bonds. Such market value could be substantially different from the original purchase price.

Bankruptcy: The rights and remedies of the holders may be limited by and are subject to the provisions of federal bankruptcy laws, to other laws, or equitable principles that may affect the enforcement of creditors' rights, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against local governments. The opinion of Bond Counsel to be delivered with respect to the Bonds will be similarly qualified.

VALUATIONS

OVERVIEW

All non-exempt property is subject to taxation by local taxing districts. Exempt real property includes Indian lands, public property, and educational, religious and charitable institutions. Most personal property is exempt from taxation (except investor-owned utility mains, generating plants, etc.).

The valuation of property in Minnesota consists of three elements. (1) The estimated market value is set by city or county assessors. Not less than 20% of all real properties are to be appraised by local assessors each year. (2) The taxable market value is the estimated market value adjusted by all legislative exclusions. (3) The tax capacity (taxable) value of property is determined by class rates set by the State Legislature. The tax capacity rate varies according to the classification of the property. Tax capacity represents a percent of taxable market value.

The property tax rate for a local taxing jurisdiction is determined by dividing the total tax capacity or market value of property within the jurisdiction into the dollars to be raised from the levy. State law determines whether a levy is spread on tax capacity or market value. Major classifications and the percentages by which tax capacity is determined are:

Type of Property	2015/16	2016/17	2017/18
Residential homestead ¹	First \$500,000 - 1.00% Over \$500,000 - 1.25%	First \$500,000 - 1.00% Over \$500,000 - 1.25%	First \$500,000 - 1.00% Over \$500,000 - 1.25%
Agricultural homestead ¹	First \$500,000 HGA - 1.00% Over \$500,000 HGA - 1.25% First \$2,140,000 - 0.50% ² Over \$2,140,000 - 1.00% ²	First \$500,000 HGA - 1.00% Over \$500,000 HGA - 1.25% First \$2,050,000 - 0.50% ² Over \$2,050,000 - 1.00% ²	First \$500,000 HGA - 1.00% Over \$500,000 HGA - 1.25% First \$1,940,000 - 0.50% ² Over \$1,940,000 - 1.00% ²
Agricultural non-homestead	Land - 1.00% ²	Land - 1.00% ²	Land - 1.00% ²
Seasonal recreational residential	First \$500,000 - 1.00% ³ Over \$500,000 - 1.25% ³	First \$500,000 - 1.00% ³ Over \$500,000 - 1.25% ³	First \$500,000 - 1.00% ³ Over \$500,000 - 1.25% ³
Residential non-homestead:	1 unit - 1st \$500,000 - 1.00% Over \$500,000 - 1.25% 2-3 units - 1.25% 4 or more - 1.25% Small City ⁴ - 1.25% Affordable Rental: First \$106,000 - .75% Over \$106,000 - .25%	1 unit - 1st \$500,000 - 1.00% Over \$500,000 - 1.25% 2-3 units - 1.25% 4 or more - 1.25% Small City ⁴ - 1.25% Affordable Rental: First \$115,000 - .75% Over \$115,000 - .25%	1 unit - 1st \$500,000 - 1.00% Over \$500,000 - 1.25% 2-3 units - 1.25% 4 or more - 1.25% Small City ⁴ - 1.25% Affordable Rental: First \$121,000 - .75% Over \$121,000 - .25%
Industrial/Commercial/Utility ⁵	First \$150,000 - 1.50% Over \$150,000 - 2.00%	First \$150,000 - 1.50% Over \$150,000 - 2.00%	First \$150,000 - 1.50% Over \$150,000 - 2.00%

¹ A residential property qualifies as "homestead" if it is occupied by the owner or a relative of the owner on the assessment date.

² Applies to land and buildings. Exempt from referendum market value tax.

³ Exempt from referendum market value tax.

⁴ Cities of 5,000 population or less and located entirely outside the seven-county metropolitan area and the adjacent nine-county area and whose boundaries are 15 miles or more from the boundaries of a Minnesota city with a population of over 5,000.

⁵ The estimated market value of utility property is determined by the Minnesota Department of Revenue.

CURRENT PROPERTY VALUATIONS

2016/17 Economic Market Value \$1,926,782,168¹

	2017/18 Assessor's Estimated Market Value	2017/18 Net Tax Capacity
Real Estate	\$1,786,406,100	\$ 18,140,444
Personal Property	13,033,700	234,216
Total Valuation	<u>\$1,799,439,800</u>	<u>\$ 18,374,660</u>
Less: Fiscal Disparities Contribution ²		(918,725)
Taxable Net Tax Capacity		<u>\$ 17,455,935</u>
Plus: Fiscal Disparities Distribution ²		568,149
Adjusted Taxable Net Tax Capacity		<u>\$ 18,024,084</u>

¹ According to the Minnesota Department of Revenue, the Assessor's Estimated Market Value (the "AEMV") for Lake County is about 92.77% of the actual selling prices of property most recently sold in the County. The sales ratio was calculated by comparing the selling prices with the AEMV. Dividing the AEMV of real estate by the sales ratio and adding the AEMV of personal property and utility, railroads and minerals, if any, results in an Economic Market Value ("EMV") for the County of \$1,926,782,168.

² Each community in the taconite credit area contributes 40% of the growth in its commercial- industrial property tax base to an area pool which is then distributed among the municipalities on the basis of population, special needs, etc. Each governmental unit makes a contribution and receives a distribution--sometimes gaining and sometimes losing net tax capacity for tax purposes. Taxes are spread on the basis of taxable net tax capacity.

2017/18 NET TAX CAPACITY BY CLASSIFICATION

	2017/18 Net Tax Capacity	Percent of Total Net Tax Capacity
Residential homestead	\$ 5,808,625	31.61%
Agricultural	2,651,786	14.43%
Commercial/industrial	1,259,232	6.85%
Public utility	471,393	2.57%
Railroad operating property	775,002	4.22%
Non-homestead residential	1,341,911	7.30%
Commercial & residential seasonal/rec.	5,832,495	31.74%
Personal property	234,216	1.27%
Total	<u>\$18,374,660</u>	<u>100.00%</u>

TREND OF VALUATIONS

Levy Year	Assessor's Estimated Market Value	Assessor's Taxable Market Value	Net Tax Capacity¹	Taxable Net Tax Capacity²	Percent +/- in Estimated Market Value
2013/14	\$1,727,066,900	\$1,634,154,200	\$17,504,948	\$16,598,482	- 4.56%
2014/15	1,731,718,200	1,638,500,900	17,579,807	16,631,640	+ 0.27%
2015/16	1,716,117,700	1,623,463,200	17,458,096	16,570,985	- 0.90%
2016/17	1,790,368,000	1,698,638,680	18,341,404	17,509,565	+ 4.33%
2017/18	1,799,439,800	1,706,143,660	18,374,660	17,455,935	+ 0.51%

¹ Net Tax Capacity is before fiscal disparities adjustments.

² Taxable Net Tax Capacity is after fiscal disparities contributions, but does not include fiscal disparities distributions.

LARGER TAXPAYERS

Taxpayer	Type of Property	2017/18 Net Tax Capacity	Percent of County's Total Net Tax Capacity
Wisconsin Central	Railroad/Industrial	\$ 779,825	4.24%
Minnesota Power/Allete	Utility	412,342	2.24%
Northshore Mining/Cliffs Erie	Industrial	279,955	1.52%
Larsmont Lodge LLC	Non-commercial seasonal	171,913	0.94%
Heartwood Forestland Fund	Rural vacant land	145,373	0.79%
Jensen-Redevelopment LLC	Non-commercial seasonal	113,566	0.62%
Manitou Mining	Rural vacant land	110,573	0.60%
Blue Waters Development Corp.	Mixed residential	84,989	0.46%
Franconia Minerals	Mineral/rural vacant	84,492	0.46%
Encampment Forest Association	Forest/rural vacant	79,771	0.43%
Total		<u><u>\$ 2,262,799</u></u>	<u><u>12.31%</u></u>

County's Total 2017/18 Net Tax Capacity \$18,374,660

Source: Current Property Valuations, Net Tax Capacity by Classification, Trend of Valuations and Larger Taxpayers have been furnished by Lake County.

DEBT

DIRECT DEBT¹

General Obligation Debt (see schedules following)

Total g.o. debt being paid from taxes (includes the Bonds)*	\$10,000,000
Total g.o. debt being paid from taxes and tax abatement revenues	1,100,000
Total g.o. debt being paid from housing revenues	<u>570,000</u>
Total General Obligation Debt	<u>\$11,670,000</u>

Lease Purchase Obligations (see schedule following)²

Total lease purchase obligations paid by annual appropriations ³	<u>\$655,606</u>
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Other Obligations

The County has an outstanding Rural Utilities Service broadband loan. The outstanding principal amount, as of December 31, 2017, is \$50,606,300.15, and the final maturity is December 31, 2029. This loan is discussed further in the "BROADBAND PROJECT" section on page 24.

*Preliminary, subject to change.

¹ Outstanding debt is as of the dated date of the Bonds.

² Computers and copiers have not been included, however, information related to these leases can be reviewed in the audit.

³ Non-general obligation debt has not been included in the debt ratios.

LAKE COUNTY, MINNESOTA
Schedule of Bonded Indebtedness
General Obligation Debt Being Paid From Taxes
(As of 7/18/18)

		Judgment Bonds 1)		Capital Improvement Series 2018B			
		4/12/18	7/18/18				
		\$7,235,000	\$2,765,000*				
		12/1	12/1				
Dated Amount	Maturity	Principal	Interest	Principal	Estimated Interest		
Fiscal Year Ending						Total Principal	Total Interest
2018		0	140,783	0	0	0	140,783
2019		390,000	221,319	125,000	111,777	515,000	333,096
2020		400,000	209,619	155,000	79,060	555,000	288,679
2021		410,000	197,619	160,000	75,650	570,000	273,269
2022		425,000	185,319	165,000	71,970	590,000	257,289
2023		440,000	172,569	170,000	67,928	610,000	240,496
2024		450,000	159,369	175,000	63,593	625,000	222,961
2025		465,000	145,869	180,000	58,955	645,000	204,824
2026		480,000	131,919	180,000	53,915	660,000	185,834
2027		495,000	117,519	190,000	48,695	685,000	166,214
2028		505,000	102,669	195,000	42,995	700,000	145,664
2029		520,000	87,519	200,000	36,853	720,000	124,371
2030		540,000	71,919	205,000	30,253	745,000	102,171
2031		555,000	55,044	215,000	23,283	770,000	78,326
2032		570,000	37,700	220,000	15,865	790,000	53,565
2033		590,000	19,175	230,000	8,165	820,000	27,340
		7,235,000	2,055,927	2,765,000	788,955	10,000,000	2,844,882
							12,844,882

*Preliminary, subject to change.

1) This issue is not subject to the debt limit.

LAKE COUNTY, MINNESOTA
Schedule of Bonded Indebtedness
General Obligation Debt Being Paid From Taxes and Tax Abatement Revenues
(As of 7/18/18)

GO Bonds 1)
Series 2014A

Dated Amount	Maturity	Principal	Interest
7/22/14	2/01		
\$2,410,000			

Fiscal Year Ending	Total Principal	Total Interest	Total P & I	Principal Outstanding	% Paid	Fiscal Year Ending
2018	0	14,713	14,713	1,100,000	8.39%	2018
2019	355,000	25,875	380,875	745,000	23.15%	2019
2020	60,000	21,725	81,725	685,000	35.55%	2020
2021	60,000	20,225	80,225	625,000	47.09%	2021
2022	60,000	18,425	78,425	565,000	57.60%	2022
2023	65,000	16,550	81,550	500,000	67.04%	2023
2024	65,000	14,600	79,600	435,000	75.37%	2024
2025	65,000	12,650	77,650	370,000	82.59%	2025
2026	70,000	10,625	80,625	300,000	88.65%	2026
2027	70,000	8,525	78,525	230,000	93.51%	2027
2028	75,000	6,256	81,256	155,000	97.08%	2028
2029	75,000	3,819	78,819	80,000	99.26%	2029
2030	80,000	1,300	81,300	0	100.00%	2030
	1,100,000	175,288	1,275,288			

- 1) A portion of this issue refunded the 2015 through 2019 maturities of the County's \$3,200,000 General Obligation Capital Improvement Bonds, Series 2005A, dated September 1, 2005.
The refunding portion of the Bonds is subject to the debt limit. (\$300,000 principal outstanding)

LAKE COUNTY HOUSING AND REDEVELOPMENT AUTHORITY, MINNESOTA
Schedule of Bonded Indebtedness
General Obligation Debt Being Paid From Housing Revenues
(As of 7/18/18)

Housing Dev 1)
Series 2012A

Fiscal Year Ending	Dated Amount	Maturity	4/18/12		Total Principal	Total Interest	Total P & I	Principal Outstanding	% Paid	Fiscal Year Ending
			Principal	Interest						
2018			0	8,106	0	8,106	570,000	0.00%	2018	
2019	\$860,000	1/01	55,000	15,594	55,000	15,594	515,000	9.65%	2019	
2020			55,000	14,356	55,000	14,356	460,000	19.30%	2020	
2021			55,000	13,050	55,000	13,050	405,000	28.95%	2021	
2022			60,000	11,613	60,000	11,613	345,000	39.47%	2022	
2023			60,000	10,038	60,000	10,038	285,000	50.00%	2023	
2024			60,000	8,388	60,000	8,388	225,000	60.53%	2024	
2025			60,000	6,588	60,000	6,588	165,000	71.05%	2025	
2026			65,000	4,556	65,000	4,556	100,000	82.46%	2026	
2027			65,000	2,363	65,000	2,363	35,000	93.86%	2027	
2028			35,000	613	35,000	613	0	100.00%	2028	
			570,000	95,263	570,000	95,263	665,263			

1) This issue refunded the May 15, 2012 through July 15, 2027 maturities of the Authority's \$1,160,642 Silver Bay Senior Housing Bonds of 1996, dated November 14, 1996.

LAKE COUNTY, MINNESOTA
Schedule of Bonded Indebtedness
Non GO Debt Being Paid From Annual Appropriations
(As of 7/18/18)

Dated Amount	Forest Land Lease		Road and Bridge Lease		Total Principal	Total Interest	Total P & I	Principal Outstanding	% Paid	Fiscal Year Ending
	10/12/06	10/12	2017	10/12						
\$2,053,333			\$94,780							
Maturity	10/12		10/12							
Fiscal Year Ending	Principal	Interest	Principal	Interest						
2018	146,667	9,559	26,814	2,099	173,481	11,659	185,139	482,125	26.46%	2018
2019	146,667	14,300	27,823	1,090	174,490	15,390	189,880	307,636	53.08%	2019
2020	146,667	9,533	14,302	154	160,969	9,688	170,657	146,667	77.63%	2020
2021	146,667	4,767			146,667	4,767	151,433	0	100.00%	2021
	586,667	38,159	68,939	3,343	655,606	41,503	697,109			

DEBT LIMIT

The statutory limit on debt of Minnesota municipalities other than school districts or cities of the first class (Minnesota Statutes, Section 475.53, subd. 1) is 3% of the Assessor's Estimated Market Value of all taxable property within its boundaries. "Net debt" (Minnesota Statutes, Section 475.51, subd. 4) is the amount remaining after deducting from gross debt the amount of current revenues which are applicable within the current fiscal year to the payment of any debt and the aggregate principal of the following: (1) obligations payable wholly or partly from special assessments levied against benefitted property; (2) warrants or orders having no definite or fixed maturity; (3) obligations payable wholly from the income of revenue producing conveniences; (4) obligations issued to create or maintain a permanent improvement revolving fund; (5) obligations issued to finance any public revenue producing convenience; (6) funds held as sinking funds for payment of principal and interest on debt other than those deductible under Minnesota Statutes, Section 475.51, subd. 4; (7) obligations issued to pay judgments against the municipality; and (8) other obligations which are not to be included in computing the net debt of a municipality under the provisions of the law authorizing their issuance.

2017/18 Assessor's Estimated Market Value	\$1,799,439,800
Multiply by 3%	<u>0.03</u>
Statutory Debt Limit	\$ 53,983,194
Less: Long-Term Debt Outstanding Being Paid Solely from Taxes ¹ (includes the Bonds)*	(3,065,000)
Less: Long-Term Debt Outstanding Being Paid Solely from Annual Appropriations (applies to issues in excess of \$1,000,000 originally issued after 6/1/97 which do not have revenues pledged)	<u>(586,667)</u>
Unused Debt Limit*	<u><u>\$ 50,331,527</u></u>

*Preliminary, subject to change.

¹ Also includes the refunding portion of the County's \$2,410,000 General Obligation Bonds, Series 2014A (\$300,000 principal outstanding). The County's \$7,235,000 General Obligation Judgment Bonds, Series 2018A are not subject to the debt limit.

UNDERLYING DEBT¹

Taxing District	2017/18 Taxable Net Tax Capacity	% In County	Total G.O. Debt²	County's Proportionate Share
City of Beaver Bay	\$ 366,175	100.0000%	\$ 820,000	\$ 820,000
City of Silver Bay	813,664	100.0000%	802,781	802,781
City of Two Harbors	2,168,021	100.0000%	10,043,107 ³	10,043,107
Town of Fall Lake	3,451,918	100.0000%	205,000	205,000
Town of Silver Creek	3,162,744	100.0000%	758,836	758,836
I.S.D. No. 381 (Lake Superior)	21,224,314	82.2450%	17,170,000	14,121,467
County's Share of Total Underlying Debt				<u>\$26,751,191</u>

¹ Underlying debt is as of the dated date of the Bonds. Only those taxing jurisdictions with general obligation debt outstanding are included in this section. Does *not* include non-general obligation debt, self-supporting general obligation revenue debt, short-term general obligation debt, or general obligation tax/aid anticipation certificates of indebtedness.

² Outstanding debt is based on information in Official Statements obtained on EMMA and the Municipal Advisor's records.

³ Includes approximately \$2,140,000 General Obligation Bonds, Series 2018A which are dated July 17, 2018.

DEBT RATIOS

	G.O. Debt	Debt/Economic Market Value (\$1,926,782,168)	Debt/ Current Population Estimate (10,721)
Direct G.O. Debt Being Paid From:			
Taxes*	\$10,000,000		
Taxes & Tax Abatement Revenues	1,100,000		
Housing Revenues	<u>570,000</u>		
Total General Obligation Debt (includes the Bonds)*	\$11,670,000		
Less: G.O. Debt Paid Entirely from Revenues ¹	<u>(570,000)</u>		
Tax Supported General Obligation Debt*	\$11,100,000	0.58%	\$1,035.35
 County's Share of Total Underlying Debt	 <u>\$26,751,191</u>	 <u>1.39%</u>	 <u>\$2,495.21</u>
 Total*	 <u>\$37,851,191</u>	 <u>1.96%</u>	 <u>\$3,530.57</u>

*Preliminary, subject to change.

DEBT PAYMENT HISTORY

The County has no record of default in the payment of principal and interest on its debt.

FUTURE FINANCING

The County plans to issue approximately \$1,485,000 additional General Obligation Capital Improvement Plan Bonds in the next 12 months, to complete the County's funding plan for its new Highway Maintenance Facility.

¹ Debt service on the County's general obligation revenue debt is being paid entirely from revenues and therefore is considered self-supporting debt.

TAX RATES, LEVIES AND COLLECTIONS

TAX LEVIES AND COLLECTIONS

Tax Year	Net Tax Levy ¹	Total Collected Following Year	Collected to Date ²	% Collected
2013/14	\$7,584,821	\$7,381,694	\$7,584,799	100.00%
2014/15	8,302,706	8,102,366	8,278,642	99.71%
2015/16	8,572,599	8,387,359	8,536,438	99.58%
2016/17	9,115,035	8,940,774	9,000,895	98.75%
2017/18	9,545,366	In process of collection		

Property taxes are collected in two installments in Minnesota--the first by May 15 and the second by October 15.³ Mobile home taxes are collectible in full by August 31. Minnesota Statutes require that levies (taxes and special assessments) for debt service be at least 105% of the actual debt service requirements to allow for delinquencies.

¹ This reflects the Final Levy Certification of the County after all adjustments have been made.

² Collections are through May 17, 2018.

³ Second half tax payments on agricultural property are due on November 15th of each year.

TAX CAPACITY RATES¹

	2013/14	2014/15	2015/16	2016/17	2017/18
Lake County	48.981%	53.139%	54.788%	57.191%	57.439%
City of Beaver Bay	82.214%	83.768%	86.856%	84.911%	85.595%
City of Silver Bay	119.544%	117.577%	120.052%	122.306%	140.951%
City of Two Harbors	74.776%	71.728%	72.134%	67.232%	76.042%
I.S.D. No. 381 (Lake Superior)	18.180%	18.217%	17.218%	16.312%	16.292%
Town of Silver Creek ²	10.349%	11.279%	9.596%	8.565%	11.517%
ARDC	0.175%	0.174%	0.177%	0.166%	0.177%
Lake County HRA	0.707%	0.702%	0.703%	0.663%	0.665%
Rail Authority	0.791%	0.788%	0.754%	0.746%	0.814%
East Lake Clinic District	0.609%	0.810%	0.000%	0.000%	0.791%

Referendum Market Value Rates:

I.S.D. No. 381 (Lake Superior)	0.04771%	0.10458%	0.08231%	0.09758%	0.10086%
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Source: Tax Levies and Collections and Tax Capacity Rates have been furnished by Lake County.

LEVY LIMITS

The State Legislature has periodically imposed limitations on the ability of municipalities to levy property taxes. For taxes levied in 2013, payable in 2014, only, the Legislature imposed a one year levy limit on all counties with a population greater than 5,000, and all cities with a population greater than 2,500. While these limitations have expired, the potential exists for future legislation to limit the ability of local governments to levy property taxes. All previous limitations have not limited the ability to levy for the payment of debt service on bonded indebtedness. For more detailed information about Minnesota levy limits, contact the Minnesota Department of Revenue or Ehlers & Associates.

¹ After reduction for state aids. Does not include the statewide general property tax against commercial/industrial, non-homestead resorts and seasonal recreational residential property.

² Representative town rate.

THE ISSUER

COUNTY GOVERNMENT

Lake County was organized as a municipality in 1855, and is governed by an elected five-member Board of County Commissioners. Decisions are made by a majority vote of a quorum. The County Administrator is appointed by the Board, and the County Auditor/Treasurer is elected.

EMPLOYEES; PENSIONS; UNIONS

The County has 130 full-time, 12 part-time, and 2 temporary employees. All full-time and certain part-time employees of the County are covered by defined benefit pension plans administered by the Public Employee Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund (GERF) and the Public Employees Police and Fire Fund (PEPFF) which are cost-sharing multiple-employer retirement plans. PERA members belong to either the Coordinated Plan or the Basic Plan. Coordinated members are covered by Social Security. See the notes to the County's Financial Statements in Appendix A for a detailed description of the Plans, and the County's pension obligations.

Recognized and Certified Bargaining Units

Bargaining Unit	Expiration Date of Current Contract
Teamsters Union Local 320 - Courthouse Employees	December 31, 2019
Law Enforcement Labors Services (Deputies)	December 31, 2019
AFSCME Council 65, Local 2827 - Highway Dept.	December 31, 2019
AFSCME Local 66 - Human Services Dept.	December 31, 2019
Minnesota Public Employees Association (Dispatch)	December 31, 2019
Minnesota Public Employees Association (Supervisors)	December 31, 2019

OTHER POST EMPLOYMENT BENEFITS

In June 2004, the Governmental Accounting Standards Board (“GASB”) issued Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (“GASB 45”). GASB 45 establishes standards for the measurement, recognition, and display of Other Postemployment Benefits (“OPEB”), including postemployment healthcare and other forms of postemployment benefits such as life insurance. The County has previously implemented the provisions of GASB 45.

The County retained Hildi, Inc., a qualified professional firm (the “Actuary”) to prepare a valuation of the County’s Accrued Actuarial Liability relating to OPEB for the plan year beginning January 1, 2017 and ending on December 31, 2017 (the “Accrued Actuarial Liability”). The calculation of Accrued Actuarial Liability, by definition and necessity, is based upon a number of assumptions, including retirement age, life expectancy, healthcare costs per employee and discount rate. The County has chosen not to fund an OPEB “plan” as defined by GASB for the Accrued Actuarial Liability. GASB Statement 45 requires the plan funds to be placed in an irrevocable trust fund to be a plan. The County currently funds its OPEB liability on a pay-as-you-go basis.

GASB issued Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other than Pension Plans (OPEB), and Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions, which are effective for the County beginning in fiscal year 2018. Statement No. 74 will have no effect on the County as the County does not have an OPEB plan as defined by GASB. Statement No. 75 changes the liability reported in the financial statements. GASB Statement No. 45 requires entities to record one-thirtieth of the remaining Accrued Actuarial Liability each year. GASB Statement No. 75 requires entities to record the entire liability in the financial statements for fiscal year 2018. The amount recorded in fiscal year 2017 was \$505,312 utilizing a discount rate of 3.50% in accordance with GASB Statement No. 45. The County’s previous OPEB actuarial valuation as of January 1, 2014 had calculated the OPEB liability at \$546,471 utilizing a discount rate of 4.50%. For the years ending December 31, 2015 and 2016, the County paid \$38,479 and \$49,081 respectively for OPEB costs. The next valuation for the County is due under GASB 75 for the years ending December 31, 2019 and 2020. See the notes to the County’s audited financial statements set forth in Appendix A to this Official Statement for more information with respect to the County’s OPEB obligations.

FUNDS ON HAND (as of April 30, 2018)

Fund	Total Cash and Investments
General Revenue	\$ 15,833,575
Human Services	8,475,842
Road & Bridge	5,830,777
Unorganized Territory #1	92,351
Unorganized Territory #2	111,605
G.O. Capital Improvement Bond Series 2005A	300,354
Broadband	(18,812,193)
G.O. Judgment Bond Series 2018A	17,072
Cities, Towns & Other Governmental Units	379,450
Taxes and Penalties	4,423,527
State	42,327
Tax-Forfeited Land	(58,311)
Economic Development	31,161
Resource Development	1,130,928
Sewer Systems Trust	90,845
Total Funds on Hand	<u>\$ 17,889,312</u>

BROADBAND PROJECT

In 2010, the County entered into various agreements with the United States Department of Agriculture’s Rural Utilities Service (“RUS”) for a grant and loan package totaling approximately \$66,000,000 (the “RUS Funding”). The County utilized the RUS Funding to fund the cost of the construction, installation and equipping of a broadband network in the County (the “Network”), commonly referred to as “Lake Connections.” The County’s primary purpose in developing the Network was to provide residents of the County access to high-speed communication infrastructure. The installation of the Network was a very complicated process that took many years and involved dealing with many landowners including private individuals, utility companies, cities, towns, and other parties. In connection with the installation of the Network, the County entered into contracts with both MP Nexlevel, LLC (“MP Nexlevel”) and Rohl Networks LP (“Rohl”) to perform services for the installation of the Network. Due to delays in the delivery of the Network and the Network not meeting the projected performance levels, the County was not and has not been able to meet the County’s original obligations under the RUS Funding documents. In addition, complications in the installations of the Network also caused there to be business between the County and both MP Nexlevel and Rohl. The County is currently in the process of attempting to sell the Network to a private party.

Rus Funding Settlement

On August 31, 2017, the County and RUS entered into a Memorandum of Understanding (the “MOU”) providing the framework for a final settlement between the County and RUS with respect to all amounts that the County owes to RUS under the RUS Funding documents. Under the terms of the MOU, RUS has agreed that RUS will (i) defer principal and interest owed to RUS until the County’s sale of the Network, (ii) accept the proceeds of the sale of the Network in full satisfaction of all amounts owed by the County to RUS under the RUS Funding documents, and (iii) release RUS’s lien on the Network upon receipt of the proceeds of the sale of the Network.

MP Nexlevel Judgment

The County and MP Nexlevel previously entered into settlement discussions regarding various disputes between the County and MP Nexlevel with respect to the obligations of both parties in connection with the installation of the Network. On February 16, 2018, pursuant to a confession of judgment, the State of Minnesota District Court, Lake County, Sixth Judicial District (the “District Court”) entered and docketed a judgement in the amount of \$4,525,643.22 against the County and for the benefit of MP Nexlevel (the “MP Nexlevel Judgment”).

Rohl Judgment and Litigation

In late October and early November 2017, the County and Rohl were involved in a jury trial in the District Court relating to various disputes under the contracts between the County and Rohl. In early November 2017, the District Court entered an Order of Judgment in the amount of \$2,075,441.87 for the benefit of Rohl (the “Rohl Judgment”). The Rohl Judgment was entered in the District Court on November 14, 2017. The Rohl Judgment was stayed for a period of time. In post-trial proceedings, the County has requested that the District Court reduce the amount of the Rohl Judgment. Due to a clerical error in the original judgment, the District Court entered a judgment against the County on March 23, 2018 in the amount of \$2,550,000, resulting in a total costs of the Rohl Judgment, as corrected, plus various associated costs, of \$2,558,565.30.

On April 12, 2018, the County issued its General Obligation Judgment Bonds, Series 2018A Bonds, in the original aggregate amount of \$7,235,000 to pay the MP Nexlevel Judgment, and the Rohl Judgment.

LITIGATION

There is no controversy or litigation now pending, or to the knowledge of the County threatened (i) questioning the organization or boundaries of the County, (ii) the rights of any of the County’s officers to their respective offices or (iii) restraining or enjoining the issuance, sale, execution or delivery of the Series 2018B Bonds, or (iv) in any way contesting or affecting the validity of the Series 2018B Bonds, or any proceedings of the County taken with respect to the issuance or sale of the Series 2018B Bonds.

Like many counties of similar size, the County is routinely involved in lawsuits and claims related to the County’s everyday operations. These lawsuits or claims generally assert breach of contract claims or arise primarily out of injuries or property damage. Other than the MP Nexlevel Judgment, the RUS Funding issues, and the Rohl Judgment, based on its review of the various cases and claims and past experience, the County believes that the pending actions, are such as may be fairly characterized as being in the ordinary course of business for a municipality of its size and should not have any material adverse impact on the financial position of the County or would not be within the limits of any insurance coverage.

MUNICIPAL BANKRUPTCY

Municipalities are prohibited from filing for bankruptcy under Chapter 11 (reorganization) or Chapter 7 (liquidation) of the U.S. Bankruptcy Code (11 U.S.C. §§ 101-1532) (the "Bankruptcy Code"). Instead, the Bankruptcy Code permits municipalities to file a petition under Chapter 9 of the Bankruptcy Code, but only if certain requirements are met. These requirements include that the municipality must be "specifically authorized" under State law to file for relief under Chapter 9. For these purposes, "State law" may include, without limitation, statutes of general applicability enacted by the State legislature, special legislation applicable to a particular municipality, and/or executive orders issued by an appropriate officer of the State's executive branch.

As of the date hereof, Minnesota Statutes, 471.831, authorizes municipalities to file for bankruptcy relief under Chapter 9 of the Bankruptcy Code. A municipality is defined in United States Code, title 11, section 101, as amended through December 31, 1996, but limited to a county, statutory or home rule charter city, or town; or a housing and redevelopment authority, economic development authority, or rural development financing authority established under Chapter 469, a home rule charter or special law.

SUMMARY GENERAL FUND INFORMATION

Following are summaries of the revenues and expenditures and fund balances for the County's General Fund. These summaries are not purported to be the complete audited financial statements of the County, and potential purchasers should read the included financial statements in their entirety for more complete information concerning the County. Copies of the complete statements are available upon request. Appendix A includes the County's 2016 audited financial statements.

COMBINED STATEMENT	FISCAL YEAR ENDING DECEMBER 31				
	2014 Audited	2015 Audited	2016 Audited	2017 Unaudited ¹	2018 Adopted Budget ²
Revenues					
Property taxes	\$ 5,162,335	\$ 5,842,832	\$ 5,493,658	\$ 6,680,902	\$ 7,498,259
Intergovernmental	5,542,493	6,032,850	5,452,283	4,611,388	3,775,277
Fees, licenses and permits	14,220	15,656	16,251	33,148	32,600
Fines and forfeitures	1,148	2,210	5,028	103,215	83,200
Charges for services	454,273	439,660	463,989	421,887	339,490
Investment earnings	354,479	80,140	55,232	94,964	70,539
Other miscellaneous revenues	326,441	262,078	329,775	260,034	126,270
Total Revenues	\$ 11,855,389	\$ 12,675,426	\$ 11,816,216	\$12,205,538	\$ 11,925,635
Expenditures					
Current:					
General government	\$ 4,188,287	\$ 4,677,051	\$ 4,391,695	\$ 4,410,123	\$ 4,780,604
Public safety	4,541,002	4,528,517	4,722,559	4,398,497	4,299,571
Conservation of natural resources	164,893	164,967	167,099	517,440	151,624
Sanitation	327,905	235,547	402,650	356,808	401,680
Economic development	339,497	320,774	405,071	21,000	26,500
Culture and recreation	719,087	596,682	757,507	467,949	472,421
Health	0	0	0	503,949	504,545
Miscellaneous	0	0	0	24,325	27,000
Capital Outlay	0	0	0	440,174	649,900
Total Expenditures	\$ 10,280,671	\$ 10,523,538	\$ 10,846,581	\$11,140,265	\$ 11,313,845
Excess of revenues over (under) expenditures	\$ 1,574,718	\$ 2,151,888	\$ 969,635	\$ 1,065,273	\$ 611,790
Other Financing Sources (Uses)					
Operating transfers in	\$ 207,683	\$ 2,246	\$ 0	\$ 0	
Operating transfers out	(18,190)	(26,503)	(28,680)	0	
Total Other Financing Sources (Uses)	\$ 189,493	\$ (24,257)	\$ (28,680)	\$ 0	
Net Changes in Fund Balances	\$ 1,764,211	\$ 2,127,631	\$ 940,955	\$ 1,065,273	
General Fund Balance January 1	12,164,940	13,929,151	16,056,782	16,997,737	
Prior Period Adjustment	0	0	0	0	
Residual Equity Transfer in (out)	0	0	0	0	
General Fund Balance December 31	\$ 13,929,151	\$ 16,056,782	\$ 16,997,737	\$18,063,010	
DETAILS OF DECEMBER 31 FUND BALANCE					
Nonspendable	\$ 60,000	\$ 60,000	\$ 50,000	\$ 0	
Restricted	1,208,093	1,321,763	1,385,663	1,459,857	
Committed	3,537,043	3,525,019	3,525,019	3,515,568	
Assigned	0	59,000	16,145	81,868	
Unassigned	9,124,015	11,091,000	12,020,910	13,005,717	
Total	\$ 13,929,151	\$ 16,056,782	\$ 16,997,737	\$18,063,010	

¹ Unaudited data is as of March 2, 2018.

² The 2018 budget was adopted by the County's Board of Commissioners .

GENERAL INFORMATION

LOCATION

Lake County, with a 2010 U.S. Census population of 10,866 and a current population estimate of 10,721, and comprising an area of 2,062 square miles, is located approximately 181 miles north of the Minneapolis-St. Paul metropolitan area.

LARGER EMPLOYERS¹

Larger employers in Lake County include the following:

Firm	Type of Business/Product	Estimated No. of Employees
Northshore Mining Company	Taconite mining processing facility	335
I.S.D. No. 381 (Lake Superior)	Elementary and secondary education	320
Stanley/LaBounty Mfg. Inc. (Stanley Works)	Machinery manufacturer	160
Lake County	County government and services	144
Minnesota Veterans Home	Nursing home and health care	140
St. Luke's Health Care System	Hospital and clinic	131
Louisiana-Pacific Corp.	House siding and trim	108
Superior Shores Resort	Resort	100
Two Harbors Machine Shop, Inc.	Fabricating and machining facility	100
Larsmont Cottages	Cottages & cabins	80

Source: *ReferenceUSA, written and telephone survey (February 2018), and the Minnesota Department of Employment and Economic Development.*

¹ This does not purport to be a comprehensive list and is based on available data obtained through a survey of individual employers, as well as the sources identified above. Some employers do not respond to inquiries for employment data.

U.S. CENSUS DATA

Population Trend: Lake County

2000 U.S. Census population	11,058
2010 U.S. Census population	10,866
2016 State Demographer's Estimate	10,721
Percent of Change 2000 - 2010	-1.74%

Income and Age Statistics

	Lake County	State of Minnesota	United States
2016 per capita income	\$31,215	\$33,225	\$29,829
2016 median household income	\$52,320	\$63,217	\$55,322
2016 median family income	\$65,694	\$79,595	\$67,871
2016 median gross rent	\$690	\$873	\$928
2016 median value owner occupied units	\$164,700	\$191,500	\$184,700
2016 median age	50.4 yrs.	37.8 yrs.	37.7 yrs.

	State of Minnesota	United States
County % of 2016 per capita income	93.95%	104.65%
County % of 2016 median family income	82.54%	96.79%

Housing Statistics

	Lake County		
	2000	2016	Percent of Change
All Housing Units	6,840	7,722	12.89%

Source: 2000 and 2010 Census of Population and Housing, and 2016 American Community Survey (Based on a five-year estimate), U.S. Census Bureau (www.factfinder2.census.gov).

EMPLOYMENT/UNEMPLOYMENT DATA

Year	<u>Average Employment</u>		<u>Average Unemployment</u>	
	Lake County		Lake County	State of Minnesota
2014	5,439		4.6%	4.2%
2015	5,353		4.8%	3.7%
2016	5,153		10.6%	3.8%
2017	5,031		4.3%	3.5%
2018, April	5,495		3.2%	3.1%

Source: Minnesota Department of Employment and Economic Development.

APPENDIX A

FINANCIAL STATEMENTS

Potential purchasers should read the included financial statements in their entirety for more complete information concerning the County's financial position. Such financial statements have been audited by the Auditor, to the extent and for the periods indicated thereon. The County has not requested the Auditor to perform any additional examination, assessments or evaluation with respect to such financial statements since the date thereof, nor has the County requested that the Auditor consent to the use of such financial statements in this Official Statement. Although the inclusion of the financial statements in this Official Statement is not intended to demonstrate the fiscal condition of the County since the date of the financial statements, in connection with the issuance of the Bonds, the County represents that there have been no material adverse change in the financial position or results of operations of the County, nor has the County incurred any material liabilities, which would make such financial statements misleading.

Copies of the complete audited financial statements for the past three years and the current budget are available upon request from Ehlers.

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

Year Ended December 31, 2016



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



REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Lake County
Two Harbors, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Lake County, Minnesota, as of and for the year ended December 31, 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

REBECCA OTTO
STATE AUDITOR

September 13, 2017

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

**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.

(Unaudited)

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.

(Unaudited)

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)	(2,145)	2,079
Total Net Position, as reported	\$ 108,426	\$ 109,652	\$ (3,219)	\$ 572	\$ 105,207	\$ 110,224

(Unaudited)

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	\$ 2,480	\$ 2,131	\$ 2,766	\$ 934	\$ 5,246	\$ 3,065
Fees, fines, charges, and other contributions	12,932	13,420	-	-	12,932	13,420
Capital grants and contributions	363	936	-	3,274	363	4,210
Governmental activities	8,453	8,666	600	-	9,053	8,666
Property taxes	1,893	1,900	-	-	1,893	1,900
Other taxes						
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

(Unaudited)

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.

(Unaudited)

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.

(Unaudited)

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	\$ 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.

(Unaudited)

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.

(Unaudited)

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.

(Unaudited)

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET POSITION
DECEMBER 31, 2016**

	<u>Primary Government</u>			<u>Housing and Redevelopment Authority Component Unit</u>
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>	
<u>Assets</u>				
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
<u>Deferred Outflows of Resources</u>				
Deferred pension outflows	\$ 7,418,664	\$ -	\$ 7,418,664	\$ -
<u>Liabilities</u>				
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
<u>Deferred Inflows of Resources</u>				
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**

	<u>Primary Government</u>			<u>Housing and Redevelopment Authority Component Unit</u>
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>	
<u>Net Position</u>				
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

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

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Fees, Charges, Fines, and Other</u>	<u>Program Revenues Operating Grants and Contributions</u>
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

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

EXHIBIT 2

Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position			Discretely Presented Component Unit
	Primary Government		Total	
	Governmental Activities	Business-Type Activities		
\$ -	\$ (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)	
<u>\$ 362,783</u>	<u>\$ (12,929,331)</u>	<u>\$ -</u>	<u>\$ (12,929,331)</u>	
-		(4,387,979)	(4,387,979)	
<u>\$ 362,783</u>	<u>\$ (12,929,331)</u>	<u>\$ (4,387,979)</u>	<u>\$ (17,317,310)</u>	
<u>\$ -</u>				<u>\$ (71,155)</u>
	\$ 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
	<u>\$ 11,703,346</u>	<u>\$ 597,255</u>	<u>\$ 12,300,601</u>	<u>\$ 208,493</u>
	\$ (1,225,985)	\$ (3,790,724)	\$ (5,016,709)	\$ 137,338
	<u>109,652,401</u>	<u>572,098</u>	<u>110,224,499</u>	<u>1,040,229</u>
	<u>\$ 108,426,416</u>	<u>\$ (3,218,626)</u>	<u>\$ 105,207,790</u>	<u>\$ 1,177,567</u>

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

EXHIBIT 3

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2016**

	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>	<u>Nonmajor Funds</u>	<u>Total</u>
<u>Assets</u>					
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
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>					
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**

	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>	<u>Nonmajor Funds</u>	<u>Total</u>
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>					
(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

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

**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
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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
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Deferred outflows of resources resulting from pension obligations are not available resources and, therefore, are not reported in governmental funds.	7,418,664
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Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.	5,133,077
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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)
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Net Position of Governmental Activities (Exhibit 1)	<u>\$ 108,426,416</u>
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The notes to the financial statements are an integral part of this statement.

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

EXHIBIT 5

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

	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>	<u>Nonmajor Funds</u>	<u>Total</u>
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.

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

EXHIBIT 6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 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	<u>(3,619,902)</u>	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	<u>(3,131,636)</u>	(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	<u>176,464</u>	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	<u>(156,680)</u>	<u>(1,536,305)</u>

Change in Net Position of Governmental Activities (Exhibit 2) \$ (1,225,985)

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

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

EXHIBIT 7

**STATEMENT OF NET POSITION
PROPRIETARY FUND
DECEMBER 31, 2016**

	<u>Broadband</u>
<u>Assets</u>	
Current assets	
Accounts receivable	\$ 470,900
Inventories	718,198
Capital assets	
Non-depreciable capital assets	5,330,424
Depreciable - net of accumulated depreciation	<u>61,801,169</u>
Total Assets	\$ 68,320,691
<u>Liabilities</u>	
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	<u>1,675,618</u>
Total current liabilities	\$ 24,624,265
Noncurrent liabilities	
Loans payable - noncurrent	<u>46,915,052</u>
Total Liabilities	\$ 71,539,317
<u>Net Position</u>	
Net investment in capital assets	\$ 18,540,923
Unrestricted	<u>(21,759,549)</u>
Total Net Position	\$ (3,218,626)

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

**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
	\$ 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
	\$ 5,936,598
Operating Income (Loss)	\$ (3,170,833)
Nonoperating Revenues (Expenses)	
Taxes	\$ 600,000
Interest expense	(1,217,146)
	\$ (617,146)
Income (Loss) Before Transfers	\$ (3,787,979)
Transfers out	(2,745)
	\$ (3,790,724)
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	<u>(3,338,885)</u>
Net cash provided by (used in) operating activities	<u>\$ (864,370)</u>
Cash Flows from Noncapital Financing Activities	
Taxes	<u>\$ 600,000</u>
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	<u>(1,225,294)</u>
Net cash provided by (used in) capital and related financing activities	<u>\$ 264,370</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ -
Cash and Cash Equivalents at January 1	<u>-</u>
Cash and Cash Equivalents at December 31	<u>\$ -</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities	
	<u>\$ (3,170,833)</u>
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	<u>(14,006)</u>
Total adjustments	<u>\$ 2,306,463</u>
Net Cash Provided by (Used in) Operating Activities	<u>\$ (864,370)</u>

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

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

EXHIBIT 10

**STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
DECEMBER 31, 2016**

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

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

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016**

1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as of and for the year ended December 31, 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.

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Joint Ventures and Jointly-Governed Organizations

The County participates in several joint ventures described in Note 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.

LAKE COUNTY
TWO HARBORS, MINNESOTA

1. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

2. Fund Financial Statements

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

The County reports the following major governmental funds:

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

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

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

The 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.

LAKE COUNTY
TWO HARBORS, MINNESOTA

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

Additionally, the County reports the following fund types:

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

LAKE COUNTY
TWO HARBORS, MINNESOTA

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

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

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

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

1. Cash and Cash Equivalents

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

2. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Auditor/Treasurer for the purpose of increasing earnings through investment activities. Investments are reported at their fair value at December 31, 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.

LAKE COUNTY
TWO HARBORS, MINNESOTA

1. Summary of Significant Accounting Policies

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

3. Receivables and Payables

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

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

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

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

4. Inventories and Prepaid Items

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

Inventories 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.

LAKE COUNTY
TWO HARBORS, MINNESOTA

1. Summary of Significant Accounting Policies

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

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

LAKE COUNTY
TWO HARBORS, MINNESOTA

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

LAKE COUNTY
TWO HARBORS, MINNESOTA

1. Summary of Significant Accounting Policies

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

8. Compensated Absences (Continued)

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

LAKE COUNTY
TWO HARBORS, MINNESOTA

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.

LAKE COUNTY
TWO HARBORS, MINNESOTA

1. Summary of Significant Accounting Policies

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

11. Classification of 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.

LAKE COUNTY
TWO HARBORS, MINNESOTA

1. Summary of Significant Accounting Policies

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

12. Classification of Fund Balances (Continued)

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.

LAKE COUNTY
TWO HARBORS, MINNESOTA

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.

LAKE COUNTY
TWO HARBORS, MINNESOTA

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;

LAKE COUNTY
TWO HARBORS, MINNESOTA

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.

LAKE COUNTY
TWO HARBORS, MINNESOTA

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:

Investment Type	Credit Rating	Credit Risk Agency	Concentration Risk Over 5% of Portfolio	Interest Rate Risk 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 Bank of America National Association	N/A	N/A		10/21/2019	\$ 200,550
Worlds Foremost Bank	N/A	N/A		02/20/2018	244,740
Total negotiable certificates of deposit	N/A	N/A	7.36%	04/15/2020	100,000
					\$ 545,290

LAKE COUNTY
TWO HARBORS, MINNESOTA

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Investment Type	Credit Rating	Rating Agency	Concentration Over 5% of Portfolio	Interest Rate Maturity Date	Comming (Fair) Value
Investment pools/mutual funds					
MAGIC Fund	N/R	N/A	76.67%	N/A	\$ 5,812,526
Total investments					
Deposits - primary government					\$ 6,911,542
Deposits - component unit					3,497,242
Petty cash and change funds					818,325
Escrow cash					3,250
					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.

LAKE COUNTY
TWO HARBORS, MINNESOTA

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.

	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.

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

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	<u>\$ 8,962,417</u>	<u>\$ 307,775</u>
Business-Type Activities		
Accounts	\$ 470,900	-

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

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

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

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	10,982,536	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)	\$ 2,271,353	\$ 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

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

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	\$ (1,770,938)	\$ -	\$ 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	\$	218,999
General government	\$	442,064
Public safety	\$	2,160,590
Highways and streets, including depreciation of infrastructure assets	\$	92,588
Human services	\$	8,878
Sanitation	\$	175,886
Culture and recreation	\$	32,631
Conservation of natural resources	\$	-
Total Depreciation Expense - Governmental Activities	\$	3,131,636
Business-Type Activities	\$	-
Broadband	\$	2,438,684

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

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 Human Services	\$ 14,323,947 13,377	Deficit cash balance Reimbursement for services
Road and Bridge	General	\$ 14,337,324 13,408	Correct grant receipt
Human Services	Broadband Enterprise General	\$ 3,360,624 2,384	Deficit cash balance Reimbursement for services
Nonmajor governmental funds	Nonmajor governmental funds	\$ 3,363,008 242,864	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	

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

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 2011A	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 - Chieflain	2020	\$14,302 - \$21,823	3.70	178,065	94,781
Total Other Long-Term Debt				\$ 2,378,065	\$ 828,112

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

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		Other Long-Term Debt	
	Principal	Interest	Principal	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	Interest
2017	\$ 1,675,618	\$ 1,384,899
2018	3,423,344	1,302,165
2019	3,523,398	1,202,768
2020	3,623,721	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

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

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	1,004,376	-	176,464	828,112	172,508
Compensated absences	1,444,934	644,704	623,653	1,464,085	-
Governmental Activities Long-Term Liabilities	\$ 4,579,310	\$ 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.

LAKE COUNTY
TWO HARBORS, MINNESOTA

4. Pension Plans

A. Defined Benefit Pension Plans

1. Plan Description (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.

LAKE COUNTY
TWO HARBORS, MINNESOTA

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.

LAKE COUNTY
TWO HARBORS, MINNESOTA

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

LAKE COUNTY
TWO HARBORS, MINNESOTA

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

LAKE COUNTY
TWO HARBORS, MINNESOTA

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	<u>93,162</u>
Total	<u>\$ 7,222,086</u>

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 Contributions paid to PERA subsequent to the measurement date	<u>208,213</u>	<u>402,489</u>
Total	<u>\$ 2,977,033</u>	<u>\$ 991,014</u>

LAKE COUNTY
TWO HARBORS, MINNESOTA

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.

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

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	\$ 2,738,695	\$ 582,672
Changes in actuarial assumptions	771,302	-
Difference between projected and actual investment earnings	14,401	75,749
Changes in proportion	96,154	-
Contributions paid to PERA subsequent to the measurement date	-	-
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

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

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

The following table provides information regarding the differences between expected and actual economic experience, changes in actuarial assumptions, and differences between projected and actual investment earnings:

Contributions paid to PERA subsequent to the measurement date

LAKE COUNTY
TWO HARBORS, MINNESOTA

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 disabled 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:

LAKE COUNTY
TWO HARBORS, MINNESOTA

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

LAKE COUNTY
TWO HARBORS, MINNESOTA

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.

LAKE COUNTY
TWO HARBORS, MINNESOTA

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 Sensitivity

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:

	General Employees Retirement Plan		Proportionate Share of the Public Employees Police and Fire Plan		Public Employees Correctional Plan	
	Discount Rate	Net Pension Liability	Discount Rate	Net Pension Liability	Discount Rate	Net Pension Liability
1% Decrease	6.50%	\$ 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.

LAKE COUNTY
TWO HARBORS, MINNESOTA

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

LAKE COUNTY
TWO HARBORS, MINNESOTA

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	<u>(24,680)</u>
Annual OPEB cost	\$ 76,644
Contributions during the year	<u>(51,843)</u>
Increase in net OPEB obligation	\$ 24,801
Net OPEB - Beginning of Year	<u>395,578</u>
Net OPEB - End of Year	<u>\$ 420,379</u>

LAKE COUNTY
TWO HARBORS, MINNESOTA

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	<u>(51,843)</u>	<u>(38,479)</u>	<u>(32,161)</u>
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.

LAKE COUNTY
TWO HARBORS, MINNESOTA

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.

LAKE COUNTY
TWO HARBORS, MINNESOTA

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.

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

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.

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

A. Risk Management (Continued)

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

B. Continging 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.

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

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.

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

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

LAKE COUNTY
TWO HARBORS, MINNESOTA

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

LAKE COUNTY
TWO HARBORS, MINNESOTA

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.

LAKE COUNTY
TWO HARBORS, MINNESOTA

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.

LAKE COUNTY
TWO HARBORS, MINNESOTA

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.

LAKE COUNTY
TWO HARBORS, MINNESOTA

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.

LAKE COUNTY
TWO HARBORS, MINNESOTA

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.

LAKE COUNTY
TWO HARBORS, MINNESOTA

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.

LAKE COUNTY
TWO HARBORS, MINNESOTA

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.

LAKE COUNTY
TWO HARBORS, MINNESOTA

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	\$ -	\$ -	\$ -	\$ -

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

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:

Year Ending December 31	Business-Type Activities	
	Principal	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

**LAKE COUNTY
TWO HARBORS, MINNESOTA**

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	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2016
2012 General Obligation Senior Housing Bonds	2028	1.0 - 3.5	\$ 860,000	\$ 625,000

LAKE COUNTY
TWO HARBORS, MINNESOTA

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.

LAKE COUNTY
TWO HARBORS, MINNESOTA

EXHIBIT A-1

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 6,605,651	\$ 6,605,651	\$ 5,493,638	\$ (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	3,528	2,028
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
Attorney	262,774	262,774	216,263	44,511
Personnel	400,130	406,130	376,068	29,062
Printer	270,787	274,787	224,454	50,333
Planning and zoning	470,764	470,764	219,119	251,645
Buildings and plants	745,574	745,574	632,230	113,344
Veterans service officer	80,780	80,780	94,066	(13,286)
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	313,536	884
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 Amounts	Variance with Final Budget
	Original	Final		
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	13,000	13,000	150,949	(2,756)
Recreation board	153,685	153,685	275,707	(23,707)
Trails	-	-	122,300	-
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 Amounts	Variance with Final Budget
	Original	Final		
Excess of Revenues Over (Under) Expenditures	\$ 925,778	\$ 912,615	\$ 969,635	\$ 57,020
Other Financing Sources (Uses)			(28,680)	(82,680)
Transfers out	54,000	54,000		
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.

LAKE COUNTY
TWO HARBORS, MINNESOTA

EXHIBIT A-2

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
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	\$ 1,790,645	\$ (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 Amounts	Variance with Final Budget
	Original	Final		
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	285,155	197,381	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.

LAKE COUNTY
TWO HARBORS, MINNESOTA

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 (U.A.A.L.) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	U.A.A.L. 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 Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset)	State's Proportionate Share of the Net Pension Liability with Lake County (b)	Employer's Proportionate Share of the Net Pension Liability and the State's Related Net Pension Liability (Asset) (a + b)	Employer's Share of the Net Pension Liability 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	68.91%
2015	0.0932	4,830,108	N/A	4,830,108	5,478,295	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

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

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 Excess (Deficiency) (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.

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

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)	Covered Payroll	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	0.1520	1,499,829	1,205,980	124.37	86.01

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 Excess (Deficiency) (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.

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

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)	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 Excess (Deficiency) (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.

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

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

LAKE COUNTY
TWO HARBORS, MINNESOTA

2. Excess of Expenditures Over Appropriations (Continued)

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

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:

LAKE COUNTY
TWO HARBORS, MINNESOTA

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.

LAKE COUNTY
TWO HARBORS, MINNESOTA

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.

LAKE COUNTY
TWO HARBORS, MINNESOTA

EXHIBIT B-1

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2016

	Special Revenue		Forfeited Tax	Debt Service	Total
	Resource Development	Unorganized Townships			
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	-	1,766	946,111	8,667	10,433
Delinquent	-	-	-	-	946,111
Accounts receivable	242,864	-	-	-	242,864
Due from other funds	72,085	-	-	-	72,085
Due from other governments	-	-	-	-	-
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	-	(140,486)	-	1,161,368
Unassigned	-	-	-	-	(140,486)
Total Fund Balances	\$ 1,161,368	\$ 196,677	\$ (136,291)	\$ 689,795	\$ 1,911,549
Total Liabilities, Deferred Inflows of 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

	Resource Development	Special Revenue		Forfeited Tax	Debt Service	Total
		Unorganized Townships	Tax			
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 Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Intergovernmental	\$ 96,000	\$ 96,000	\$ 158,679	\$ 62,679
Expenditures				
Current	\$ 10,000	\$ 10,000	\$ 74,010	\$ (64,010)
Culture and recreation				
Trails				
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 Amounts	Variance with Final Budget
	Original	Final		
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			\$ 5,596	\$ (5,596)
Elections				
Public safety	116,250	116,250	125,813	(9,563)
Emergency services				
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 Amounts	Variance with Final Budget
	Original	Final		
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	572,951	572,951	679,143	(106,192)
Capital outlay	28,900	28,900	50,833	(21,933)
Conservation of natural resources	601,851	601,851	729,976	(128,125)
Total Expenditures	23,900	23,900	201,827	177,927
Excess of Revenues Over (Under) Expenditures				
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 Amounts	Variance with Final Budget
	Original	Final		
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)

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
<u>CITIES, TOWNS, AND OTHER GOVERNMENTS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 8,619	\$ 13,470,733	\$ 13,452,107	\$ 27,245
<u>Liabilities</u>				
Due to other governments	\$ 8,619	\$ 13,470,733	\$ 13,452,107	\$ 27,245
<u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 797,251	\$ 20,784,398	\$ 21,045,100	\$ 536,549
<u>Liabilities</u>				
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
<u>STATE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 36,218	\$ 281,772	\$ 276,433	\$ 41,557
<u>Liabilities</u>				
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
<u>SEWER SYSTEM DEPOSITS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 87,310	\$ 19,800	\$ 47,635	\$ 59,475
<u>Liabilities</u>				
Customer deposits - current	\$ 87,310	\$ 19,800	\$ 47,635	\$ 59,475
<u>NORTH SHORE COLLABORATIVE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 152,245	\$ 73,928	\$ 56,643	\$ 169,530
<u>Liabilities</u>				
Accounts payable	\$ 152,245	\$ 73,928	\$ 56,643	\$ 169,530
<u>ARROWHEAD HEALTH ALLIANCE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 251,021	\$ 262,331	\$ 246,665	\$ 266,687
<u>Liabilities</u>				
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	\$ 1,332,664	\$ 34,892,962	\$ 35,124,583	\$ 1,101,043
Assets				
Cash and pooled investments	\$ 403,266	\$ 336,259	\$ 303,308	\$ 436,217
	6,539	10,253	6,539	10,253
	835,549	34,526,650	34,767,101	595,098
	87,310	19,800	47,635	59,475
Total Assets	\$ 1,332,664	\$ 34,892,962	\$ 35,124,583	\$ 1,101,043
Liabilities				
Accounts payable				
Taxes collected in advance				
Due to other governments				
Customer deposits - current				
Total Liabilities				

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

LAKE COUNTY
TWO HARBORS, MINNESOTA

EXHIBIT D-2

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

Federal Granting 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	11-LE-11090903-022		\$ 13,500	\$ -
U.S. Forest Service Cooperative Agreement - Aquatic Passages	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	NA15N084190126	6,428	-
Coastal Zone Management Administration Awards	11-419	NA15N084190055	8,656	-
(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	11,420	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	ACVSRP-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.

LAKE COUNTY
TWO HARBORS, MINNESOTA

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			\$ 1,933	\$ -
Passed Through Carlton, Cook, Lake, and St. Louis Community Health Board	84,181	H18A150029		
Special Education - Grants for Infants and Families				
U.S. Department of Health and Human Services			\$ 17,032	\$ -
Passed Through Carlton, Cook, Lake, and St. Louis Community Health Board	93,069	D90TP000529		
Public Health Emergency Preparedness	93,268	H23TP000737	400	
Immunization Cooperative Agreement	93,558	2015G996115	5,169	
Temporary Assistance for Needy Families				
(Total Temporary Assistance for Needy Families 93,558 \$55,915)				
Special Health Assistance to Prevent and Control Diabetes, Heart Diseases, Obesity, and Associated Risk Factors and Promote School Health Financed in Part by Prevention and Public Health Funding (PPHF)	93,757	1158DP005452	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-1601MNFBS	2,794	
Temporary Assistance for Needy Families	93,558	1601MNTAF	24,368	
Temporary Assistance for Needy Families	93,558	1601MFTAF	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	1604MNCSEST	207,830	
(Total Child Support Enforcement 93,563 \$251,054)				
Scholarship and Entrant Assistance - State-Administered Program	93,566	1601MNCMA	92	
Child Care and Development Block Grant	93,575	G1601MNCDF	2,343	
Community-Based Child Abuse Prevention Grants	93,590	G-1502MNCFRG	4,928	
Stephanie Tubbs Jones Child Welfare Services Program Foster Care - Title IV-E	93,645	G-1601MNCWSS	1,670	
Social Services Block Grant	93,658	1601MNFOST	74,867	
Chafee Foster Care Independence Program	93,667	16-01MNSOSR	80,817	
Medical Assistance Program	93,674	G-1601MNCILP	1,157	
Medical Assistance Program	93,778	05-1605MNSADM	431,709	
(Total Medical Assistance Program 93,778 \$436,087)				
Total U.S. Department of Health and Human Services			\$ 941,487	\$ -

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

LAKE COUNTY
TWO HARBORS, MINNESOTA

EXHIBIT D-2
(Continued)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 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			\$ 3,875	\$ -
Passed Through Minnesota Department of Natural Resources Boating Safety Financial Assistance	97,012	R2964GGSFY15		
Passed Through Minnesota Department of Public Safety Hazard Mitigation Grant	97,039	FEMA1982-DR-MN	61,563	
Hazard Mitigation Grant	97,039	A-HMGP-DR4113-	119,391	
		LAKECO-0011		
Hazard Mitigation Grant	97,039	A-HMGP-DR4131-	27,638	
		LAKECO-0018		
(Total Hazard Mitigation Grants 97,039 \$208,592)				
Emergency Management Performance Grants	97,042	A-EMPG-2016-	17,019	
		LAKECO-046		
Homeland Security Grant Program	97,067	A-OSPG-2015-	36,253	
		LAKESG-004		
Total U.S. Department of Homeland Security			\$ 265,739	\$ -
Total Federal Awards			\$ 4,409,927	\$ 11,320

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

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.

LAKE COUNTY
TWO HARBORS, MINNESOTA

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	23,031
Highway Planning and Construction	35,167
Hazard Mitigation Grant	
Deferred in 2015, recognized as revenue in 2016	(1,266)
Cooperative Forestry Assistance	(39,896)
Highway Planning and Construction	(73,579)
Hazard Mitigation Grant	
Program Income	
Community Development Block Grants/State's Program	(19,800)
Expenditures Per Schedule of Expenditures of Federal Awards	\$ 4,409,927



REBECCA OTTO
STATE AUDITOR

**STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR**

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

Independent Auditor's Report

Board of 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.



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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

REBECCA OTTO
STATE AUDITOR

September 13, 2017

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

**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

REBECCA OTTO
STATE AUDITOR

September 13, 2017

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

**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

**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. Occasional 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

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 relations 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

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 relations 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 relations 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

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

FORM OF LEGAL OPINION

(See following page)



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&



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CHARTERED

§ _____
Lake County, Minnesota
General Obligation Capital Improvement Plan Bonds
Series 2018B

We have acted as bond counsel to Lake County, Minnesota (the “Issuer,” or “County”) in connection with the issuance by the Issuer of its General Obligation Capital Improvement Plan Bonds, Series 2018B (the “Bonds”), originally dated July __, 2018, and issued in the original aggregate principal amount of \$ _____. In such capacity and for the purpose of rendering this opinion we have examined certified copies of certain proceedings, certifications and other documents, and applicable laws as we have deemed necessary. Regarding questions of fact material to this opinion, we have relied on certified proceedings and other certifications of public officials and other documents furnished to us without undertaking to verify the same by independent investigation. Under existing laws, regulations, rulings and decisions in effect on the date hereof, and based on the foregoing we are of the opinion that:

1. The Bonds have been duly authorized and executed, and are valid and binding general obligations of the Issuer, enforceable in accordance with their terms.

2. The principal of and interest on the Bonds are payable primarily from ad valorem taxes levied by the Issuer, but if necessary for the payment thereof additional ad valorem taxes are required by law to be levied on all taxable property in the County, which taxes are not subject to any limitation as to rate or amount.

3. Interest on the Bonds is excludable from gross income of the recipient for federal income tax purposes and, to the same extent, is excludable from taxable net income of individuals, trusts, and estates for Minnesota income tax purposes, and is not a preference item for purposes of the computation of the federal alternative minimum tax (although interest on the Bonds is included in adjusted current earnings in calculating corporate alternative minimum taxable income for taxable years that began prior to January 1, 2018), or the computation of the Minnesota alternative minimum tax imposed on individuals, trusts and estates. However, such interest is subject to Minnesota franchise taxes on corporations (including financial institutions) measured by income. The opinion set forth in this paragraph is subject to the condition that the Issuer comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excludable from gross income for federal income tax purposes and from taxable net income for Minnesota income tax purposes. The Issuer has covenanted to comply with all such requirements. Failure to comply with certain of such requirements may cause interest on the Bonds to be included in gross income for federal income tax purposes and taxable net income for Minnesota income tax purposes retroactively to the date of issuance of the Bonds. We express no opinion regarding tax consequences arising with respect to the Bonds other than as expressly set forth herein.

4. The rights of the owners of the Bonds and the enforceability of the Bonds may be limited by bankruptcy, insolvency, reorganization, moratorium, and other similar laws affecting creditor's rights generally and by equitable principles, whether considered at law or in equity.

We have not been asked and have not undertaken to review the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Bonds, and accordingly we express no opinion with respect thereto.

This opinion is given as of the date hereof and we assume no obligation to update, revise, or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Dated July __, 2018 at Minneapolis, Minnesota.

BOOK-ENTRY-ONLY SYSTEM

1. The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the securities (the "Securities"). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for [each issue of] the Securities, [each] in the aggregate principal amount of such issue, and will be deposited with DTC. [If, however, the aggregate principal amount of [any] issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.]
2. DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.
3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.
4. To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. [Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.]
6. Redemption notices shall be sent to DTC. If less than all of the Securities within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.
7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to County as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).
8. Redemption proceeds, distributions, and dividend payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the County or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Agent, or the County, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the County or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.
9. A Beneficial Owner shall give notice to elect to have its Securities purchased or tendered, through its Participant, to [Tender/Remarketing] Agent, and shall effect delivery of such Securities by causing the Direct Participant to transfer the Participant's interest in the Securities, on DTC's records, to [Tender/Remarketing] Agent. The requirement for physical delivery of Securities in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Securities are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Securities to [Tender/Remarketing] Agent's DTC account.
10. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to the County or Agent. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.
11. The County may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.
12. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the County believes to be reliable, but the County takes no responsibility for the accuracy thereof.

APPENDIX D

FORM OF CONTINUING DISCLOSURE CERTIFICATE

(See following page)

§ _____
Lake County, Minnesota
General Obligation Capital Improvement Plan Bonds
Series 2018B

CONTINUING DISCLOSURE CERTIFICATE

July __, 2018

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by Lake County, Minnesota (the “Issuer”), in connection with the issuance of its General Obligation Capital Improvement Plan Bonds, Series 2018B (the “Bonds”), in the original aggregate principal amount of \$ _____. The Bonds are being issued pursuant to resolutions adopted by the Board of Commissioners of the Issuer (the “Resolutions”). The Bonds are being delivered to _____, _____, _____ (the “Purchaser”) on the date hereof. Pursuant to the Resolutions, the Issuer has covenanted and agreed to provide continuing disclosure of certain financial information and operating data and timely notices of the occurrence of certain events. The Issuer hereby covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Issuer for the benefit of the Holders (as defined herein) of the Bonds in order to provide for the public availability of such information and assist the Participating Underwriter(s) (as defined herein) in complying with the Rule (as defined herein). This Disclosure Certificate, together with the Resolutions, constitutes the written agreement or contract for the benefit of the Holders of the Bonds that is required by the Rule.

Section 2. Definitions. In addition to the defined terms set forth in the Resolutions, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“Annual Report” means any annual report provided by the Issuer pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

“Audited Financial Statements” means annual financial statements of the Issuer, prepared in accordance with GAAP as prescribed by GASB.

“Bonds” means the General Obligation Capital Improvement Plan Bonds, Series 2018B, issued by the Issuer in the original aggregate principal amount of \$ _____.

“Disclosure Certificate” means this Continuing Disclosure Certificate.

“EMMA” means the Electronic Municipal Market Access system operated by the MSRB and designated as a nationally recognized municipal securities information repository and the exclusive portal for complying with the continuing disclosure requirements of the Rule.

“Final Official Statement” means the Preliminary Official Statement, dated _____, 2018, and as supplemented by the deemed final Official Statement, dated _____, 2018, which constitutes the final official statement delivered in connection with the Bonds, which is available from the MSRB.

“Fiscal Year” means the fiscal year of the Issuer.

“GAAP” means generally accepted accounting principles for governmental units as prescribed by GASB.

“GASB” means the Governmental Accounting Standards Board.

“Holder” means the person in whose name a Bond is registered or a beneficial owner of such a Bond.

“Issuer” means Lake County, Minnesota, which is the obligated person with respect to the Bonds.

“Material Event” means any of the events listed in Section 5(a) of this Disclosure Certificate.

“MSRB” means the Municipal Securities Rulemaking Board located at 1300 I Street NW, Suite 1000, Washington, DC 20005.

“Participating Underwriter” means any of the original underwriter(s) of the Bonds (including the Purchaser) required to comply with the Rule in connection with the offering of the Bonds.

“Purchaser” means _____, _____, _____.

“Repository” means EMMA, or any successor thereto designated by the SEC.

“Rule” means SEC Rule 15c2-12(b)(5) promulgated by the SEC under the Securities Exchange Act of 1934, as the same may be amended from time to time, and including written interpretations thereof by the SEC.

“SEC” means Securities and Exchange Commission, and any successor thereto.

Section 3. Provision of Annual Financial Information and Audited Financial Statements.

(a) The Issuer shall provide to the Repository not later than twelve (12) months after the end of the Fiscal Year commencing with the year that ends December 31, 2017, an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that the Audited Financial Statements of the Issuer may be submitted separately from the balance of the Annual Report.

(b) If the Issuer is unable or fails to provide to the Repository an Annual Report by the date required in subsection (a), the Issuer shall send a notice of that fact to the Repository and the MSRB.

(c) The Issuer shall determine each year prior to the date for providing the Annual Report the name and address of each Repository.

Section 4. Content of Annual Reports. The Issuer’s Annual Report shall contain or incorporate by reference the following sections of the Final Official Statement:

1. Current Property Valuations
2. Direct Debt
3. Tax Levies and Collections
4. U.S. Census Data/Population Trend
5. Employment/Unemployment Data

In addition to the items listed above, the Annual Report shall include Audited Financial Statements submitted in accordance with Section 3 of this Disclosure Certificate.

Any or all of the items listed above may be incorporated by reference from other documents, including official statements of debt issues of the Issuer or related public entities, which have been submitted to the Repository or the SEC. If the document incorporated by reference is a final official statement, it must also be available from the MSRB. The Issuer shall clearly identify each such other document so incorporated by reference.

Section 5. Reporting of Material Events.

(a) This Section 5 shall govern the giving of notice of the occurrence of any of the following events (“Material Events”) with respect to the Bonds:

1. Principal and interest payment delinquencies;
2. Non-payment related defaults, if material;
3. Unscheduled draws on debt service reserves reflecting financial difficulties;
4. Unscheduled draws on credit enhancements reflecting financial difficulties;
5. Substitution of credit or liquidity providers, or their failure to perform;
6. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security;
7. Modifications to rights of security holders, if material;
8. Bond calls, if material, and tender offers;
9. Defeasances;
10. Release, substitution, or sale of property securing repayment of the securities, if material;
11. Rating changes;
12. Bankruptcy, insolvency, receivership or similar event of the obligated person;
13. The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
14. Appointment of a successor or additional trustee or the change of name of a trustee, if material.

(b) The Issuer shall file a notice of such occurrence with the Repository or with the MSRB within ten (10) business days of the occurrence of the Material Event.

(c) Unless otherwise required by law and subject to technical and economic feasibility, the Issuer shall employ such methods of information transmission as shall be requested or recommended by the designated recipients of the Issuer's information.

Section 6. EMMA. The SEC has designated EMMA as a nationally recognized municipal securities information repository and the exclusive portal for complying with the continuing disclosure requirements of the Rule. Until the EMMA system is amended or altered by the MSRB and the SEC, the Issuer shall make all filings required under this Disclosure Certificate solely with EMMA.

Section 7. Termination of Reporting Obligation. The Issuer's obligations under the Resolutions and this Disclosure Certificate shall terminate upon the redemption in full of all Bonds or the payment in full of all the Bonds.

Section 8. Agent. The Issuer may, from time to time, appoint or engage a dissemination agent to assist it in carrying out its obligations under the Resolutions and this Disclosure Certificate, and may discharge any such agent, with or without appointing a successor dissemination agent.

Section 9. Amendment; Waiver. Notwithstanding any other provision of the Resolutions or this Disclosure Certificate, the Issuer may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, if such amendment or waiver is supported by an opinion of nationally recognized bond counsel to the effect that such amendment or waiver would not, in and of itself, cause a violation of the Rule. The provisions of the Resolutions requiring continuing disclosure pursuant to the Rule and this Disclosure Certificate, or any provision hereof, shall be null and void in the event that the Issuer delivers to the Repository an opinion of nationally recognized bond counsel to the effect that those portions of the Rule which impose the continuing disclosure requirements of the Resolutions and the execution and delivery of this Disclosure Certificate are invalid, have been repealed retroactively or otherwise do not apply to the Bonds. The provisions of the Resolutions requiring continuing disclosure pursuant to the Rule and this Disclosure Certificate may be amended without the consent of the Holders of the Bonds, but only upon the delivery by the Issuer to the Repository of the proposed amendment and an opinion of nationally recognized bond counsel to the effect that such amendment, and giving effect thereto, will not adversely affect the compliance with the Rule.

Section 10. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Material Event, in addition to that which is required by this Disclosure Certificate. If the Issuer chooses to include any information in any Annual Report or notice of occurrence of a Material Event in addition to that which is specifically required by this Disclosure Certificate, the Issuer shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Material Event.

Section 11. Default. In the event of a failure of the Issuer to comply with any provision of this Disclosure Certificate any Holder of the Bonds may take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the Issuer to comply with its obligations under the Resolutions and this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an event of default with respect to the Bonds and the sole remedy under this Disclosure Certificate in the event of any failure of the Issuer to comply with this Disclosure Certificate shall be an action to compel performance.

Section 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Issuer, the Participating Underwriters, and the Holders from time to time of the Bonds, and shall create no rights in any other person or entity.

(The remainder of this page is intentionally left blank.)

IN WITNESS WHEREOF, we have executed this Disclosure Certificate in our official capacities effective as of the date and year first written above.

LAKE COUNTY, MINNESOTA

By _____
Chair

By _____
County Administrator

APPENDIX E

TERMS OF PROPOSAL

\$2,765,000* GENERAL OBLIGATION CAPITAL IMPROVEMENT BONDS, SERIES 2018B LAKE COUNTY, MINNESOTA

Proposals for the purchase of \$2,765,000* General Obligation Capital Improvement Plan Bonds, Series 2018B (the "Bonds") of Lake County, Minnesota (the "County") will be received at the offices of Ehlers & Associates, Inc. ("Ehlers"), 3060 Centre Pointe Drive, Roseville, Minnesota 55113-1105, Municipal Advisors to the County, until 10:00 A.M., Central Time, and **ELECTRONIC PROPOSALS** will be received via **PARITY**, in the manner described below, until 10:00 A.M. Central Time, on June 26, 2018, at which time they will be opened, read and tabulated. The proposals will be presented to the Board of Commissioners for consideration for award by resolution at a meeting to be held at 2:00 P.M., Central Time, on the same date. The proposal offering to purchase the Bonds upon the terms specified herein and most favorable to the County will be accepted unless all proposals are rejected.

PURPOSE

The Bonds are being issued by the County, pursuant to Minnesota Statutes, Section 373.40, as amended, and Chapter 475, as amended, for the purpose of financing the construction of a new highway maintenance facility. The Bonds will be general obligations of the County for which the County will pledge its full faith, credit and taxing powers.

DATES AND MATURITIES

The Bonds will be dated July 18, 2018, will be issued as fully registered Bonds in the denomination of \$5,000 each, or any integral multiple thereof, and will mature on December 1 as follows:

<u>Year</u>	<u>Amount*</u>	<u>Year</u>	<u>Amount*</u>	<u>Year</u>	<u>Amount*</u>
2019	\$125,000	2024	\$175,000	2029	\$200,000
2020	155,000	2025	180,000	2030	205,000
2021	160,000	2026	180,000	2031	215,000
2022	165,000	2027	190,000	2032	220,000
2023	170,000	2028	195,000	2033	230,000

ADJUSTMENT OPTION

* The County reserves the right to increase or decrease the principal amount of the Bonds on the day of sale, in increments of \$5,000 each. Increases or decreases may be made in any maturity. If any principal amounts are adjusted, the purchase price proposed will be adjusted to maintain the same gross spread per \$1,000.

TERM BOND OPTION

Proposals for the Bonds may contain a maturity schedule providing for any combination of serial bonds and term bonds, subject to mandatory redemption, so long as the amount of principal maturing or subject to mandatory redemption in each year conforms to the maturity schedule set forth above. All dates are inclusive.

INTEREST PAYMENT DATES AND RATES

Interest will be payable on December 1 and June 1 of each year, commencing June 1, 2019, to the registered owners of the Bonds appearing of record in the bond register as of the close of business on the 15th day (whether or not a business day) of the immediately preceding month. Interest will be computed upon the basis of a 360-day year of twelve 30-day months and will be rounded pursuant to rules of the Municipal Securities Rulemaking Board. **The rate for any maturity may not be more than 1.00% less than the rate for any preceding maturity. (For example, if a rate of 4.50% is proposed for the 2020 maturity, then the lowest rate that may be proposed for any later maturity is 3.50%.)** All Bonds of the same maturity must bear interest from date of issue until paid at a single, uniform rate. Each rate must be expressed in an integral multiple of 5/100 or 1/8 of 1%.

BOOK-ENTRY-ONLY FORMAT

Unless otherwise specified by the purchaser, the Bonds will be designated in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds, and will be responsible for maintaining a book-entry system for recording the interests of its participants and the transfers of interests between its participants. The participants will be responsible for maintaining records regarding the beneficial interests of the individual purchasers of the Bonds. So long as Cede & Co. is the registered owner of the Bonds, all payments of principal and interest will be made to the depository which, in turn, will be obligated to remit such payments to its participants for subsequent disbursement to the beneficial owners of the Bonds.

PAYING AGENT

The County has selected Bond Trust Services Corporation, Roseville, Minnesota, to act as paying agent (the "Paying Agent"). Bond Trust Services Corporation and Ehlers are affiliate companies. The County will pay the charges for Paying Agent services. The County reserves the right to remove the Paying Agent and to appoint a successor.

OPTIONAL REDEMPTION

At the option of the County, the Bonds maturing on or after December 1, 2028 shall be subject to optional redemption prior to maturity on December 1, 2027 and on any date thereafter, at a price of par plus accrued interest.

Redemption may be in whole or in part of the Bonds subject to prepayment. If redemption is in part, the selection of the amounts and maturities of the Bonds to be redeemed shall be at the discretion of the County. If only part of the Bonds having a common maturity date are called for redemption, then the County or Paying Agent, if any, will notify DTC of the particular amount of such maturity to be redeemed. DTC will determine by lot the amount of each participant's interest in such maturity to be redeemed and each participant will then select by lot the beneficial ownership interest in such maturity to be redeemed.

Notice of redemption shall be sent by mail not more than 60 days and not less than 30 days prior to the date fixed for redemption to the registered owner of each Bond to be redeemed at the address shown on the registration books.

DELIVERY

On or about July 18, 2018, the Bonds will be delivered without cost to the winning bidder at DTC. On the day of closing, the County will furnish to the winning bidder the opinion of bond counsel hereinafter described, an arbitrage certification, and certificates verifying that no litigation in any manner questioning the validity of the Bonds is then pending or, to the best knowledge of officers of the County, threatened. Payment for the Bonds must be received by the County at its designated depository on the date of closing in immediately available funds.

LEGAL OPINION

An opinion as to the validity of the Bonds and the exemption from taxation of the interest thereon will be furnished by Kennedy & Graven, Chartered, Minneapolis, Minnesota, Bond Counsel to the County, and will be available at the time of delivery of the Bonds. The legal opinion will state that the Bonds are valid and binding general obligations of the County; provided that the rights of the owners of the Bonds and the enforceability of the Bonds may be limited by bankruptcy, insolvency, reorganization, moratorium, and other similar laws affecting creditors' rights and by equitable principles (which may be applied in either a legal or equitable proceeding). See "FORM OF LEGAL OPINION" found in Appendix B.

SUBMISSION OF PROPOSALS

Proposals must not be for less than \$2,731,820 plus accrued interest on the principal sum of \$2,765,000 from date of original issue of the Bonds to date of delivery. Prior to the time established above for the opening of proposals, interested parties may submit a proposal as follows:

- 1) Electronically to bondsale@ehlers-inc.com; or
- 2) Facsimile submission to Ehlers, Facsimile Number (651) 697-8555; or
- 3) Electronically via **PARITY** in accordance with this Terms of Proposal until 10:00 A.M. Central Time, but no proposal will be received after the time for receiving proposals specified above. To the extent any instructions or directions set forth in **PARITY** conflict with this Terms of Proposal, the terms of this Terms of Proposal shall control. For further information about **PARITY**, potential bidders may contact Ehlers or i-Deal LLC at 1359 Broadway, 2nd Floor, New York, New York 10018, Telephone (212) 849-5021.

Proposals must be submitted to Ehlers via one of the methods described above and must be received prior to the time established above for the opening of proposals. Each proposal must be unconditional except as to legality. Neither the County nor Ehlers shall be responsible for any failure to receive a facsimile submission.

A good faith deposit ("Deposit") in the amount of \$55,300 shall be made by the winning bidder by wire transfer of funds to **KleinBank, 1550 Audubon Road, Chaska, Minnesota, ABA No. 091915654 for credit: Ehlers & Associates Good Faith Account No. 3208138**. Such Deposit shall be received by Ehlers no later than two hours after the proposal opening time. The County reserves the right to award the Bonds to a winning bidder whose wire transfer is initiated but not received by such time provided that such winning bidder's federal wire reference number has been received by such time. In the event the Deposit is not received as provided above, the County may award the Bonds to the bidder submitting the next best proposal provided such bidder agrees to such award. The Deposit will be retained by the County as liquidated damages if the proposal is accepted and the Purchaser fails to comply therewith.

The County and the winning bidder who chooses to so wire the Deposit hereby agree irrevocably that Ehlers shall be the escrow holder of the Deposit wired to such account subject only to these conditions and duties: 1) All income earned thereon shall be retained by the escrow holder as payment for its expenses; 2) If the proposal is not accepted, Ehlers shall, at its expense, promptly return the Deposit amount to the winning bidder; 3) If the proposal is accepted, the Deposit shall be returned to the winning bidder at the closing; 4) Ehlers shall bear all costs of maintaining the escrow account and returning the funds to the winning bidder; 5) Ehlers shall not be an insurer of the Deposit amount and shall have no liability hereunder except if it willfully fails to perform or recklessly disregards, its duties specified herein; and 6) FDIC insurance on deposits within the escrow account shall be limited to \$250,000 per bidder.

No proposal can be withdrawn after the time set for receiving proposals unless the meeting of the County scheduled for award of the Bonds is adjourned, recessed, or continued to another date without award of the Bonds having been made.

AWARD

The Bonds will be awarded to the bidder offering the lowest interest rate to be determined on a True Interest Cost (TIC) basis. The County's computation of the interest rate of each proposal, in accordance with customary practice, will be controlling. In the event of a tie, the sale of the Bonds will be awarded by lot. The County reserves the right to reject any and all proposals and to waive any informality in any proposal.

BOND INSURANCE

If the Bonds are qualified for any bond insurance policy, the purchase of such policy shall be at the sole option and expense of the winning bidder. Any cost for such insurance policy is to be paid by the winning bidder, except that, if the County requested and received a rating on the Bonds from a rating agency, the County will pay that rating fee. Any rating agency fees not requested by the County are the responsibility of the winning bidder.

Failure of the municipal bond insurer to issue the policy after the Bonds are awarded to the winning bidder shall not constitute cause for failure or refusal by the winning bidder to accept delivery of the Bonds.

CUSIP NUMBERS

The County will assume no obligation for the assignment or printing of CUSIP numbers on the Bonds or for the correctness of any numbers printed thereon, but will permit such numbers to be printed at the expense of the winning bidder, if the winning bidder waives any delay in delivery occasioned thereby.

QUALIFIED TAX-EXEMPT OBLIGATIONS

The County will designate the Bonds as qualified tax-exempt obligations for purposes of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended.

CONTINUING DISCLOSURE

In order to assist the Underwriters in complying with the provisions of Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934 the County will enter into an undertaking for the benefit of the holders of the Bonds. A description of the details and terms of the undertaking is set forth in Appendix D of the Preliminary Official Statement.

NEW ISSUE PRICING

The winning bidder will be required to provide, in a timely manner, certain information necessary to compute the yield on the Bonds pursuant to the provisions of the Internal Revenue Code of 1986, as amended, and to provide a certificate which will be provided by Bond Counsel upon request.

(a) The winning bidder shall assist the County in establishing the issue price of the Bonds and shall execute and deliver to the County at closing an "issue price" or similar certificate satisfactory to Bond Counsel setting forth the reasonably expected initial offering price to the public or the sales price or prices of the Bonds, together with the supporting pricing wires or equivalent communications. All actions to be taken by the County under this Terms of Proposal to establish the issue price of the Bonds may be taken on behalf of the County by the County's municipal advisor identified herein and any notice or report to be provided to the County may be provided to the County's municipal advisor.

(b) The County intends that the provisions of Treasury Regulation Section 1.148-1(f)(3)(i) (defining "competitive sale" for purposes of establishing the issue price of the Bonds) will apply to the initial sale of the Bonds (the

“competitive sale requirements”) because:

- (1) The County shall disseminate this Terms of Proposal to potential underwriters in a manner that is reasonably designed to reach potential investors;
- (2) all bidders shall have an equal opportunity to bid;
- (3) the County may receive proposals from at least three underwriters of municipal bonds who have established industry reputations for underwriting new issuances of municipal bonds; and
- (4) the County anticipates awarding the sale of the Bonds to the bidder who submits a firm offer to purchase the Bonds at the highest price (or lowest interest cost), as set forth in this Terms of Proposal.

Any proposal submitted pursuant to this Terms of Proposal shall be considered a firm offer for the purchase of the Bonds, as specified in this proposal.

(c) If all of the requirements of a “competitive sale” are not satisfied, the County shall advise the winning bidder of such fact prior to the time of award of the sale of the Bonds to the Underwriter. In such event, any proposal submitted will not be subject to cancellation or withdrawal and the County agrees to use the rule selected by the Underwriter on its proposal form to determine the issue price for the Bonds. On its proposal form, each Underwriter must select one of the following two rules for determining the issue price of the Bonds: (1) the first price at which 10% of a maturity of the Bonds (the “10% test”) is sold to the public as the issue price of that maturity or (2) the initial offering price to the public as of the sale date as the issue price of each maturity of the Bonds (the “hold-the-offering-price rule”).

(d) If all of the requirements of a “competitive sale” are not satisfied and the Underwriter selects the hold-the-offering-price rule, the winning bidder shall (i) confirm that the underwriters have offered or will offer the Bonds to the public on or before the date of award at the offering price or prices (the “initial offering price”), or at the corresponding yield or yields, set forth in the proposal submitted by the winning bidder and (ii) agree, on behalf of the underwriters participating in the purchase of the Bonds, that the underwriters will neither offer nor sell unsold Bonds of any maturity to which the hold-the-offering-price rule shall apply to any person at a price that is higher than the initial offering price to the public during the period starting on the sale date and ending on the earlier of the following:

- (1) the close of the fifth (5th) business day after the sale date; or
- (2) the date on which the underwriters have sold at least 10% of that maturity of the Bonds to the public at a price that is no higher than the initial offering price to the public.

The winning bidder shall promptly advise the County when the underwriters have sold 10% of that maturity of the Bonds to the public at a price that is no higher than the initial offering price to the public, if that occurs prior to the close of the fifth (5th) business day after the sale date.

The County acknowledges that in making the representation set forth above, the winning bidder will rely on (i) the agreement of each underwriter to comply with the hold-the-price rule, as set forth in an agreement among underwriters and the related pricing wires, (ii) in the event a selling group has been created in connection with the initial sale of the Bonds to the public, the agreement of each dealer who is a member of the selling group to comply with the hold-the-offering-price rule, as set forth in a selling group agreement and the related pricing wires, and (iii) in the event that an underwriter is a party to a retail distribution agreement that was employed in connection with the initial sale of the Bonds to the public, the agreement of each broker-dealer that is party to such agreement to comply with the

hold-the-offering-price rule, as set forth in the retail distribution agreement and the related pricing wires. The County further acknowledges that each underwriter shall be solely liable for its failure to comply with its agreement regarding the hold-the-offering-price rule and that no underwriter shall be liable for the failure of any other underwriter, or of any dealer who is a member of a selling group, or of any broker-dealer that is a party to a retail distribution agreement to comply with its corresponding agreement regarding the hold-the-offering-price rule as applicable to the Bonds.

(e) If all of the requirements of a “competitive sale” are not satisfied and the Underwriter selects the 10% test, the Underwriter agrees to promptly report to the County, Bond Counsel and Ehlers the prices at which the Bonds have been sold to the public. That reporting obligation shall continue, whether or not the closing date has occurred, until the 10% test has been satisfied as to each maturity of the Bonds or until all of the Bonds of a certain maturity have been sold.

(f) By submitting a proposal, each bidder confirms that (i) any agreement among underwriters, any selling group agreement and each retail distribution agreement (to which the bidder is a party) relating to the initial sale of the Bonds to the public, together with the related pricing wires, contains or will contain language obligating each underwriter, each dealer who is a member of the selling group, and each broker-dealer that is party to such retail distribution agreement, as applicable, to (A) report the prices at which it sells to the public the unsold Bonds of each maturity allotted to it until it is notified by the winning bidder that either the 10% test has been satisfied as to the Bonds of that maturity or all Bonds of that maturity have been sold to the public, and (B) comply with the hold-the-offering-price rule, if applicable, in each case if and for so long as directed by the winning bidder and as set forth in the related pricing wires, and (ii) any agreement among underwriters relating to the initial sale of the Bonds to the public, together with the related pricing wires, contains or will contain language obligating each underwriter that is a party to a retail distribution agreement to be employed in connection with the initial sale of the Bonds to the public to require each broker-dealer that is a party to such retail distribution agreement to (A) report the prices at which it sells to the public the unsold Bonds of each maturity allotted to it until it is notified by the winning bidder or such underwriter that either the 10% test has been satisfied as to the Bonds of that maturity or all Bonds of that maturity have been sold to the public, and (B) comply with the hold-the-offering-price rule, if applicable, in each case if an for so long as directed by the winning bidder or such underwriter and as set forth in the related pricing wires.

(g) Sales of any Bonds to any person that is a related party to an underwriter shall not constitute sales to the public for purposes of this Terms of Proposal. Further, for purposes of this Terms of Proposal:

- (i) “public” means any person other than an underwriter or a related party,
- (ii) “underwriter” means (A) any person that agrees pursuant to a written contract with the County (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds to the public and (B) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (A) to participate in the initial sale of the Bonds to the public (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Bonds to the public),
- (iii) a purchaser of any of the Bonds is a “related party” to an underwriter if the underwriter and the purchaser are subject, directly or indirectly, to (i) at least 50% common ownership of the voting power or the total value of their stock, if both entities are corporations (including direct ownership by one corporation of another), (ii) more than 50% common ownership of their capital interests or profits interests, if both entities are partnerships (including direct ownership by one partnership of another), or (iii) more than 50% common ownership of the value of the outstanding stock of the corporation or the capital interests or profit interests of the partnership, as applicable, if one entity is a corporation and the other entity is a partnership (including direct ownership of the applicable stock or interests by one entity of the other), and

- (iv) “sale date” means the date that the Bonds are awarded by the County to the winning bidder.

PRELIMINARY OFFICIAL STATEMENT

Bidders may obtain a copy of the Preliminary Official Statement relating to the Bonds prior to the proposal opening by request from Ehlers at www.ehlers-inc.com by connecting to the Bond Sales link. The Syndicate Manager will be provided with an electronic copy of the Final Official Statement within seven business days of the proposal acceptance. Up to 10 printed copies of the Final Official Statement will be provided upon request. Additional copies of the Final Official Statement will be available at a cost of \$10.00 per copy.

Information for bidders and proposal forms may be obtained from Ehlers at 3060 Centre Pointe Drive, Roseville, Minnesota 55113-1105, Telephone (651) 697-8500.

By Order of the Board of Commissioners

Lake County, Minnesota

PROPOSAL FORM

**The Board of Commissioners
Lake County, Minnesota**

June 26, 2018

RE: \$2,765,000* General Obligation Capital Improvement Plan Bonds, Series 2018B
DATED: July 18, 2018

For all or none of the above Bonds, in accordance with the Terms of Proposal and terms of the Global Book-Entry System (unless otherwise specified by the Purchaser) as stated in this Official Statement, we will pay you \$_____ (not less than \$2,731,820) plus accrued interest to date of delivery for fully registered Bonds bearing interest rates and maturing in the stated years as follows:

_____	% due	2019	_____	% due	2024	_____	% due	2029
_____	% due	2020	_____	% due	2025	_____	% due	2030
_____	% due	2021	_____	% due	2026	_____	% due	2031
_____	% due	2022	_____	% due	2027	_____	% due	2032
_____	% due	2023	_____	% due	2028	_____	% due	2033

* The County reserves the right to increase or decrease the principal amount of the Bonds on the day of sale, in increments of \$5,000 each. Increases or decreases may be made in any maturity. If any principal amounts are adjusted, the purchase price proposed will be adjusted to maintain the same gross spread per \$1,000.

The rate for any maturity may not be more than 1.00% less than the rate for any preceding maturity. (For example, if a rate of 4.50% is proposed for the 2020 maturity, then the lowest rate that may be proposed for any later maturity is 3.50%.) All Bonds of the same maturity must bear interest from date of issue until paid at a single, uniform rate. Each rate must be expressed in an integral multiple of 5/100 or 1/8 of 1%.

We enclose our Deposit in the amount of \$55,300, to be held by you pending delivery and payment. Alternatively, if we are the winning bidder, we will wire our Deposit to **KleinBank, 1550 Audubon Road, Chaska, Minnesota, ABA No. 091915654 for credit: Ehlers & Associates Good Faith Account No. 3208138**. Such Deposit shall be received by Ehlers & Associates no later than two hours after the proposal opening time. The County reserves the right to award the Bonds to a winning bidder whose wire transfer is initiated but not received by such time provided that such winning bidder's federal wire reference number has been received. In the event the Deposit is not received as provided above, the County may award the Bonds to the bidder submitting the next best proposal provided such bidder agrees to such award. If our proposal is not accepted, said deposit shall be promptly returned to us. If the Deposit is wired to such escrow account, we agree to the conditions and duties of Ehlers & Associates, Inc., as escrow holder of the Deposit, pursuant to the Terms of Proposal. This proposal is for prompt acceptance and is conditional upon delivery of said Bonds to The Depository Trust Company, New York, New York, in accordance with the Terms of Proposal. Delivery is anticipated to be on or about July 18, 2018.

This proposal is subject to the County's agreement to enter into a written undertaking to provide continuing disclosure under Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934 as described in the Preliminary Official Statement for this Issue.

We have received and reviewed the Official Statement and have submitted our requests for additional information or corrections to the Final Official Statement. As Syndicate Manager, we agree to provide the County with the reoffering price of the Bonds within 24 hours of the proposal acceptance.

This proposal is a firm offer for the purchase of the Bonds identified in the Terms of Proposal, on the terms set forth in this proposal form and the Terms of Proposal, and is not subject to any conditions, except as permitted by the Terms of Proposal.

By submitting this proposal, we confirm that we are an Underwriter and have an established industry reputation for underwriting new issuances of municipal bonds. YES: NO: .

If the competitive sale requirements are not met, we elect to use the (circle one): 10% test / hold-the-offering-price rule to determine the issue price of the Bonds.

Account Manager: _____ By: _____
 Account Members:

Award will be on a true interest cost basis. According to our computations (the correct computation being controlling in the award), the total dollar interest cost (including any discount or less any premium) computed from July 18, 2018 of the above proposal is \$_____ and the true interest cost (TIC) is _____%.

The foregoing offer is hereby accepted by and on behalf of the Board of Commissioners of Lake County, Minnesota, on June 26, 2018.

By: _____ By: _____
 Title: _____ Title: _____