

# STATE OF MINNESOTA

## Office of the State Auditor



**Rebecca Otto**  
**State Auditor**

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**LAKE COUNTY**  
**TWO HARBORS, MINNESOTA**

FOR THE YEAR ENDED DECEMBER 31, 2009

## **Description of the Office of the State Auditor**

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

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

The State Auditor performs approximately 160 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

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

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

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

**Pension** - monitors investment, financial, and actuarial reporting for approximately 730 public pension funds; and

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

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

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**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

**For the Year Ended December 31, 2009**



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

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**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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TWO HARBORS, MINNESOTA**

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**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

**ORGANIZATION  
DECEMBER 31, 2009**

			<u>Term Expires</u>
<b>Elected</b>			
Commissioner	Thomas Clifford	District 1	January 2013
Commissioner	Derrick Goutermont	District 2	January 2011
Commissioner	Brad Jones	District 3	January 2013
Commissioner	Paul Bergman	District 4	January 2011
Commissioner	Rich Sve	District 5	January 2013
Attorney	Russell H. Conrow		January 2011
Auditor/Treasurer	Steven R. McMahon		January 2011
Recorder	Erica Koski		January 2011
Sheriff	Carey Johnson		January 2011
<b>Appointed</b>			
Assessor	Jack Renick		December 2012
Examiner of Titles	David Adams (St. Louis County)		Indefinite
Health Officer	Harold B. Leppink, M.D.		Indefinite
Highway Engineer	Alan Goodman		May 2012
Veterans Service Officer	George Scheidt		September 2012
Clerk of the Board	Wilma Rahn		Indefinite
County Coordinator	Matthew Huddleston		Indefinite
<b>Human Services</b>			
Board Members	Thomas Clifford		January 2013
	Derrick Goutermont		January 2011
	Brad Jones		January 2013
	Paul Bergman		January 2011
	Rich Sve		January 2013
	Kathy Goedel		Indefinite
	Christine Johnson		Indefinite
Director	Dennis Henkel		Indefinite
<b>Nursing Home</b>			
Board Members	Thomas Clifford		December 2013
	Derrick Goutermont		December 2011
	Brad Jones		December 2013
	Paul Bergman		December 2011
	Rich Sve		December 2013
	Kathy Goedel		Indefinite
	Deade Johnson		Indefinite
Administrator	Susan Johnson		Indefinite

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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

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, 2009, including the Nursing Home Enterprise Fund as of and for the year ended September 30, 2009, which collectively comprise the County's basic financial statements. These financial statements are the responsibility of Lake County's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the 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, 2009, including the Nursing Home Enterprise Fund at September 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and the required supplementary information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise Lake County's basic financial statements. The supplementary information and other schedule listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 31, 2010, 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* and should be considered in assessing the results of our audit.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

August 31, 2010

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

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**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2009  
(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, 2009. 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' total net assets are \$97,291,550, of which \$82,739,033 is invested in capital assets, net of related debt, and \$1,502,833 is restricted to specific purposes.
- Business-type activities have total net assets of \$2,255,555. Invested in capital assets, net of related debt, represents \$1,991,153 of the total.
- Lake County's net assets increased by \$4,399,082 for the year ended December 31, 2009. Of the increase, \$4,375,128 was an increase in the governmental activities' net assets, and \$23,954 represented an increase in business-type activities' net assets. The Lake County Housing and Redevelopment Authority is shown as a "Discretely Presented Component Unit." The net assets of the County's discretely presented component unit increased by \$122,354.
- The net cost of governmental activities was \$6,717,609 for the current fiscal year. The net cost was funded by general revenues and other items totaling \$11,092,737.
- Governmental funds' fund balances increased by \$3,692,765.

**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, and the schedule of funding progress 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 assets 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 Assets and the Statement of Activities**

The statement of net assets 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 assets and changes in them. You can think of the County's net assets--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 assets 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 assets 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 nursing home activities are reported here.
- Component unit--The County includes another separate legal entity in its report. The entity, the Lake County Housing and Redevelopment Authority, is presented in a separate column. Although legally separate, this "component unit" is important because the County is financially accountable for it. Further financial information for this component unit is available in separately issued and audited financial statements.

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

## **Fund Financial Statements**

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

- Governmental funds--Most 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 assets and the statement of activities) and governmental funds in a reconciliation in a 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 the 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 assets 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 assets. We exclude these activities from the County's other financial statements because the County cannot use these assets to finance its operations. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The fiduciary funds financial statement is Exhibit 10.

## LAKE COUNTY AS A WHOLE

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

**Table 1**  
**Net Assets**  
**(in Thousands)**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2009	2008 (Restated)	2009	2008	2009	2008 (Restated)
Current and other assets	\$ 17,651	\$ 14,748	\$ 615	\$ 492	\$ 18,266	\$ 15,240
Capital assets	88,951	89,393	2,015	2,040	90,966	91,433
<b>Total Assets</b>	<b>\$ 106,602</b>	<b>\$ 104,141</b>	<b>\$ 2,630</b>	<b>\$ 2,532</b>	<b>\$ 109,232</b>	<b>\$ 106,673</b>
Long-term debt outstanding	\$ 6,729	\$ 7,408	\$ 72	\$ 58	\$ 6,801	\$ 7,466
Other liabilities	2,581	3,816	302	242	2,883	4,058
<b>Total Liabilities</b>	<b>\$ 9,310</b>	<b>\$ 11,224</b>	<b>\$ 374</b>	<b>\$ 300</b>	<b>\$ 9,684</b>	<b>\$ 11,524</b>
<b>Net Assets</b>						
Invested in capital assets, net of debt	\$ 82,739	\$ 82,402	\$ 1,991	\$ 2,031	\$ 84,730	\$ 84,433
Restricted	1,503	1,526	-	-	1,503	1,526
Unrestricted	13,050	8,989	265	201	13,315	9,190
<b>Total Net Assets</b>	<b>\$ 97,292</b>	<b>\$ 92,917</b>	<b>\$ 2,256</b>	<b>\$ 2,232</b>	<b>\$ 99,548</b>	<b>\$ 95,149</b>

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2009	2008 (Restated)	2009	2008	2009	2008 (Restated)
<b>Revenues</b>						
Program revenues						
Fees, fines, charges, and other	\$ 1,964	\$ 2,538	\$ 3,560	\$ 3,235	\$ 5,524	\$ 5,773
Operating grants and contributions	10,712	8,098	-	-	10,712	8,098
Capital grants and contributions	2,508	2,296	-	-	2,508	2,296
General revenues						
Property taxes	7,384	6,733	-	-	7,384	6,733
Other taxes	2,070	2,020	-	-	2,070	2,020
Unrestricted grants and contributions	1,310	1,532	3	-	1,313	1,532
Investment earnings	151	342	-	6	151	348
Gain on sale of capital asset	8	31	-	-	8	31
Miscellaneous	170	110	22	8	192	118
<b>Total Revenues</b>	<b>\$ 26,277</b>	<b>\$ 23,700</b>	<b>\$ 3,585</b>	<b>\$ 3,249</b>	<b>\$ 29,862</b>	<b>\$ 26,949</b>

(Unaudited)

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	Governmental Activities		Business-Type Activities		Total Primary Government	
	2009	2008 (Restated)	2009	2008	2009	2008 (Restated)
Expenses						
General government	\$ 4,077	\$ 4,064	\$ -	\$ -	\$ 4,077	\$ 4,064
Public safety	3,228	3,608	-	-	3,228	3,608
Culture and recreation	845	878	-	-	845	878
Highways and streets	5,062	4,320	-	-	5,062	4,320
Human services	3,016	3,448	3,561	3,184	6,577	6,632
Health	3,050	2,711	-	-	3,050	2,711
Sanitation	316	311	-	-	316	311
Conservation of natural resources	1,080	861	-	-	1,080	861
Economic development	935	79	-	-	935	79
Interest	293	341	-	-	293	341
<b>Total Expenses</b>	<b>\$ 21,902</b>	<b>\$ 20,621</b>	<b>\$ 3,561</b>	<b>\$ 3,184</b>	<b>\$ 25,463</b>	<b>\$ 23,805</b>
Increase (Decrease) in Net Assets	\$ 4,375	\$ 3,079	\$ 24	\$ 65	\$ 4,399	\$ 3,144
Net Assets, January 1, Restated	92,917	89,838	2,232	2,167	95,149	92,005
Net Assets, December 31	<u>\$ 97,292</u>	<u>\$ 92,917</u>	<u>\$ 2,256</u>	<u>\$ 2,232</u>	<u>\$ 99,548</u>	<u>\$ 95,149</u>

Operating grants increased by \$2,614,342, primarily due to an increase in a federal forest grant because the Boundary Waters Canoe Area (BWCA) lands were reappraised. This increase was \$1,621,796. Lake County receives this grant from the federal government in lieu of taxes for the BWCA land. There was also an increase in the Region III monies over the previous year. This increase is \$861,964. Lake County is the host county for these funds, which benefit all of the counties in Region III. Prior to 2008, the state reported these revenues and expenditures at the state level, but is now running the revenues and expenditures through the host county. This change is also reflected in health expenditures, which are \$338,882 higher than the previous year.

### Governmental Activities

The cost of all governmental activities this year was \$21,902,018. 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 only \$6,717,609, because some of the cost was paid by those who directly benefited from the programs (\$1,964,170) or by other governments and organizations that subsidized certain programs with grants and contributions (\$13,220,239).

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	
	2009	2008	2009	2008
Highways and streets	\$ 5,062	\$ 4,320	\$ 853	\$ 112
General government	4,077	4,064	387	2,120
Public safety	3,228	3,608	2,013	2,498
Human services	3,016	3,448	1,934	1,749
Health	3,050	2,711	(194)	327
All others	3,469	2,470	1,725	884
<b>Total</b>	<b>\$ 21,902</b>	<b>\$ 20,621</b>	<b>\$ 6,718</b>	<b>\$ 7,690</b>

### **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. The General Fund budget was not amended significantly in 2009.

In the General Fund, the actual charges to appropriations (expenditures) were \$785,200 greater than the final budget amounts. Unbudgeted expenditures included \$244,589 of unbudgeted stonegarden federal grant expenditures, \$298,132 of unbudgeted trail expenditures, and \$617,166 of unbudgeted small cities development program expenditures.

Resources available for appropriation were also above the final budgeted amount by \$2,762,314. This was primarily due to greater than expected collections in intergovernmental revenues.

### **CAPITAL ASSETS AND DEBT ADMINISTRATION**

#### **Capital Assets**

At the end of 2009, the County had \$90,965,768 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	
	2009	2008	2009	2008	2009	2008
Land	\$ 3,915	\$ 3,899	\$ 15	\$ 15	\$ 3,930	\$ 3,914
Buildings and improvements	11,468	11,801	1,837	1,907	13,305	13,708
Machinery, vehicles, furniture, and equipment	2,080	1,800	163	118	2,243	1,918
Infrastructure	<u>71,488</u>	<u>71,893</u>	<u>-</u>	<u>-</u>	<u>71,488</u>	<u>71,893</u>
Totals	<u>\$ 88,951</u>	<u>\$ 89,393</u>	<u>\$ 2,015</u>	<u>\$ 2,040</u>	<u>\$ 90,966</u>	<u>\$ 91,433</u>

The County's fiscal year 2010 capital budget calls for it to spend another \$279 thousand for miscellaneous improvements at various buildings and \$3.78 million for road construction. The road construction will be funded by state-aid construction funds.

### Debt

At year-end, the County had \$4,840,824 in bonds and notes outstanding versus \$5,755,455 last year--a decrease of 16 percent--as shown in Table 5. Capital leases payable decreased by \$160,115.

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

	Governmental Activities		Business-Type Activities		Totals	
	2009	2008	2009	2008	2009	2008
General obligation bonds	\$ 4,440	\$ 5,540	\$ -	\$ -	\$ 4,440	\$ 5,540
Notes payable	401	215	-	-	401	215
Capital leases	1,796	1,956	7	9	1,803	1,965
Loans payable	-	-	17	-	17	-
Compensated absences	1,062	971	95	84	1,157	1,055
Net other postemployment benefits	<u>85</u>	<u>68</u>	<u>-</u>	<u>-</u>	<u>85</u>	<u>68</u>
Total	<u>\$ 7,784</u>	<u>\$ 8,750</u>	<u>\$ 119</u>	<u>\$ 93</u>	<u>\$ 7,903</u>	<u>\$ 8,843</u>

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

Other obligations include accrued vacation pay, sick leave payable, and net other postemployment benefits. 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 2010 budget, tax rates, and fees that will be charged for the business-type activities.

- County General Fund expenditures for 2010 are budgeted to increase ten percent over 2009.
- Property tax levies did not increase for 2010.

## **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 Steven McMahon, Lake County Courthouse, 601 - 3rd Avenue, Two Harbors, Minnesota 55616.



## **BASIC FINANCIAL STATEMENTS**

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**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

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**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

**EXHIBIT 1**

**STATEMENT OF NET ASSETS  
DECEMBER 31, 2009**

	<b>Primary Government</b>			<b>Housing and Redevelopment Authority Component Unit</b>
	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>	
<b>Assets</b>				
Cash and pooled investments	\$ 10,952,147	\$ 44,607	\$ 10,996,754	\$ 346,404
Receivables - net	5,428,640	486,529	5,915,169	142,441
Due from component unit	810,869	-	810,869	-
Inventories	420,325	14,057	434,382	-
Prepaid items	-	64,126	64,126	-
Restricted assets				
Cash and pooled investments	-	5,560	5,560	82,128
Deferred charges	38,839	-	38,839	-
Capital assets				
Non-depreciable capital assets	3,914,859	15,000	3,929,859	-
Depreciable capital assets - net of accumulated depreciation	85,035,951	1,999,958	87,035,909	1,289,577
<b>Total Assets</b>	<b>\$ 106,601,630</b>	<b>\$ 2,629,837</b>	<b>\$ 109,231,467</b>	<b>\$ 1,860,550</b>
<b>Liabilities</b>				
Accounts payable and other current liabilities	\$ 1,028,993	\$ 249,892	\$ 1,278,885	\$ 56,111
Accrued interest payable	88,286	-	88,286	2,900
Advance from other governments	408,926	-	408,926	-
Due to primary government	-	-	-	810,869
Unearned revenue	-	-	-	284
Payable from restricted assets				
Due to residents	-	5,560	5,560	-
Customer deposits payable	-	-	-	12,919
Long-term liabilities				
Due within one year	1,055,291	46,655	1,101,946	29,000
Due in more than one year	6,728,584	72,175	6,800,759	856,592
<b>Total Liabilities</b>	<b>\$ 9,310,080</b>	<b>\$ 374,282</b>	<b>\$ 9,684,362</b>	<b>\$ 1,768,675</b>
<b>Net Assets</b>				
Invested in capital assets - net of related debt	\$ 82,739,033	\$ 1,991,153	\$ 84,730,186	\$ 403,985
Restricted for				
General government	369,730	-	369,730	-
Public safety	256,449	-	256,449	-
Highways and streets	140,830	-	140,830	-
Conservation of natural resources	244,558	-	244,558	-
Debt service	491,266	-	491,266	69,198
Unrestricted	13,049,684	264,402	13,314,086	(381,308)
<b>Total Net Assets</b>	<b>\$ 97,291,550</b>	<b>\$ 2,255,555</b>	<b>\$ 99,547,105</b>	<b>\$ 91,875</b>

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

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**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2009**

	Expenses	Fees, Charges, Fines, and Other	Program Revenues Operating Grants and Contributions
<b><u>Functions/Programs</u></b>			
<b>Primary government</b>			
<b>Governmental activities</b>			
General government	\$ 4,077,452	\$ 523,623	\$ 3,166,581
Public safety	3,227,731	155,393	1,059,709
Highways and streets	5,061,924	373,646	1,327,438
Sanitation	316,009	59,853	-
Human services	3,015,984	144,235	937,784
Health	3,050,088	173,476	3,070,316
Culture and recreation	844,918	8,875	438,610
Conservation of natural resources	1,079,911	494,477	94,437
Economic development	935,091	30,592	617,166
Interest	292,910	-	-
<b>Total governmental activities</b>	<b>\$ 21,902,018</b>	<b>\$ 1,964,170</b>	<b>\$ 10,712,041</b>
<b>Business-type activities</b>			
Nursing Home	3,561,100	3,559,854	-
<b>Total Primary Government</b>	<b>\$ 25,463,118</b>	<b>\$ 5,524,024</b>	<b>\$ 10,712,041</b>
<b>Component unit</b>			
Housing and Redevelopment Authority	\$ 398,045	\$ 178,258	\$ -

**General Revenues**

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

**Total general revenues**

**Change in net assets**

**Net Assets - Beginning, as restated (Note 1.E.)**

**Net Assets - Ending**

**EXHIBIT 2**

Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets			Discretely Presented Component Unit
	Governmental Activities	Primary Government Business-Type Activities	Total	
\$ -	\$ (387,248)	\$ -	\$ (387,248)	
-	(2,012,629)	-	(2,012,629)	
2,508,198	(852,642)	-	(852,642)	
-	(256,156)	-	(256,156)	
-	(1,933,965)	-	(1,933,965)	
-	193,704	-	193,704	
-	(397,433)	-	(397,433)	
-	(490,997)	-	(490,997)	
-	(287,333)	-	(287,333)	
-	(292,910)	-	(292,910)	
<b>\$ 2,508,198</b>	<b>\$ (6,717,609)</b>	<b>\$ -</b>	<b>\$ (6,717,609)</b>	
-	-	(1,246)	(1,246)	
<b>\$ 2,508,198</b>	<b>\$ (6,717,609)</b>	<b>\$ (1,246)</b>	<b>\$ (6,718,855)</b>	
<b>\$ -</b>				<b>\$ (219,787)</b>
	\$ 7,384,206	\$ -	\$ 7,384,206	\$ 102,929
	11,932	-	11,932	-
	558,450	-	558,450	-
	195,962	-	195,962	199,385
	1,303,690	-	1,303,690	-
	1,309,610	3,150	1,312,760	32,341
	150,564	-	150,564	3,334
	7,887	-	7,887	-
	170,436	22,050	192,486	4,152
	<b>\$ 11,092,737</b>	<b>\$ 25,200</b>	<b>\$ 11,117,937</b>	<b>\$ 342,141</b>
	<b>\$ 4,375,128</b>	<b>\$ 23,954</b>	<b>\$ 4,399,082</b>	<b>\$ 122,354</b>
	<b>92,916,422</b>	<b>2,231,601</b>	<b>95,148,023</b>	<b>(30,479)</b>
	<b>\$ 97,291,550</b>	<b>\$ 2,255,555</b>	<b>\$ 99,547,105</b>	<b>\$ 91,875</b>

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**FUND FINANCIAL STATEMENTS**

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**GOVERNMENTAL FUNDS**

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2009**

	<b>General</b>	<b>Road and Bridge</b>
<u><b>Assets</b></u>		
Cash and pooled investments	\$ 4,804,229	\$ 1,101,258
Escheat cash	36,538	-
Petty cash and change funds	1,300	1,000
Undistributed cash in agency funds	202,553	50,796
Taxes receivable - prior	302,107	89,632
Accounts receivable	12,925	771
Accrued interest receivable	17,678	-
Loans receivable	71,432	-
Due from other funds	412,839	36
Due from other governments	2,685,132	470,510
Due from component unit	-	-
Inventories	-	420,325
Leases receivable	255,000	-
	<u>8,801,733</u>	<u>2,134,328</u>
<b>Total Assets</b>	<b>\$ 8,801,733</b>	<b>\$ 2,134,328</b>

**EXHIBIT 3**

<u>Human Services</u>	<u>Forfeited Tax</u>	<u>Debt Service</u>	<u>Nonmajor Funds</u>	<u>Total</u>
\$ 4,051,528	\$ 97,028	\$ -	\$ 497,228	\$ 10,551,271
-	-	-	-	36,538
1,000	50	-	-	3,350
87,117	-	16,140	4,382	360,988
146,376	-	22,823	5,278	566,216
45,351	742,146	-	231	801,424
-	-	-	-	17,678
-	-	-	36,983	108,415
-	-	-	58,875	471,750
476,276	-	-	47,989	3,679,907
-	-	810,869	-	810,869
-	-	-	-	420,325
-	-	-	-	255,000
<u>\$ 4,807,648</u>	<u>\$ 839,224</u>	<u>\$ 849,832</u>	<u>\$ 650,966</u>	<u>\$ 18,083,731</u>

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2009**

	<b>General</b>	<b>Road and Bridge</b>
<b><u>Liabilities and Fund Balances</u></b>		
<b>Liabilities</b>		
Accounts payable	\$ 106,428	\$ 46,085
Escheat payable	36,538	-
Salaries payable	267,702	89,597
Contracts payable	-	19,201
Due to other funds	36	-
Due to other governments	41,749	-
Deferred revenue - unavailable	502,826	220,035
Advances from other governments	-	408,926
	<b>\$ 955,279</b>	<b>\$ 783,844</b>
<b>Fund Balances</b>		
Reserved for		
Inventories	\$ -	\$ 420,325
Capital projects	-	202,979
Election equipment	30,697	-
Loans receivable	71,432	-
Law library	21,897	-
Sheriff's contingency	5,000	-
Sheriff's forfeited property	80,506	-
Recorder's technology fund	169,005	-
Recorder's compliance fund	178,828	-
Enhanced 911	170,943	-
Debt service	-	491,266
Title III forests	244,558	-
Retired employees	-	16,950
Unreserved		
Designated for future expenditures	-	-
Designated for rescue squad	25,019	-
Designated for capital equipment	-	218,964
Designated for debt service	-	-
Undesignated	6,848,569	-
Unreserved, reported in nonmajor		
Special revenue funds	-	-
Capital projects fund	-	-
	<b>\$ 7,846,454</b>	<b>\$ 1,350,484</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 8,801,733</b>	<b>\$ 2,134,328</b>

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

<u>Human Services</u>	<u>Forfeited Tax</u>	<u>Debt Service</u>	<u>Nonmajor Funds</u>	<u>Total</u>
\$ 138,712	\$ 14,171	\$ 3,051	\$ 22,440	\$ 330,887
-	-	-	-	36,538
109,750	21,044	-	-	488,093
-	-	-	-	19,201
17,007	58,875	395,832	-	471,750
42,873	-	-	69,652	154,274
123,030	691,637	18,498	4,104	1,560,130
-	-	-	-	408,926
<b>\$ 431,372</b>	<b>\$ 785,727</b>	<b>\$ 417,381</b>	<b>\$ 96,196</b>	<b>\$ 3,469,799</b>
\$ -	\$ -	\$ -	\$ -	\$ 420,325
-	-	-	-	202,979
-	-	-	-	30,697
-	-	-	36,983	108,415
-	-	-	-	21,897
-	-	-	-	5,000
-	-	-	-	80,506
-	-	-	-	169,005
-	-	-	-	178,828
-	-	-	-	170,943
-	-	-	-	491,266
-	-	-	-	244,558
-	-	-	-	16,950
1,000,000	-	-	-	1,000,000
-	-	-	-	25,019
-	-	-	-	218,964
-	-	432,451	-	432,451
3,376,276	53,497	-	-	10,278,342
-	-	-	366,673	366,673
-	-	-	151,114	151,114
<b>\$ 4,376,276</b>	<b>\$ 53,497</b>	<b>\$ 432,451</b>	<b>\$ 554,770</b>	<b>\$ 14,613,932</b>
<b>\$ 4,807,648</b>	<b>\$ 839,224</b>	<b>\$ 849,832</b>	<b>\$ 650,966</b>	<b>\$ 18,083,731</b>

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**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

**EXHIBIT 4**

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO  
THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2009**

<b>Fund balances - total governmental funds (Exhibit 3)</b>		<b>\$</b>	<b>14,613,932</b>
Amounts reported for governmental activities in the statement of net assets 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.			88,950,810
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.			1,560,130
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	\$	(4,440,000)	
Notes payable		(400,824)	
Capital leases payable		(1,796,478)	
Compensated absences		(1,061,922)	
Net other postemployment benefits payable		(84,651)	
Accrued interest payable		(88,286)	
Deferred debt issuance charges		38,839	
		<u>                    </u>	<u>(7,833,322)</u>
<b>Net Assets of Governmental Activities (Exhibit 1)</b>			<b><u>                    </u></b>
		<b>\$</b>	<b><u>97,291,550</u></b>

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<b>General</b>	<b>Road and Bridge</b>
<b>Revenues</b>		
Taxes	\$ 4,873,905	\$ 1,440,859
Licenses and permits	10,991	-
Intergovernmental	5,684,220	4,529,290
Charges for services	532,271	365,419
Fines and forfeits	6,001	-
Investment earnings	148,303	941
Miscellaneous	201,249	8,227
	<b>\$ 11,456,940</b>	<b>\$ 6,344,736</b>
<b>Expenditures</b>		
<b>Current</b>		
General government	\$ 3,899,412	\$ -
Public safety	3,487,652	-
Highways and streets	-	4,340,865
Sanitation	326,191	-
Human services	-	-
Health	-	-
Culture and recreation	674,368	-
Conservation of natural resources	195,819	-
Economic development	661,487	-
<b>Capital outlay</b>	-	-
<b>Debt service</b>		
Principal	22,879	473,448
Interest	-	71,830
Bond issuance costs	-	-
Miscellaneous	-	403
	<b>\$ 9,267,808</b>	<b>\$ 4,886,546</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 2,189,132</b>	<b>\$ 1,458,190</b>
<b>Other Financing Sources (Uses)</b>		
Transfers in	\$ -	\$ -
Transfers out	(198,762)	-
Capital note issuance	-	-
	<b>\$ (198,762)</b>	<b>\$ -</b>
<b>Net Change in Fund Balances</b>	<b>\$ 1,990,370</b>	<b>\$ 1,458,190</b>
<b>Fund Balances - January 1, as restated (Note 1.E.)</b>	<b>5,856,084</b>	<b>(52,937)</b>
<b>Increase (decrease) in reserved for inventories</b>	<b>-</b>	<b>(54,769)</b>
	<b>\$ 7,846,454</b>	<b>\$ 1,350,484</b>
<b>Fund Balances - December 31</b>	<b>\$ 7,846,454</b>	<b>\$ 1,350,484</b>

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

**EXHIBIT 5**

<b>Human Services</b>	<b>Forfeited Tax</b>	<b>Debt Service</b>	<b>Nonmajor Funds</b>	<b>Total</b>
\$ 1,815,663	\$ -	\$ 538,299	\$ 96,232	\$ 8,764,958
-	1,022	-	75	12,088
4,524,227	114,608	56,201	280,783	15,189,329
244,358	6,242	-	-	1,148,290
-	-	-	-	6,001
-	-	1,080	240	150,564
73,353	460,251	70,380	37,822	851,282
<b>\$ 6,657,601</b>	<b>\$ 582,123</b>	<b>\$ 665,960</b>	<b>\$ 415,152</b>	<b>\$ 26,122,512</b>
\$ -	\$ -	\$ -	\$ -	\$ 3,899,412
-	-	-	80,358	3,568,010
-	-	-	-	4,340,865
-	-	-	-	326,191
2,896,874	-	-	-	2,896,874
3,045,499	-	-	-	3,045,499
-	-	3,051	-	677,419
-	777,443	-	86,281	1,059,543
-	-	194,462	79,142	935,091
-	2,305	-	246,626	248,931
-	-	772,657	205,762	1,474,746
-	-	116,498	109,263	297,591
-	-	-	2,500	2,500
-	-	1,903	-	2,306
<b>\$ 5,942,373</b>	<b>\$ 779,748</b>	<b>\$ 1,088,571</b>	<b>\$ 809,932</b>	<b>\$ 22,774,978</b>
<b>\$ 715,228</b>	<b>\$ (197,625)</b>	<b>\$ (422,611)</b>	<b>\$ (394,780)</b>	<b>\$ 3,347,534</b>
\$ -	\$ -	\$ -	\$ 198,762	\$ 198,762
-	-	-	-	(198,762)
-	-	-	400,000	400,000
<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 598,762</b>	<b>\$ 400,000</b>
\$ 715,228	\$ (197,625)	\$ (422,611)	\$ 203,982	\$ 3,747,534
3,661,048	251,122	855,062	350,788	10,921,167
-	-	-	-	(54,769)
<b>\$ 4,376,276</b>	<b>\$ 53,497</b>	<b>\$ 432,451</b>	<b>\$ 554,770</b>	<b>\$ 14,613,932</b>

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

**EXHIBIT 6**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE  
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2009**

**Net change in fund balances - total governmental funds (Exhibit 5) \$ 3,747,534**

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	\$ 1,560,130	
Deferred revenue - January 1	(1,411,561)	148,569

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	\$ 2,345,079	
Net book value of assets sold	(904)	
Current year depreciation	(2,786,479)	(442,304)

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

Debt issued		
Capital notes		(400,000)

Principal repayments		
General obligation bonds	\$ 1,100,000	
Notes payable	214,631	
Capital lease	160,115	1,474,746

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	\$ 16,374	
Change in deferred bond issuance costs	(6,887)	
Change in compensated absences	(91,283)	
Change in other postemployment benefits	(16,852)	
Change in inventories	(54,769)	(153,417)

**Change in Net Assets of Governmental Activities (Exhibit 2) \$ 4,375,128**

**PROPRIETARY FUND**

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**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

**EXHIBIT 7**

**STATEMENT OF FUND NET ASSETS  
PROPRIETARY FUND  
NURSING HOME ENTERPRISE FUND  
SEPTEMBER 30, 2009**

**Assets**

**Current assets**

Cash and cash equivalents	\$	44,107
Petty cash and change funds		500
Accounts receivable - net		486,529
Inventories		14,057
Prepaid items		64,126
Restricted cash, cash equivalents, and investments		
Resident trust funds		5,560
		5,560

**Total current assets** **\$ 614,879**

**Noncurrent assets**

Capital assets		
Nondepreciable	\$	15,000
Depreciable		4,438,999
Less: accumulated depreciation		(2,439,041)
		2,014,958

**Total noncurrent assets** **\$ 2,014,958**

**Total Assets** **\$ 2,629,837**

**Liabilities**

**Current liabilities**

Accounts payable	\$	123,833
Salaries payable		74,084
Accrued vacation payable		51,975
Compensated absences payable - current		39,189
Loans payable - current		5,359
Capital leases payable - current		2,107
		296,547

**Total current liabilities** **\$ 296,547**

**Current liabilities payable from restricted assets**

Due to residents	\$	5,560
		5,560

**Noncurrent liabilities**

Compensated absences payable - long-term	\$	55,707
Loans payable - long-term		11,209
Capital leases payable - long-term		5,259
		72,175

**Total noncurrent liabilities** **\$ 72,175**

**Total Liabilities** **\$ 374,282**

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

***EXHIBIT 7  
(Continued)***

**STATEMENT OF FUND NET ASSETS  
PROPRIETARY FUND  
NURSING HOME ENTERPRISE FUND  
SEPTEMBER 30, 2009**

**Net Assets**

Invested in capital assets - net of related debt	\$ 1,991,153
Unrestricted	<u>264,402</u>
<b>Total Net Assets</b>	<b><u><u>\$ 2,255,555</u></u></b>



**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

*EXHIBIT 8*

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUND  
NURSING HOME ENTERPRISE FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2009**

<b>Operating Revenues</b>	
Patient services revenues	\$ 3,387,773
Ancillary and other services	130,769
Miscellaneous	41,312
	<hr/>
<b>Total Operating Revenues</b>	<b>\$ 3,559,854</b>
<b>Operating Expenses</b>	
Nursing services	\$ 1,378,594
Other care-related	93,141
Other services and charges	89,950
Dietary	401,107
Laundry	53,073
Housekeeping	68,981
Plant operations	190,525
Other property and related costs	175,439
Administration	469,370
Employee benefits	501,004
Depreciation	139,295
	<hr/>
<b>Total Operating Expenses</b>	<b>\$ 3,560,479</b>
<b>Operating Income (Loss)</b>	<b>\$ (625)</b>
<b>Nonoperating Revenues (Expenses)</b>	
Contributions and donations	\$ 3,150
Miscellaneous	22,050
Interest expense	(621)
	<hr/>
<b>Total Nonoperating Revenues (Expenses)</b>	<b>\$ 24,579</b>
<b>Change in Net Assets</b>	<b>\$ 23,954</b>
<b>Net Assets - October 1</b>	<b>2,231,601</b>
	<hr/>
<b>Net Assets - September 30</b>	<b>\$ 2,255,555</b>
	<hr/> <hr/>

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

**EXHIBIT 9**

**STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
NURSING HOME ENTERPRISE FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2009**

<b>Cash Flows from Operating Activities</b>	
Cash received from customers	\$ 3,600,580
Cash paid to suppliers	(1,113,868)
Cash payments to employees	(2,367,483)
	<b>\$ 119,229</b>
<b>Cash Flows from Noncapital Financing Activities</b>	
Cash received from contributions and donations	\$ 25,200
	<b>\$ 25,200</b>
<b>Cash Flows from Capital and Related Financing Activities</b>	
Acquisition of capital assets	\$ (114,291)
Principal paid on capital lease	(1,978)
Interest paid on capital lease	(536)
Proceeds from loan	17,000
Principal paid on loan	(432)
Interest paid on loan	(85)
	<b>\$ (100,322)</b>
<b>Net cash provided by (used in) capital and related financing activities</b>	<b>\$ (100,322)</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>\$ 44,107</b>
<b>Cash and Cash Equivalents - October 1</b>	<b>500</b>
<b>Cash and Cash Equivalents - September 30</b>	<b>\$ 44,607</b>
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities</b>	
<b>Operating income (loss)</b>	<b>\$ (625)</b>
<b>Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities</b>	
Depreciation	\$ 139,295
Changes in assets and liabilities	
(Increase) decrease in receivables	40,726
(Increase) decrease in inventories	(2,953)
(Increase) decrease in prepaid items	(14,637)
Increase (decrease) in accounts payable	30,190
Increase (decrease) in salaries payable	17,653
Increase (decrease) in compensated absences	11,519
Increase (decrease) in vacations payable	496
Increase (decrease) in due to other governments	(102,435)
	<b>\$ 119,854</b>
<b>Total adjustments</b>	<b>\$ 119,854</b>
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b>\$ 119,229</b>

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

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**FIDUCIARY FUNDS**

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**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

*EXHIBIT 10*

**FIDUCIARY FUNDS  
STATEMENT OF FIDUCIARY NET ASSETS  
DECEMBER 31, 2009**

	<u>Agency</u>
<b><u>Assets</u></b>	
Cash and pooled investments	<u>\$ 646,001</u>
<b><u>Liabilities</u></b>	
Accounts payable	\$ 162,931
Taxes collected in advance	18,711
Due to other governments	419,719
Customer deposits - current	<u>44,640</u>
<b>Total Liabilities</b>	<b><u>\$ 646,001</u></b>

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**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2009

1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2009. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. Although the County has the option to apply FASB pronouncements issued after that date to its Nursing Home Enterprise Fund, the County has chosen not to do so. 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. The Lake County Nursing Home was established pursuant to Minn. Stat. §§ 376.55-.60. As required by accounting principles generally accepted in the United States of America, these financial statements present Lake County (primary government) and its component unit for which the County is financially accountable. The County is governed by a five-member Board of Commissioners elected from districts within the County. The Board is organized with a chair and vice chair elected at the annual meeting in January of each year.

Discretely Presented Component Unit

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

<u>Component Unit</u>	<u>Component Unit Included in Reporting Entity Because</u>	<u>Separate Financial Statements</u>
Lake County Housing and Redevelopment Authority	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

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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1. Summary of Significant Accounting Policies

A. Financial Reporting Entity

Discretely Presented Component Unit (Continued)

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.

Joint Ventures

The County participates in several joint ventures described in Note 7.D. The County also participates in jointly-governed organizations described in Note 7.E.

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (the statement of net assets 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 revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external parties for support.

In the government-wide statement of net assets, both the governmental and business-type activities columns: (a) are presented on a consolidated basis by column; and (b) are 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 assets are reported in three parts: (1) invested in capital assets, net of related debt; (2) restricted net assets; and (3) unrestricted net assets. The County first utilizes restricted resources to finance qualifying activities.



**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

The statement of activities demonstrates the degree to which the direct expenses of each function of the County's governmental activities and different 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.

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 and enterprise 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 required to be accounted for in another fund.

The Road and Bridge Special Revenue Fund is used to account for 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 economic assistance and community social services programs.

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

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.

The County reports the following major enterprise fund:

The Nursing Home Enterprise Fund is used to account for the operations of the County Nursing Home.

Additionally, the County reports the following fund type:

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 and proprietary fund financial statements are reported using the economic resources measurement focus and the 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,

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

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.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principle activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as contributions and donations, 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, and Net Assets 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.

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. Pooled and fund investments are reported at their fair value at December 31, 2009, based on market prices. 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 2009 were \$150,564.

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

2. Deposits and Investments (Continued)

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 MAGIC Fund is not registered with the Securities and Exchange Commission (SEC), but does operate in a manner consistent with Rule 2a-7 prescribed by the SEC pursuant to the Investment Company Act of 1940 (17 C.F.R. § 270.2a-7). Therefore, the fair value of the County's position in the pool is the same as the value of the pool shares.

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 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 delinquent taxes receivable.

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

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity (Continued)

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.

Inventories in the Nursing Home Enterprise Fund are valued at cost on a first-in, first-out method and consist of nursing home supplies held for consumption. Inventoried items are recorded as an expense when used.

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. Restricted Assets

Certain funds of the County are classified as restricted assets on the statement of net assets 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.

6. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (for example, roads, bridges, and similar items), 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 \$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 estimated fair value at the date of donation.

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

6. Capital Assets (Continued)

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

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. During the current period, the County did not have any capitalized interest.

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

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

7. Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. Compensated absences are accrued when incurred in the government-wide and proprietary fund 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  
TWO HARBORS, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

7. Compensated Absences (Continued)

Lake County's employees (except for Highway Department and supervisory employees) participate in a post-retirement health savings plan administered by the Minnesota State Retirement System. At retirement, depending on the employee's years of service, he or she is issued a lump sum payout of either 10 or 20 percent of the vested sick leave as well as two to three years of insurance coverage. The lump sum payouts are paid directly into the post-retirement health savings plan.

8. Deferred Revenue

All County funds and the government-wide financial statements defer revenue for resources that have been received, but not yet earned. Governmental funds also report deferred revenue in connection with receivables for revenue not considered to be available to liquidate liabilities of the current period.

9. Long-Term Obligations

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

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.

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity (Continued)

10. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts not available for appropriation or amounts legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans subject to change.

11. 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 estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

E. Prior Period Restatement

In 2009, it was determined that taconite production taxes are an imposed nonexchange transaction that should be accounted for when the resources are received or when an enforceable legal claim to the asset arises, whichever occurs first. In the prior year, the first half of taconite production taxes received in 2009 was accrued as a receivable in 2008 and recognized as revenue. A restatement of fund balance in the General Fund and the Road and Bridge Special Revenue Fund, and net assets of the governmental activities is needed to correct the over-accrual of taconite production taxes in the prior audit.

On Exhibit 5, the beginning fund balances for the General Fund and the Road and Bridge Special Revenue Fund and, on Exhibit 2, the net assets of the governmental activities, have been restated as follows:

	General Fund	Road and Bridge Fund	Governmental Activities
Fund Balances/Net Assets - January 1	\$ 6,325,429	\$ 129,563	\$ 93,568,267
Restatement			
Prior year accrual of taconite production taxes	(469,345)	(182,500)	(651,845)
Fund Balances/Net Assets - January 1, as restated	<u>\$ 5,856,084</u>	<u>\$ (52,937)</u>	<u>\$ 92,916,422</u>



**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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2. Stewardship, Compliance, and Accountability

Excess of Expenditures Over Appropriations

For the year ended December 31, 2009, expenditures exceeded appropriations in the following funds:

	Final Budget	Expenditures	Excess
General Fund	\$ 8,482,608	\$ 9,267,808	\$ 785,200
Special Revenue Funds			
Forfeited Tax	724,766	779,748	54,982
Resource Development	315,726	401,306	85,580
Economic Development	-	79,142	79,142
Debt Service Fund	898,315	1,088,571	190,256

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	\$	10,996,754
Restricted cash and pooled investments		5,560
Component unit		
Cash and pooled investments		346,404
Restricted cash and pooled investments		82,128
Fiduciary funds		
Cash and pooled investments		646,001
		<hr/>
Total Cash and Investments	\$	12,076,847
		<hr/>

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**

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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, 2009, the primary government’s bank balances of \$606,494 were not exposed to custodial credit risk.

The Lake County Housing and Redevelopment Authority component unit’s book balance of \$428,532 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized Component unit	<u>\$ 54,849</u>
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b. Investments

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

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

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers' acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

Interest Rate Risk

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

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Credit Risk

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

Custodial Credit Risk

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

Negotiable certificates of deposit	
Insured	\$ 205,341
Uninsured, held by counterparty	1,310,127
Government securities	
Insured	471,756
Uninsured, held by counterparty	1,880,012

Concentration of Credit Risk

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

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

The following table presents the County's deposit and investment balances at December 31, 2009, and information relating to potential investment risks:

Investment Type	Credit Risk		Concentration	Interest	Carrying (Fair) Value
	Credit Rating	Rating Agency	Risk Over 5% of Portfolio	Rate Risk Maturity Date	
U.S. government agency securities					
Federal National Mortgage Association	AAA	Moody's		07/07/2014	\$ 150,281
Federal National Mortgage Association	AAA	Moody's		12/16/2016	522,832
Federal National Mortgage Association	AAA	Moody's		12/28/2016	200,000
Federal National Mortgage Association	N/R	N/A		02/01/2019	164,645
Total Federal National Mortgage Association			9.3%		\$ 1,037,758
Federal Home Loan Bank Bonds	AAA	Moody's		10/15/2014	\$ 501,094
Federal Home Loan Bank Bonds	AAA	Moody's		12/11/2015	499,500
Total Federal Home Loan Bank Bonds			9.0%		\$ 1,000,594
Government National Mortgage Association Note	N/R	N/A	<5%	02/15/2019	\$ 12,452
Federal Home Loan Mortgage Corporation	AAA	Moody's	<5%	04/30/2014	\$ 300,964
Investment pools/mutual funds					
MAGIC Fund	N/R	N/A	63.2%	N/A	\$ 7,023,657
Wells Fargo Government Money Market	N/R	N/A	<5%	N/A	215,483
Total investment pools/mutual funds					\$ 7,239,140
Negotiable certificates of deposit					
Hanmi Bank	N/A	N/A	<5%	03/10/2010	\$ 96,544
GMAC Bank	N/A	N/A	<5%	03/19/2010	96,769
Marshall & Ilsley Bank	N/A	N/A	<5%	07/16/2010	97,719
Southwest Bank	N/A	N/A	<5%	07/16/2010	97,719
GE Capital Financial, Inc	N/A	N/A	<5%	08/20/2010	98,095
BMW Bank NA	N/A	N/A	<5%	12/01/2010	98,531
American Express Bank	N/A	N/A	<5%	12/03/2010	98,372
American Exp Bank FSB	N/A	N/A	<5%	04/15/2011	96,926
Discover Bank	N/A	N/A	<5%	04/15/2011	96,926
Citi Bank	N/A	N/A	<5%	04/21/2011	96,912
Sallie Mae Bank	N/A	N/A	<5%	05/13/2011	96,930
Midfirst Bank	N/A	N/A	<5%	05/20/2011	97,791
Washington Trust Bank	N/A	N/A	<5%	05/20/2011	97,857
Sallie Mae Bank	N/A	N/A	<5%	06/03/2011	151,980
GE Money Bank	N/A	N/A	<5%	07/11/2011	96,397
Total negotiable certificates of deposit					\$ 1,515,468

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5% of Portfolio	Maturity Date	
Total investments					\$ 11,106,376
Deposits - primary government					495,991
Deposits - component unit					428,532
Petty cash					3,850
Resident trust funds					5,560
Escheat cash					36,538
Total Cash and Investments					<u>\$ 12,076,847</u>

N/A - Not Applicable

N/R - Not Rated

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

2. Receivables

Receivables as of December 31, 2009, for the County's governmental activities and business-type activities are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
<b>Governmental Activities</b>		
Taxes	\$ 566,216	\$ -
Due from other governments	3,679,907	-
Accounts	801,424	-
Interest	17,678	-
Loans receivable	108,415	71,769
Leases receivable	255,000	-
Total Governmental Activities	<u>\$ 5,428,640</u>	<u>\$ 71,769</u>
<b>Business-Type Activities</b>		
Accounts	<u>\$ 486,529</u>	<u>\$ -</u>

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2009, was as follows:

Governmental Activities

	Beginning Balance	Increase	Decrease	Reclassify	Ending Balance
Capital assets not depreciated					
Land	\$ 3,898,859	\$ 16,000	\$ -	\$ -	\$ 3,914,859
Capital assets depreciated					
Buildings	\$ 16,125,579	\$ 7,825	\$ -	\$ 23,543	\$ 16,156,947
Improvements other than buildings	461,478	95,454	-	(23,543)	533,389
Machinery, furniture, and equipment	8,003,206	901,044	48,036	-	8,856,214
Infrastructure	88,620,525	1,324,756	-	-	89,945,281
Total capital assets depreciated	\$ 113,210,788	\$ 2,329,079	\$ 48,036	\$ -	\$ 115,491,831
Less: accumulated depreciation for					
Buildings	\$ 4,497,395	\$ 415,245	\$ -	\$ 7,111	\$ 4,919,751
Improvements other than buildings	288,446	21,440	-	(7,111)	302,775
Machinery, furniture, and equipment	6,203,479	620,051	47,132	-	6,776,398
Infrastructure	16,727,213	1,729,743	-	-	18,456,956
Total accumulated depreciation	\$ 27,716,533	\$ 2,786,479	\$ 47,132	\$ -	\$ 30,455,880
Total capital assets depreciated, net	\$ 85,494,255	\$ (457,400)	\$ 904	\$ -	\$ 85,035,951
Governmental Activities Capital Assets, Net	\$ 89,393,114	\$ (441,400)	\$ 904	\$ -	\$ 88,950,810

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

Business-Type Activities

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets not depreciated				
Land	\$ 15,000	\$ -	\$ -	\$ 15,000
Capital assets depreciated				
Land improvements	\$ 91,983	\$ 10,125	\$ -	\$ 102,108
Buildings	3,550,953	19,001	-	3,569,954
Machinery, furniture, and equipment	681,772	85,165	-	766,937
Total capital assets depreciated	\$ 4,324,708	\$ 114,291	\$ -	\$ 4,438,999
Less: accumulated depreciation for				
Land improvements	\$ 82,868	\$ 3,358	\$ -	\$ 86,226
Buildings	1,652,997	95,723	-	1,748,720
Machinery, furniture, and equipment	563,881	40,214	-	604,095
Total accumulated depreciation	\$ 2,299,746	\$ 139,295	\$ -	\$ 2,439,041
Total capital assets depreciated, net	\$ 2,024,962	\$ (25,004)	\$ -	\$ 1,999,958
Business-Type Activities				
Capital Assets, Net	\$ 2,039,962	\$ (25,004)	\$ -	\$ 2,014,958

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

Governmental Activities	
General government	\$ 255,351
Public safety	230,817
Highways and streets, including depreciation of infrastructure assets	2,001,510
Human services	96,266
Sanitation	11,836
Culture and recreation	167,499
Conservation of natural resources	23,200
	<hr/>
Total Depreciation Expense - Governmental Activities	\$ 2,786,479
	<hr/>
Business-Type Activities	
Nursing Home	\$ 139,295
	<hr/>



**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, 2009, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	<u>Purpose</u>
General	Debt Service	\$ 395,832	Temporary loan, deficit cash balance
	Human Services	<u>17,007</u>	Reimbursement for services, correction of receipting error
Total due to General Fund		\$ 412,839	
Road and Bridge	General	36	Reimbursement for services
Resource Development	Forfeited Tax	<u>58,875</u>	Forfeited tax apportionment
Total Due To/From Other Funds		<u>\$ 471,750</u>	

2. Due To/From Primary Government and Component Units

<u>Receivable Entity</u>	<u>Payable Entity</u>	<u>Amount</u>	<u>Purpose</u>
Primary Government - Debt Service	Component Unit - Lake County Housing and Redevelopment Authority	<u>\$ 810,869</u>	Shortfalls in tax increment collections funded by primary government

3. Interfund Transfers

Interfund transfers for the year ended December 31, 2009, consisted of the following:

Transfers to Resource Development Special Revenue Fund from General Fund	\$ <u>198,762</u>	Distribute Title III funds
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**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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3. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Payables

Payables at December 31, 2009, were as follows:

	Governmental Activities	Business-Type Activities
Accounts payable	\$ 330,887	\$ 123,833
Escheat property payable	36,538	-
Salaries payable	488,093	74,084
Accrued vacation payable	-	51,975
Contracts payable	19,201	-
Due to other governments	154,274	-
Total Payables	\$ 1,028,993	\$ 249,892

2. Leases

Business-Type Activities

Capital Leases

In January 2008, the Lake County Nursing Home entered into a lease agreement to finance a copier. The lease runs for five years with interest at 6.35 percent and monthly payments of \$210. At lease expiration, the copier will become the Nursing Home's property and, as such, it has been recorded as a capital asset. The copier is carried at a cost of \$10,748, less accumulated depreciation of \$2,480.

See Notes 3.C.3. and 3.C.4. for information on the lease payable and debt service requirements.

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

3. Long-Term Debt

Governmental Activities

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2009
General obligation bonds					
G.O. Capital Improvement Bonds, Series 2005A	2019	\$155,000 - \$310,000	3.375 - 3.80	\$ 3,200,000	\$ 2,620,000
G.O. State-Aid Highway Bonds, Series 2005B	2013	\$455,000 - \$460,000	3.25 - 3.50	3,200,000	1,820,000
Total General Obligation Bonds				<u>\$ 6,400,000</u>	<u>\$ 4,440,000</u>
Other long-term debt					
General obligation revenue note	2012	\$20,304 - \$24,286	2.00	\$ 222,422	\$ 71,432
Promissory note (Allete)	2010	\$65,152 \$141,718 -	5.00	282,072	62,049
Capital Equipment Note 2009A	2011	\$141,913	3.90	400,000	267,343
Capital lease	2021	\$146,667 \$7,500 -	5.375	2,200,000	1,760,000
Capital lease	2011	\$19,579	4.90	42,050	36,478
Total Other Long-Term Debt				<u>\$ 3,146,544</u>	<u>\$ 2,197,302</u>

Business-Type Activities - Lake County Nursing Home

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance September 30, 2009
Loans payable	2012	\$6,204	6.00	\$ 17,000	\$ 16,568
Capital lease	2013	\$2,520	6.35	10,748	7,366
Total Long-Term Debt				<u>\$ 27,748</u>	<u>\$ 23,934</u>

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

4. Debt Service Requirements

Debt service requirements at December 31, 2009, were as follows:

Governmental Activities

Year Ending December 31	General Obligation Bonds		Other Long-Term Debt	
	Principal	Interest	Principal	Interest
2010	\$ 675,000	\$ 146,457	\$ 380,292	\$ 113,390
2011	685,000	122,887	326,059	94,672
2012	690,000	99,048	170,952	79,198
2013	700,000	74,710	146,667	70,950
2014	255,000	57,748	146,667	63,067
2015 - 2019	1,435,000	138,724	733,335	197,083
2020 - 2021	-	-	293,330	23,650
Total	\$ 4,440,000	\$ 639,574	\$ 2,197,302	\$ 642,010

Business-Type Activities - Lake County Nursing Home

Year Ending September 30	Capital Leases		Loans Payable	
	Principal	Interest	Principal	Interest
2010	\$ 2,107	\$ 407	\$ 5,359	\$ 845
2011	2,245	269	5,688	516
2012	2,392	123	5,521	166
2013	622	7	-	-
Total	\$ 7,366	\$ 806	\$ 16,568	\$ 1,527

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

5. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2009, was as follows:

Governmental Activities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
General obligation bonds	\$ 5,540,000	\$ -	\$ 1,100,000	\$ 4,440,000	\$ 675,000
Notes payable	215,455	400,000	214,631	400,824	216,216
Total bonds and notes payable	\$ 5,755,455	\$ 400,000	\$ 1,314,631	\$ 4,840,824	\$ 891,216
Capital lease payable	1,956,593	-	160,115	1,796,478	164,075
Compensated absences	970,639	652,390	561,107	1,061,922	-
Net other postemployment benefits	67,799	85,937	69,085	84,651	-
Governmental Activities Long-Term Liabilities	<u>\$ 8,750,486</u>	<u>\$ 1,138,327</u>	<u>\$ 2,104,938</u>	<u>\$ 7,783,875</u>	<u>\$ 1,055,291</u>

Business-Type Activities - Lake County Nursing Home

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Capital lease payable	\$ 9,344	\$ -	\$ 1,978	\$ 7,366	\$ 2,107
Loans payable	-	17,000	432	16,568	5,359
Compensated absences	83,377	11,519	-	94,896	39,189
Business-Type Activities Long-Term Liabilities	<u>\$ 92,721</u>	<u>\$ 28,519</u>	<u>\$ 2,410</u>	<u>\$ 118,830</u>	<u>\$ 46,655</u>

The County has covenanted to provide ongoing disclosure of certain annual financial information and operating data with respect to the County, including audited financial statements of the County.

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plan

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 Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Local Government Correctional Service Retirement Fund (the Public Employees Correctional Fund), which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with Minn. Stat. chs. 353 and 356.

Public Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All new members must participate in the Coordinated Plan. All police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Fund. Members who are employed in a county correctional institution as a correctional guard or officer, a joint jailer/dispatcher, or as a supervisor of correctional guards or officers or of joint jailer/dispatchers and are directly responsible for the direct security, custody, and control of the county correctional institution and its inmates, are covered by the Public Employees Correctional Fund.

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits are established by state statute and vest after three years of credited service. The defined retirement 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 Coordinated and Basic Plan members. The retiring member receives 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 year thereafter. For a Coordinated Plan member, the annuity accrual rate is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each successive 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. For Public Employees Police and

**LAKE COUNTY  
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4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plan

Plan Description (Continued)

Fire Fund members, the annuity accrual rate is 3.0 percent of average salary for each year of service. For Public Employees Correctional Fund members, the annuity accrual rate is 1.9 percent of average salary for each year of service.

For all Public Employees Retirement Fund members hired prior to July 1, 1989, whose annuity is calculated using Method 1, and for all Public Employees Police and Fire Fund and Public Employees Correctional Fund members, a full annuity is available when age plus years of service equal 90. Normal retirement age is 55 for Public Employees Police and Fire Fund members and Public Employees Correctional Fund members and either 65 or 66 (depending on date hired) for Public Employees Retirement Fund members. A reduced retirement annuity is also available to eligible members seeking early retirement.

The benefit provisions stated in the previous paragraphs 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 public service.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund. That report may be obtained on the internet at [www.mnpera.org](http://www.mnpera.org); by writing to PERA at 60 Empire Drive, Suite 200, Saint Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

Funding Policy

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. The County makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.1 and 6.0 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members are required to contribute 9.4 percent.

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4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plan

Funding Policy (Continued)

Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

The County is required to contribute the following percentages of annual covered payroll in 2009:

Public Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	6.75
Public Employees Police and Fire Fund	14.10
Public Employees Correctional Fund	8.75

The County's contributions for the years ending December 31, 2009, 2008, and 2007, for the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Public Employees Retirement Fund	\$ 456,644	\$ 414,745	\$ 396,937
Public Employees Police and Fire Fund	149,311	120,403	115,311
Public Employees Correctional Fund	43,115	41,819	44,581

These contribution amounts are equal to the contractually required contributions for each year as set by state statute.

B. Defined Contribution Plan

Four 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.



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4. Employee Retirement Systems and Pension Plans

B. Defined Contribution Plan (Continued)

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. For those qualified personnel who elect to participate, Minn. Stat. § 353D.03 specifies plan provisions, including the employee and employer contribution rates. An eligible elected official who decides to participate contributes 5.00 percent of salary, which is matched by the employer. Employees may elect to make member contributions in an amount not to exceed the employer share. 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, 2009, were:

	Employee	Employer
Contribution amount	\$ 11,046	\$ 11,046
Percentage of covered payroll	5%	5%

Required contribution rates were 5.00 percent.

5. Postemployment Benefits

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. Supervisory employees with at least 15 years of service and 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 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, 2009, there were three retirees using their sick leave balances for insurance premiums.

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5. Postemployment Benefits

A. Plan Description and Funding Policy (Continued)

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, 2009, 12 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 2009, the amount actually contributed to the plan, and changes in the County's net OPEB obligation:

ARC	\$	86,583
Interest on net OPEB obligation		1,929
Adjustment to ARC		<u>(2,575)</u>
Annual OPEB cost	\$	85,937
Contributions during the year		<u>(69,085)</u>
Increase in net OPEB obligation	\$	16,852
Net OPEB - Beginning of Year		<u>67,799</u>
Net OPEB - End of Year	\$	<u><u>84,651</u></u>

**LAKE COUNTY  
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5. Postemployment Benefits

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 2009 were as follows:

Percentage of annual OPEB cost contributed	80.4%
Annual OPEB cost	\$ 85,937
Employer contributions	<u>(69,085)</u>
Net Increase in Net OPEB Obligation	<u>\$ 16,852</u>

C. Funded Status and Funding Progress

The actuarial accrued liability for benefits at January 1, 2008, the most recent actuarial date, is \$618,083. 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 \$5,722,969. The ratio of the unfunded actuarially accrued liabilities (UAAL) to covered payroll is 10.8 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, 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.

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TWO HARBORS, MINNESOTA**

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5. Postemployment Benefits

C. Funded Status and Funding Progress (Continued)

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.

In the January 1, 2008, 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 9.0 percent initially, reduced incrementally to an ultimate rate of 5.0 percent after 8 years. The unfunded actuarial accrued liability is being amortized as a level dollar amount over 30 years.

6. Postemployment Health Care Plans

A. MSRS Health Care Savings Plan

All Lake County employees (except for Highway Department employees and supervisory 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.

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6. Postemployment Health Care Plans

A. MSRS Health Care Savings Plan (Continued)

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.

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 plan. Funding is provided through pre-tax contributions from Lake County on employee health care elections.

In 2009, the maximum County contribution for active employees is \$1,820 for employees with single coverage and \$3,510 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 plan, and
- be a member of a bargaining unit that has approved the VEBA plan.

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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), formerly the Minnesota Counties Insurance Trust. The County is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. The County self-insures for employee dental coverage and participates in a health insurance pool for employee health coverage. For other risks, the County carries commercial insurance. The County retains risk for the deductible portions of the insurance policies. The amounts of these deductibles are considered immaterial to the financial statements. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$430,000 per claim in 2009 and \$450,000 in 2010. 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.

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7. Summary of Significant Contingencies and Other Items

A. Risk Management (Continued)

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

	Year Ended December 31	
	2009	2008
Unpaid claims, beginning of fiscal year	\$ -	\$ -
Incurred claims (including incurred but not reported)	118,301	113,865
Claims payments	(118,301)	(113,865)
Unpaid Claims, End of Fiscal Year	\$ -	\$ -

B. Contingent Liabilities

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

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

C. Other Commitments

Lake County has entered into a joint powers agreement with the Town of Silver Creek to assist the Town in financing a wastewater collection, treatment, and disposal system in the Castle Danger area. The County has agreed to contribute \$65,586 per year through the year 2017 to help finance this project. The total amount to be contributed is \$1,035,000, of which \$550,274 has been paid through December 31, 2009. The

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7. Summary of Significant Contingencies and Other Items

C. Other Commitments (Continued)

outstanding commitment at December 31, 2009, is \$484,786. 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.

D. Joint Ventures

Arrowhead Regional Corrections

The County, in a joint powers agreement pursuant to Minn. Stat. § 471.59, participates with Carlton, Cook, Koochiching, and St. Louis Counties in the Arrowhead Regional Corrections 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 from 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. During 2008 (the most recent information available), County contributions were in the following proportion:

Carlton County	10.48%
Cook County	1.61
Koochiching County	1.98
Lake County	2.11
St. Louis County	<u>83.82</u>
Total	<u><u>100.00%</u></u>



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

D. Joint Ventures

Arrowhead Regional Corrections (Continued)

Below is a summary of the financial information from Arrowhead Regional Corrections' government-wide statements for December 31, 2008 (the most recent information available):

Total Assets	\$ 13,531,737
Total Liabilities	5,588,087
Total Net Assets	7,943,650
Total Revenues	21,617,817
Total Expenses	21,076,113
Change in Net Assets	541,704

Lake County provided \$178,541 in funding during 2009. Separate financial information can be obtained from:

Arrowhead Regional Corrections  
320 West Second Street, Suite 113  
Duluth, Minnesota 55802

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 2009.

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7. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Community Health Board (Continued)

At December 31, 2008 (the most recent information available), the Community Health Board's summary of financial information was:

Total Assets	\$	975,422
Total Liabilities		850,067
Total Net Assets		125,355
Total Revenues		3,818,828
Total Expenses		3,850,486
Change in Net Assets		(31,658)

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 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.

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7. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Northeast Minnesota Office of Job Training (Continued)

A summary of the financial information of the Northeast Minnesota Office of Job Training's government-wide statements for June 30, 2009, was:

Total Assets	\$ 3,038,740
Total Liabilities	1,650,067
Total Net Assets	1,388,673
Total Revenues	5,598,127
Total Expenses	5,589,058
Change in Net Assets	9,069

Separate financial information can be obtained from:

Northeast Minnesota Office of Job Training  
820 North Ninth Street  
P. O. Box 1028  
Virginia, Minnesota 55792

Minnesota Counties Information Systems

The Counties of Aitkin, Carlton, Cass, Chippewa, Cook, Crow Wing, Dodge, Itasca, Koochiching, Lac qui Parle, Lake, Sherburne, and St. Louis entered into a joint powers agreement, pursuant to Minn. Stat. § 471.59, creating and operating Minnesota Counties Information Systems (MCIS). MCIS operates and maintains data processing facilities and management information systems for the benefit of members of this agreement.

MCIS is governed by a 13-member board. Each participating county appoints a member. 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.

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7. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Minnesota Counties Information Systems (Continued)

A summary of the financial information of MCIS at December 31, 2008 (the most recent information available), was:

Total Assets	\$ 1,007,784
Total Liabilities	256,583
Total Net Assets	751,201
Total Revenues	2,534,122
Total Expenses	2,365,437
Change in Net Assets	168,685

Separate financial information can be obtained from:

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

Northern Counties Land Use Board

The Northern Counties Land Use 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 the Counties of Aitkin, Cook, Koochiching, Lake, Lake of the Woods, Marshall, Pennington, Roseau, and St. Louis. Three elected County Commissioners from St. Louis County and two from each of the other counties make up 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  
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7. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Northern Counties Land Use Board (Continued)

A summary of the financial statements at December 31, 2006 (the most recent information available), is shown below:

Total Assets	\$	75,537
Total Liabilities		20,061
Total Net Assets		55,476
Total Revenues		23,750
Total Expenses		7,780
Change in Net Assets		15,970

Lake County made contributions of \$2,500 in 2009 to the Northern Counties Land Use Board.

Separate financial information can be obtained from:

Northern Counties Land Use 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  
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7. Summary of Significant Contingencies and Other Items

D. Joint Ventures

North Shore Collaborative (Continued)

Control of the North Shore Collaborative is vested in a Board of Directors. Lake County has three members on the Board. 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, 2009, is as follows:

Assets	<u>\$</u>	<u>162,931</u>
Liabilities	<u>\$</u>	<u>162,931</u>

Arrowhead Health Alliance

Carlton, Cook, Koochiching, 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.

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

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

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.

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7. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Northeastern Minnesota Regional Radio Board (Continued)

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 Councilor 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 contributed \$226 in funding in 2009.

E. Jointly-Governed Organizations

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

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. The County provided \$2,500 in funding to the North Shore Management Board for 2009.

The St. Louis and Lake Counties Regional Railroad Authority operates a tourism train within the counties. Lake County did not provide any funding to the Regional Railroad Authority in 2009.

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

F. Related-Party Transactions - Lake County Housing and Redevelopment Authority

The Lake County Housing and Redevelopment Authority is a discretely presented component unit of Lake County. The following are related-party transactions:

SEGOG Property

In June 2005, the County entered into an agreement with the Authority to sell 70 acres of land to the Authority for \$250,000. The property will be used for housing development to meet the County's housing needs and to assist in fostering economic development in the County. The purchase price of \$250,000 will be paid to the County as individual lots are sold in the development. This agreement has not been finalized as of December 31, 2009, and no cash payments have been made.

Tax Increment Shortfalls

The Authority's tax increment revenues have not been sufficient to cover bond payments on the Cove Point and Superior Shores tax increment bonds. Lake County has made the bond payments on these bond issues; however, the Lake County Housing and Redevelopment Authority remains obligated to Lake County for these shortfalls. A receivable has been set up on the County's financial statements in the amount of \$810,869.

G. 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.



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8. Component Unit Disclosures

A. Summary of Significant Accounting Policies

In addition to those 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.

Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the 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

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8. Component Unit Disclosures

A. Summary of Significant Accounting Policies

Measurement Focus and Basis of Accounting (Continued)

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.

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, and do not include restricted accounts.

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.

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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8. Component Unit Disclosures

A. Summary of Significant Accounting Policies (Continued)

Restricted Assets

Certain funds of the Authority are classified as restricted assets on the statement of net assets 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.

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

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

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

Long-Term Obligations

In the government-wide financial statements, and 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 assets.

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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8. Component Unit Disclosures (Continued)

B. Detailed Notes on All Funds

1. Assets

Deposits and Investments

a. Deposits

The Authority's total cash and cash equivalents are reported as follows:

Government-wide statement of net assets	
Cash	\$ 346,404
Restricted cash and pooled investments	<u>82,128</u>
Total Cash	<u>\$ 428,532</u>

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

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

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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8. Component Unit Disclosures

B. Detailed Notes on All Funds

1. Assets

Deposits and Investments

a. Deposits (Continued)

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. As of December 31, 2009, \$54,849 of the Authority's book balance of \$428,532 was exposed to custodial credit risk. These deposits are held in a trust account by the property manager of the Authority's rental units. The trust accounts are in the property manager's name and hold funds for multiple properties managed by the company. The account balances of each property are tracked internally by the property manager. Although the accounts are covered by FDIC insurance, it is not possible to determine the amount of FDIC coverage available to cover each property's individual balances.

Uninsured and uncollateralized	\$ <u>54,849</u>
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b. Investments

The types of investments the Authority is authorized by Minn. Stat. §§ 118A.04 and 118A.05 are the same as are available to the County and are detailed in Note 3.A.1.b.

As of, and during the year ended December 31, 2009, the Authority did not own any investments that required disclosure regarding interest rate risk, credit risk, custodial credit risk, or concentration of credit risk.

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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8. Component Unit Disclosures

B. Detailed Notes on All Funds

1. Assets

Deposits and Investments (Continued)

Receivables

Receivables as of December 31, 2009, for the Authority's governmental activities are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Taxes	\$ 11,587	\$ -
Accounts receivable	118,851	-
Accrued interest	3	-
Loans receivable	12,000	11,000
Total Governmental Activities	\$ 142,441	\$ 11,000

Loan Receivable

The Authority has a \$12,000 loan receivable from the Town of Crystal Bay for the Finland Coop Roofing Project, an unrelated organization. The loan has an interest rate of three percent with annual payments of \$1,007 due on January 10 of each year.

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

8. Component Unit Disclosures

B. Detailed Notes on All Funds

1. Assets (Continued)

Capital Assets

Capital asset activity for the year ended December 31, 2009, was as follows:

Governmental Activities

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets depreciated				
Equipment	\$ -	\$ 1,866	\$ -	\$ 1,866
Less: accumulated depreciation for				
Equipment	<u>-</u>	<u>267</u>	<u>-</u>	<u>267</u>
 Governmental Activities				
Capital Assets, Net	<u>\$ -</u>	<u>\$ 1,599</u>	<u>\$ -</u>	<u>\$ 1,599</u>

Business-Type Activities

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets depreciated				
Buildings and structures	\$ 1,879,117	\$ -	\$ -	\$ 1,879,117
Equipment	<u>3,911</u>	<u>-</u>	<u>-</u>	<u>3,911</u>
Total capital assets depreciated	<u>\$ 1,883,028</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,883,028</u>
Less: accumulated depreciation for				
Buildings and structures	\$ 544,161	\$ 46,978	\$ -	\$ 591,139
Equipment	<u>3,911</u>	<u>-</u>	<u>-</u>	<u>3,911</u>
Total accumulated depreciation	<u>\$ 548,072</u>	<u>\$ 46,978</u>	<u>\$ -</u>	<u>\$ 595,050</u>
 Business-Type Activities				
Capital Assets, Net	<u>\$ 1,334,956</u>	<u>\$ (46,978)</u>	<u>\$ -</u>	<u>\$ 1,287,978</u>

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

Governmental Activities	
Urban and economic development	<u>\$ 267</u>
 Business-Type Activities	
Senior housing	<u>\$ 46,978</u>

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

8. Component Unit Disclosures

B. Detailed Notes on All Funds (Continued)

2. Liabilities

Long-Term Debt

Business-Type Activities

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2009</u>
1996 General Obligation Senior Housing Bonds	2027	Varies	3.92	\$ 1,160,642	\$ 885,592

Debt Service Requirements

Debt service requirements at December 31, 2009, were as follows:

Business-Type Activities

<u>Year Ending December 31</u>	<u>Revenue Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2010	\$ 29,000	\$ 45,184
2011	31,607	42,683
2012	34,598	41,143
2013	37,588	39,189
2014	39,538	37,238
2015 - 2019	230,568	153,317
2020 - 2024	296,920	86,965
2025 - 2027	185,773	12,673
Totals	\$ 885,592	\$ 458,392



**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

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8. Component Unit Disclosures

B. Detailed Notes on All Funds

2. Liabilities (Continued)

Changes in Long-Term Liabilities

Business-Type Activities

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Bonds payable					
General Obligation					
Senior Housing Bonds	\$ 914,193	\$ -	\$ 28,601	\$ 885,592	\$ 29,000

C. Summary of Significant Contingencies and Other Items

Tax Increment Financing Districts

The Authority administers the following tax increment financing district established pursuant to Minn. Stat. §§ 469.174-.1791.

District Number 2

Blue Water/Superior Shores Project

The bonds for District Number 2 are general obligation bonds issued by Lake County and are included in the Lake County financial statements. The bonds do not constitute a debt of the Authority. The County collects and pays the debt service payments pursuant to the amended Tax Increment Pledge Agreement, and the Authority recognizes the tax increment revenues and tax increment distributions to Lake County in its financial statements.

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), formerly the Minnesota Counties Insurance Trust. The Authority retains risk for the deductible portions of the insurance policies. The amounts of these deductibles are considered immaterial to the financial statements. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

**LAKE COUNTY  
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8. Component Unit Disclosures

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

Financial Condition

The Authority's expenses, including required payments to Lake County pursuant to bond obligations, exceed current tax increment financing and other revenues. This continuing condition has resulted in a deficit balance of unrestricted net assets. The Authority's Board is looking into ways to improve its financial condition, including working with other similarly situated parties and the Minnesota Legislature to amend tax increment laws. The Authority is also in discussion with Lake County regarding its current obligations and the availability of alternative revenue sources.

The ability of the Authority to continue as a going concern is dependent on its ability to generate additional revenues and/or limit its current debt obligations to provide sufficient net cash flow to fund its daily and long-term obligations. The financial statements do not include any adjustments that might be necessary if the Authority is unable to continue as a going concern.

Related-Party Transactions

The Lake County Housing and Redevelopment Authority related-party transactions are described in detail in Note 7.F.

D. Joint Ventures

In 2008, the Lake County Housing and Development Authority entered into a joint powers agreement with Cook County/Grand Marais Joint Economic Development Authority pursuant to Minn. Stat. § 471.59 for the purpose of preserving the existing housing market, encouraging new housing construction, and providing housing opportunities to the residents of Lake and Cook Counties. The power of each party will be exercised jointly under this agreement with the assistance of a housing coordinator to be retained by both parties. The Lake County Housing and Redevelopment Authority is the fiscal agent and all the financial information is included as part of the Lake County Housing and Redevelopment Authority's financial statements.

**REQUIRED SUPPLEMENTARY INFORMATION**

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**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

*Schedule 1*

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 5,473,919	\$ 5,473,919	\$ 4,873,905	\$ (600,014)
Licenses and permits	7,800	7,800	10,991	3,191
Intergovernmental	2,259,231	2,259,231	5,684,220	3,424,989
Charges for services	531,871	531,871	532,271	400
Fines and forfeits	1,500	1,500	6,001	4,501
Investment earnings	353,000	353,000	148,303	(204,697)
Miscellaneous	67,305	67,305	201,249	133,944
<b>Total Revenues</b>	<b>\$ 8,694,626</b>	<b>\$ 8,694,626</b>	<b>\$ 11,456,940</b>	<b>\$ 2,762,314</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>General government</b>				
Commissioners	\$ 395,403	\$ 395,403	\$ 366,827	\$ 28,576
Courts	20,500	20,500	26,099	(5,599)
Law library	24,000	24,000	29,885	(5,885)
County administration	142,863	143,978	164,561	(20,583)
County auditor	519,630	519,630	523,575	(3,945)
County assessor	418,299	418,299	392,741	25,558
Elections	5,940	5,940	5,858	82
Accounting and auditing	54,000	54,000	70,931	(16,931)
Data processing	627,039	627,039	527,295	99,744
Personnel	213,726	214,541	201,359	13,182
Attorney	397,870	397,870	366,354	31,516
Recorder	238,337	238,337	220,374	17,963
Planning and zoning	268,797	268,797	263,104	5,693
Buildings and plant	798,351	798,351	663,790	134,561
Veterans service officer	62,896	62,896	51,212	11,684
Training	5,000	5,000	1,847	3,153
Motor pool	28,493	28,493	20,363	8,130
Other general government	-	-	3,237	(3,237)
<b>Total general government</b>	<b>\$ 4,221,144</b>	<b>\$ 4,223,074</b>	<b>\$ 3,899,412</b>	<b>\$ 323,662</b>
<b>Public safety</b>				
Sheriff	\$ 1,783,553	\$ 1,783,553	\$ 1,765,702	\$ 17,851
Ambulance	43,377	43,377	46,175	(2,798)
Emergency services	139,224	139,224	119,213	20,011
Coroner	20,000	20,000	12,711	7,289
County jail	900,419	900,419	868,188	32,231
Community corrections	203,302	203,302	178,918	24,384
Sentence to serve	73,245	73,245	67,679	5,566
Emergency management	116,250	116,250	60,680	55,570
Other public safety	45,290	45,290	368,386	(323,096)
<b>Total public safety</b>	<b>\$ 3,324,660</b>	<b>\$ 3,324,660</b>	<b>\$ 3,487,652</b>	<b>\$ (162,992)</b>

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

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**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

*Schedule 1*  
*(Continued)*

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Expenditures</b>				
<b>Current (Continued)</b>				
<b>Sanitation</b>				
Solid waste	\$ 140,973	\$ 140,973	\$ 187,061	\$ (46,088)
Recycling	132,828	132,828	118,691	14,137
Hazardous waste	27,600	27,600	20,439	7,161
<b>Total sanitation</b>	<b>\$ 301,401</b>	<b>\$ 301,401</b>	<b>\$ 326,191</b>	<b>\$ (24,790)</b>
<b>Culture and recreation</b>				
Historical society	\$ 28,000	\$ 28,000	\$ 28,000	\$ -
Arenas	138,191	138,191	122,192	15,999
Humane society	3,500	3,500	3,500	-
Memorial Day observance	900	900	900	-
Recreation board	138,875	138,875	138,876	(1)
Trails	-	-	298,132	(298,132)
County/regional library	82,768	82,768	82,768	-
<b>Total culture and recreation</b>	<b>\$ 392,234</b>	<b>\$ 392,234</b>	<b>\$ 674,368</b>	<b>\$ (282,134)</b>
<b>Conservation of natural resources</b>				
County extension	\$ 103,119	\$ 103,119	\$ 101,086	\$ 2,033
Soil and water conservation	41,402	41,402	41,453	(51)
Agricultural society/County fair	24,736	24,736	24,018	718
Water planning	24,262	24,262	24,262	-
Wetland challenge	5,000	5,000	5,000	-
<b>Total conservation of natural resources</b>	<b>\$ 198,519</b>	<b>\$ 198,519</b>	<b>\$ 195,819</b>	<b>\$ 2,700</b>
<b>Economic development</b>				
Information centers	\$ 14,720	\$ 14,720	\$ 16,321	\$ (1,601)
Airports	28,000	28,000	28,000	-
Housing and redevelopment authority	-	-	617,166	(617,166)
<b>Total economic development</b>	<b>\$ 42,720</b>	<b>\$ 42,720</b>	<b>\$ 661,487</b>	<b>\$ (618,767)</b>
<b>Debt service</b>				
Principal	\$ -	\$ -	\$ 22,879	\$ (22,879)
<b>Total Expenditures</b>	<b>\$ 8,480,678</b>	<b>\$ 8,482,608</b>	<b>\$ 9,267,808</b>	<b>\$ (785,200)</b>

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

*Schedule 1*  
*(Continued)*

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Excess of Revenues Over (Under) Expenditures</b>	\$ 213,948	\$ 212,018	\$ 2,189,132	\$ 1,977,114
<b>Other Financing Sources (Uses)</b>				
Transfers out	127,800	127,800	(198,762)	(326,562)
<b>Net Change in Fund Balance</b>	\$ 341,748	\$ 339,818	\$ 1,990,370	\$ 1,650,552
<b>Fund Balance - January 1, as restated</b>	<u>6,325,429</u>	<u>6,325,429</u>	<u>5,856,084</u>	<u>(469,345)</u>
<b>Fund Balance - December 31</b>	<u>\$ 6,667,177</u>	<u>\$ 6,665,247</u>	<u>\$ 7,846,454</u>	<u>\$ 1,181,207</u>

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

*Schedule 2*

**BUDGETARY COMPARISON SCHEDULE  
ROAD AND BRIDGE SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 1,272,848	\$ 1,272,848	\$ 1,440,859	\$ 168,011
Intergovernmental	5,358,192	5,358,192	4,529,290	(828,902)
Charges for services	63,000	63,000	365,419	302,419
Investment earnings	100	100	941	841
Miscellaneous	9,000	9,000	8,227	(773)
<b>Total Revenues</b>	<b>\$ 6,703,140</b>	<b>\$ 6,703,140</b>	<b>\$ 6,344,736</b>	<b>\$ (358,404)</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Highways and streets</b>				
Administration	\$ 336,632	\$ 336,632	\$ 328,086	\$ 8,546
Maintenance	1,774,436	1,774,436	1,690,095	84,341
Construction	2,861,223	2,861,223	1,391,519	1,469,704
Equipment maintenance and shop	955,764	955,764	931,165	24,599
<b>Total highways and streets</b>	<b>\$ 5,928,055</b>	<b>\$ 5,928,055</b>	<b>\$ 4,340,865</b>	<b>\$ 1,587,190</b>
<b>Debt service</b>				
Principal	\$ 460,000	\$ 460,000	\$ 473,448	\$ (13,448)
Interest	69,810	69,810	71,830	(2,020)
Administrative (fiscal) charges	450	450	403	47
<b>Total debt service</b>	<b>\$ 530,260</b>	<b>\$ 530,260</b>	<b>\$ 545,681</b>	<b>\$ (15,421)</b>
<b>Total Expenditures</b>	<b>\$ 6,458,315</b>	<b>\$ 6,458,315</b>	<b>\$ 4,886,546</b>	<b>\$ 1,571,769</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 244,825</b>	<b>\$ 244,825</b>	<b>\$ 1,458,190</b>	<b>\$ 1,213,365</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	100,000	100,000	-	(100,000)
<b>Net Change in Fund Balance</b>	<b>\$ 344,825</b>	<b>\$ 344,825</b>	<b>\$ 1,458,190</b>	<b>\$ 1,113,365</b>
<b>Fund Balance - January 1, as restated</b>	<b>129,563</b>	<b>129,563</b>	<b>(52,937)</b>	<b>(182,500)</b>
<b>Increase (decrease) in reserved for inventories</b>	<b>-</b>	<b>-</b>	<b>(54,769)</b>	<b>(54,769)</b>
<b>Fund Balance - December 31</b>	<b>\$ 474,388</b>	<b>\$ 474,388</b>	<b>\$ 1,350,484</b>	<b>\$ 876,096</b>



**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

Schedule 3

**BUDGETARY COMPARISON SCHEDULE  
HUMAN SERVICES SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 2,138,075	\$ 2,138,075	\$ 1,815,663	\$ (322,412)
Intergovernmental	4,063,528	4,063,528	4,524,227	460,699
Charges for services	97,600	97,600	244,358	146,758
Miscellaneous	11,250	11,250	73,353	62,103
<b>Total Revenues</b>	<b>\$ 6,310,453</b>	<b>\$ 6,310,453</b>	<b>\$ 6,657,601</b>	<b>\$ 347,148</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Human services</b>				
Income maintenance	\$ 895,812	\$ 895,812	\$ 839,593	\$ 56,219
Social services	2,747,303	2,747,303	2,057,281	690,022
<b>Total human services</b>	<b>\$ 3,643,115</b>	<b>\$ 3,643,115</b>	<b>\$ 2,896,874</b>	<b>\$ 746,241</b>
<b>Health</b>				
Nursing service	\$ 56,418	\$ 56,418	\$ 51,953	\$ 4,465
Transportation	6,379	6,379	9,632	(3,253)
Environmental health	88,187	88,187	89,707	(1,520)
Mental health	2,334,483	2,334,483	2,622,917	(288,434)
Health education	302,013	302,013	271,290	30,723
<b>Total health</b>	<b>\$ 2,787,480</b>	<b>\$ 2,787,480</b>	<b>\$ 3,045,499</b>	<b>\$ (258,019)</b>
<b>Total Expenditures</b>	<b>\$ 6,430,595</b>	<b>\$ 6,430,595</b>	<b>\$ 5,942,373</b>	<b>\$ 488,222</b>
<b>Net Change in Fund Balance</b>	<b>\$ (120,142)</b>	<b>\$ (120,142)</b>	<b>\$ 715,228</b>	<b>\$ 835,370</b>
<b>Fund Balance - January 1</b>	<b>3,661,048</b>	<b>3,661,048</b>	<b>3,661,048</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 3,540,906</b>	<b>\$ 3,540,906</b>	<b>\$ 4,376,276</b>	<b>\$ 835,370</b>

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

*Schedule 4*

**BUDGETARY COMPARISON SCHEDULE  
FORFEITED TAX SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Licenses and permits	\$ 575	\$ 575	\$ 1,022	\$ 447
Intergovernmental	22,241	22,241	114,608	92,367
Charges for services	20,000	20,000	6,242	(13,758)
Miscellaneous	1,423,900	1,423,900	460,251	(963,649)
<b>Total Revenues</b>	<b>\$ 1,466,716</b>	<b>\$ 1,466,716</b>	<b>\$ 582,123</b>	<b>\$ (884,593)</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Conservation of natural resources</b>				
Land use	\$ 677,766	\$ 677,766	\$ 716,972	\$ (39,206)
Other conservation	-	-	60,471	(60,471)
<b>Capital outlay</b>				
Conservation of natural resources	47,000	47,000	2,305	44,695
<b>Total Expenditures</b>	<b>\$ 724,766</b>	<b>\$ 724,766</b>	<b>\$ 779,748</b>	<b>\$ (54,982)</b>
<b>Net Change in Fund Balance</b>	<b>\$ 741,950</b>	<b>\$ 741,950</b>	<b>\$ (197,625)</b>	<b>\$ (939,575)</b>
<b>Fund Balance - January 1</b>	<b>251,122</b>	<b>251,122</b>	<b>251,122</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 993,072</b>	<b>\$ 993,072</b>	<b>\$ 53,497</b>	<b>\$ (939,575)</b>

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

**Schedule 5**

**SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS  
DECEMBER 31, 2009**

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Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
January 1, 2008	\$ -	\$ 618,083	\$ 618,083	0.00%	\$ 5,722,969	10.8%

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**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED DECEMBER 31, 2009**

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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 fund level.

Encumbrance accounting is employed in governmental funds. Encumbrances (for example, purchase orders or contracts) outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reapportioned and honored during the subsequent year.

2. Excess of Expenditures Over Appropriations

For the year ended December 31, 2009, expenditures exceeded appropriations in the following funds:

General Fund	\$	785,200
Forfeited Tax Special Revenue Fund		54,982

3. Schedule of Funding Progress - Other Postemployment Benefits

Lake County currently has no assets that have been irrevocably deposited in a trust for future health benefits. Therefore, the actuarial value of assets is zero.

Lake County implemented Governmental Accounting Standards Board Statement 45 in the fiscal year ended December 31, 2008. Information for prior years is not available.

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**SUPPLEMENTARY INFORMATION**

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**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 Economic Development Special Revenue Fund is used to account for intergovernmental revenue used to finance various economic development projects.

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 Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital assets.

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**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

**Statement 1**

**COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
DECEMBER 31, 2009**

	<u>Special Revenue (Statement 3)</u>	<u>Capital Projects</u>	<u>Total</u>
<b><u>Assets</u></b>			
Cash and pooled investments	\$ 346,114	\$ 151,114	\$ 497,228
Undistributed cash in agency funds	4,382	-	4,382
Taxes receivable			
Prior	5,278	-	5,278
Accounts receivable	231	-	231
Due from other funds	58,875	-	58,875
Due from other governments	47,989	-	47,989
Loans receivable	36,983	-	36,983
	<hr/>	<hr/>	<hr/>
<b>Total Assets</b>	<b>\$ 499,852</b>	<b>\$ 151,114</b>	<b>\$ 650,966</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<b><u>Liabilities and Fund Balances</u></b>			
<b>Liabilities</b>			
Accounts payable	\$ 22,440	\$ -	\$ 22,440
Due to other governments	69,652	-	69,652
Deferred revenue - unavailable	4,104	-	4,104
	<hr/>	<hr/>	<hr/>
<b>Total Liabilities</b>	<b>\$ 96,196</b>	<b>\$ -</b>	<b>\$ 96,196</b>
	<hr/>	<hr/>	<hr/>
<b>Fund Balances</b>			
Reserved for loans receivable	\$ 36,983	\$ -	\$ 36,983
Unreserved			
Undesignated	366,673	151,114	517,787
	<hr/>	<hr/>	<hr/>
<b>Total Fund Balances</b>	<b>\$ 403,656</b>	<b>\$ 151,114</b>	<b>\$ 554,770</b>
	<hr/>	<hr/>	<hr/>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 499,852</b>	<b>\$ 151,114</b>	<b>\$ 650,966</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

**Statement 2**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<b>Special Revenue (Statement 4)</b>	<b>Capital Projects</b>	<b>Total</b>
<b>Revenues</b>			
Taxes	\$ 96,232	\$ -	\$ 96,232
Licenses and permits	75	-	75
Intergovernmental	280,783	-	280,783
Investment earnings	-	240	240
Miscellaneous	37,822	-	37,822
	<b>\$ 414,912</b>	<b>\$ 240</b>	<b>\$ 415,152</b>
<b>Expenditures</b>			
<b>Current</b>			
Public safety	\$ 80,358	\$ -	\$ 80,358
Conservation of natural resources	86,281	-	86,281
Economic development	79,142	-	79,142
<b>Capital outlay</b>			
Public safety	-	35,610	35,610
Highways and streets	-	185,000	185,000
Sanitation	-	26,016	26,016
<b>Debt service</b>			
Principal	205,762	-	205,762
Interest	109,263	-	109,263
Bond issuance costs	-	2,500	2,500
	<b>\$ 560,806</b>	<b>\$ 249,126</b>	<b>\$ 809,932</b>
<b>Excess of Revenues Over (Under)</b>			
<b>Expenditures</b>	<b>\$ (145,894)</b>	<b>\$ (248,886)</b>	<b>\$ (394,780)</b>
<b>Other Financing Sources (Uses)</b>			
Transfers in	\$ 198,762	\$ -	\$ 198,762
Proceeds from sale of capital notes	-	400,000	400,000
	<b>\$ 198,762</b>	<b>\$ 400,000</b>	<b>\$ 598,762</b>
<b>Net Change in Fund Balance</b>	<b>\$ 52,868</b>	<b>\$ 151,114</b>	<b>\$ 203,982</b>
<b>Fund Balance - January 1</b>	<b>350,788</b>	<b>-</b>	<b>350,788</b>
<b>Fund Balance - December 31</b>	<b>\$ 403,656</b>	<b>\$ 151,114</b>	<b>\$ 554,770</b>

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

**Statement 3**

**COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
SPECIAL REVENUE FUNDS  
DECEMBER 31, 2009**

	<b>Resource Development</b>	<b>Economic Development</b>	<b>Unorganized Townships</b>	<b>Total</b>
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 216,157	\$ 15,927	\$ 114,030	\$ 346,114
Undistributed cash in agency funds	-	-	4,382	4,382
Taxes receivable				
Prior	-	-	5,278	5,278
Accounts receivable	-	231	-	231
Due from other funds	58,875	-	-	58,875
Due from other governments	47,989	-	-	47,989
Loans receivable	-	36,983	-	36,983
	<b>\$ 323,021</b>	<b>\$ 53,141</b>	<b>\$ 123,690</b>	<b>\$ 499,852</b>
<b><u>Liabilities and Fund Balances</u></b>				
<b>Liabilities</b>				
Accounts payable	\$ 13,262	\$ 9,178	\$ -	\$ 22,440
Due to other governments	-	-	69,652	69,652
Deferred revenue - unavailable	-	-	4,104	4,104
	<b>\$ 13,262</b>	<b>\$ 9,178</b>	<b>\$ 73,756</b>	<b>\$ 96,196</b>
<b>Fund Balances</b>				
Reserved for loans receivable	\$ -	\$ 36,983	\$ -	\$ 36,983
Unreserved				
Undesignated	309,759	6,980	49,934	366,673
	<b>\$ 309,759</b>	<b>\$ 43,963</b>	<b>\$ 49,934</b>	<b>\$ 403,656</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 323,021</b>	<b>\$ 53,141</b>	<b>\$ 123,690</b>	<b>\$ 499,852</b>

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

*Statement 4*

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
NONMAJOR GOVERNMENTAL FUNDS  
SPECIAL REVENUE FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Resource Development</u>	<u>Economic Development</u>	<u>Unorganized Townships</u>	<u>Total</u>
<b>Revenues</b>				
Taxes	\$ -	\$ -	\$ 96,232	\$ 96,232
Licenses and permits	-	-	75	75
Intergovernmental	269,075	-	11,708	280,783
Miscellaneous	7,230	30,592	-	37,822
<b>Total Revenues</b>	<b>\$ 276,305</b>	<b>\$ 30,592</b>	<b>\$ 108,015</b>	<b>\$ 414,912</b>
<b>Expenditures</b>				
<b>Current</b>				
Public safety	\$ -	\$ -	\$ 80,358	\$ 80,358
Conservation of natural resources	86,281	-	-	86,281
Economic development	-	79,142	-	79,142
<b>Debt service</b>				
Principal	205,762	-	-	205,762
Interest	109,263	-	-	109,263
<b>Total Expenditures</b>	<b>\$ 401,306</b>	<b>\$ 79,142</b>	<b>\$ 80,358</b>	<b>\$ 560,806</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (125,001)</b>	<b>\$ (48,550)</b>	<b>\$ 27,657</b>	<b>\$ (145,894)</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	198,762	-	-	198,762
<b>Net Change in Fund Balance</b>	<b>\$ 73,761</b>	<b>\$ (48,550)</b>	<b>\$ 27,657</b>	<b>\$ 52,868</b>
<b>Fund Balance - January 1</b>	<b>235,998</b>	<b>92,513</b>	<b>22,277</b>	<b>350,788</b>
<b>Fund Balance - December 31</b>	<b>\$ 309,759</b>	<b>\$ 43,963</b>	<b>\$ 49,934</b>	<b>\$ 403,656</b>

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

*Schedule 6*

**BUDGETARY COMPARISON SCHEDULE  
DEBT SERVICE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 609,550	\$ 609,550	\$ 538,299	\$ (71,251)
Intergovernmental	-	-	56,201	56,201
Investment earnings	7,000	7,000	1,080	(5,920)
Miscellaneous	82,972	82,972	70,380	(12,592)
<b>Total Revenues</b>	<b>\$ 699,522</b>	<b>\$ 699,522</b>	<b>\$ 665,960</b>	<b>\$ (33,562)</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Culture and recreation</b>				
Other culture and recreation	\$ -	\$ -	\$ 3,051	\$ (3,051)
<b>Economic development</b>				
Housing and redevelopment authority	-	-	194,462	(194,462)
<b>Debt service</b>				
Principal	778,000	778,000	772,657	5,343
Interest	117,265	117,265	116,498	767
Administrative (fiscal) charges	3,050	3,050	1,903	1,147
<b>Total Expenditures</b>	<b>\$ 898,315</b>	<b>\$ 898,315</b>	<b>\$ 1,088,571</b>	<b>\$ (190,256)</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (198,793)</b>	<b>\$ (198,793)</b>	<b>\$ (422,611)</b>	<b>\$ (223,818)</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	78,800	78,800	-	(78,800)
<b>Net Change in Fund Balance</b>	<b>\$ (119,993)</b>	<b>\$ (119,993)</b>	<b>\$ (422,611)</b>	<b>\$ (302,618)</b>
<b>Fund Balance - January 1</b>	<b>855,062</b>	<b>855,062</b>	<b>855,062</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 735,069</b>	<b>\$ 735,069</b>	<b>\$ 432,451</b>	<b>\$ (302,618)</b>

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

*Schedule 7*

**BUDGETARY COMPARISON SCHEDULE  
RESOURCE DEVELOPMENT SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Intergovernmental	\$ 90,000	\$ 90,000	\$ 269,075	\$ 179,075
Miscellaneous	-	-	7,230	7,230
<b>Total Revenues</b>	<b>\$ 90,000</b>	<b>\$ 90,000</b>	<b>\$ 276,305</b>	<b>\$ 186,305</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Conservation of natural resources</b>				
Forestry	\$ -	\$ -	\$ 8,100	\$ (8,100)
Other conservation	-	-	78,181	(78,181)
<b>Debt service</b>				
Principal	205,761	205,761	205,762	(1)
Interest	109,965	109,965	109,263	702
<b>Total Expenditures</b>	<b>\$ 315,726</b>	<b>\$ 315,726</b>	<b>\$ 401,306</b>	<b>\$ (85,580)</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (225,726)</b>	<b>\$ (225,726)</b>	<b>\$ (125,001)</b>	<b>\$ 100,725</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	-	-	198,762	198,762
<b>Net Change in Fund Balance</b>	<b>\$ (225,726)</b>	<b>\$ (225,726)</b>	<b>\$ 73,761</b>	<b>\$ 299,487</b>
<b>Fund Balance - January 1</b>	<b>235,998</b>	<b>235,998</b>	<b>235,998</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 10,272</b>	<b>\$ 10,272</b>	<b>\$ 309,759</b>	<b>\$ 299,487</b>



**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

*Schedule 8*

**BUDGETARY COMPARISON SCHEDULE  
ECONOMIC DEVELOPMENT SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Miscellaneous	\$ 13,392	\$ 13,392	\$ 30,592	\$ 17,200
<b>Expenditures</b>				
<b>Current</b>				
<b>Economic development</b>				
Other economic development	-	-	79,142	(79,142)
<b>Net Change in Fund Balance</b>	<b>\$ 13,392</b>	<b>\$ 13,392</b>	<b>\$ (48,550)</b>	<b>\$ (61,942)</b>
<b>Fund Balance - January 1</b>	<b>92,513</b>	<b>92,513</b>	<b>92,513</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b><u>\$ 105,905</u></b>	<b><u>\$ 105,905</u></b>	<b><u>\$ 43,963</u></b>	<b><u>\$ (61,942)</u></b>

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

*Schedule 9*

**BUDGETARY COMPARISON SCHEDULE  
UNORGANIZED TOWNSHIPS SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 111,040	\$ 111,040	\$ 96,232	\$ (14,808)
Licenses and permits	50	50	75	25
Intergovernmental	-	-	11,708	11,708
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Total Revenues</b>	<b>\$ 111,090</b>	<b>\$ 111,090</b>	<b>\$ 108,015</b>	<b>\$ (3,075)</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Public safety</b>				
Emergency services	111,300	111,300	80,358	30,942
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Net Change in Fund Balance</b>	<b>\$ (210)</b>	<b>\$ (210)</b>	<b>\$ 27,657</b>	<b>\$ 27,867</b>
<b>Fund Balance - January 1</b>	<b>22,277</b>	<b>22,277</b>	<b>22,277</b>	<b>-</b>
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Fund Balance - December 31</b>	<b>\$ 22,067</b>	<b>\$ 22,067</b>	<b>\$ 49,934</b>	<b>\$ 27,867</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

**FIDUCIARY FUNDS**

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**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

*Statement 5*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<b>Balance January 1</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance December 31</b>
<b><u>CITIES, TOWNS, AND OTHER GOVERNMENTS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ <u>224</u>	\$ <u>11,301,545</u>	\$ <u>11,276,367</u>	\$ <u>25,402</u>
<b><u>Liabilities</u></b>				
Due to other governments	\$ <u>224</u>	\$ <u>11,301,545</u>	\$ <u>11,276,367</u>	\$ <u>25,402</u>
 <b><u>TAXES AND PENALTIES</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ <u>323,813</u>	\$ <u>17,300,375</u>	\$ <u>17,229,664</u>	\$ <u>394,524</u>
<b><u>Liabilities</u></b>				
Taxes collected in advance	\$ 12,916	\$ 18,711	\$ 12,916	\$ 18,711
Due to other governments	<u>310,897</u>	<u>17,281,664</u>	<u>17,216,748</u>	<u>375,813</u>
<b>Total Liabilities</b>	<b>\$ <u>323,813</u></b>	<b>\$ <u>17,300,375</u></b>	<b>\$ <u>17,229,664</u></b>	<b>\$ <u>394,524</u></b>
 <b><u>STATE</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ <u>20,121</u>	\$ <u>151,111</u>	\$ <u>152,728</u>	\$ <u>18,504</u>
<b><u>Liabilities</u></b>				
Due to other governments	\$ <u>20,121</u>	\$ <u>151,111</u>	\$ <u>152,728</u>	\$ <u>18,504</u>

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

*Statement 5  
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<b>Balance January 1</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance December 31</b>
<b><u>SEWER SYSTEM DEPOSITS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 50,640	\$ 18,000	\$ 24,000	\$ 44,640
<b><u>Liabilities</u></b>				
Customer deposits - current	\$ 50,640	\$ 18,000	\$ 24,000	\$ 44,640
 <b><u>NORTH SHORE COLLABORATIVE</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 217,836	\$ 135,353	\$ 190,258	\$ 162,931
<b><u>Liabilities</u></b>				
Accounts payable	\$ 217,836	\$ 135,353	\$ 190,258	\$ 162,931
 <b><u>TOTAL ALL AGENCY FUNDS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 612,634	\$ 28,906,384	\$ 28,873,017	\$ 646,001
<b><u>Liabilities</u></b>				
Accounts payable	\$ 217,836	\$ 135,353	\$ 190,258	\$ 162,931
Taxes collected in advance	12,916	18,711	12,916	18,711
Due to other governments	331,242	28,734,320	28,645,843	419,719
Customer deposits - current	50,640	18,000	24,000	44,640
<b>Total Liabilities</b>	<b>\$ 612,634</b>	<b>\$ 28,906,384</b>	<b>\$ 28,873,017</b>	<b>\$ 646,001</b>

**OTHER SCHEDULE**

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**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

**Schedule 10**

**SCHEDULE OF INTERGOVERNMENTAL REVENUE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2009**

**Shared Revenue**

**State**

Highway users tax	\$	3,199,295
County program aid		124,069
PERA rate reimbursement		24,475
Disparity reduction aid		155,178
Police aid		97,892
Taconite credit		592,748
Enhanced 911		95,929
Market value credit		413,140

**Total shared revenue** **\$ 4,702,726**

**Reimbursement for Services**

**State**

Minnesota Department of Human Services	\$	<u>179,778</u>
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**Payments**

**State**

Payments in lieu of taxes	\$	558,450
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**Local**

Region III funding from other counties		135,395
Duluth Superior Area Community Fund		<u>1,350</u>

**Total payments** **\$ 695,195**

**Grants**

**State**

Minnesota Department of Public Safety	\$	63,298
Health		106,126
Natural Resources		370,036
Human Services		2,914,403
Employment and Economic Security		86,489
Iron Range Resources		125,000
Office of Environmental Assistance		55,475
Miscellaneous boards		<u>5,946</u>

**Total state** **\$ 3,726,773**

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

**Schedule 10  
(Continued)**

**SCHEDULE OF INTERGOVERNMENTAL REVENUE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2009**

**Grants (Continued)**

**Federal**

Department of	
Agriculture	\$ 3,056,991
Commerce	22,959
Interior	237,409
Housing and Urban Development	617,166
Transportation	738,978
Health and Human Services	838,827
Homeland Security	367,527
Environmental Protection Agency	<u>5,000</u>

**Total federal** **\$ 5,884,857**

**Total state and federal grants** **\$ 9,611,630**

**Total Intergovernmental Revenue** **\$ 15,189,329**



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**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

**Schedule 11**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2009**

**I. SUMMARY OF AUDITOR'S RESULTS**

- A. Our report expresses unqualified opinions on the basic financial statements of Lake County.
- B. Significant deficiencies in internal control were disclosed by the audit of financial statements of Lake County and are reported in the "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*." One of the significant deficiencies is a material weakness.
- C. No instances of noncompliance material to the financial statements of Lake County were disclosed during the audit.
- D. Significant deficiencies relating to the audit of the major federal award programs are reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133." One of the significant deficiencies is a material weakness.
- E. The Auditor's Report on Compliance for the major federal award programs for Lake County expresses an unqualified opinion.
- F. Findings relative to a major federal award program for Lake County were reported as required by Section 510(a) of OMB Circular A-133.
- G. The major programs are:

Supplemental Nutrition Assistance Program (SNAP) Cluster	
Matching Grant for Food Stamp Program	CFDA #10.561
Matching Grant for Food Stamp Program - ARRA	CFDA #10.561
National Forest Lands - 25% Payments to States	CFDA #10.665
Community Development Block Grant - Small Cities Program	CFDA #14.228
IV-D Child Support Cluster	
IV-D Child Support	CFDA #93.563
IV-D Child Support - ARRA	CFDA #93.563

H. The threshold for distinguishing between Types A and B programs was \$300,000.

I. Lake County was not determined to be a low-risk auditee.

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

96-11 Segregation of Duties

One basic objective of internal control is to provide for segregation of incompatible duties. In other words, responsibilities should be separated among employees so that a single employee is not able to authorize a transaction, record the transaction in accounts, and be responsible for custody of the asset resulting from the transaction. The following duties should be segregated if possible:

- Someone independent of the cash collection and receipting function and the cash disbursement function should prepare bank reconciliations. If this is not possible, someone independent of these functions should review the bank reconciliations.
- Individuals who collect and receipt cash should not also:
  - post cash receipts to the general ledger system,
  - process cash disbursements,
  - maintain the general ledger,
  - make bank deposits,
  - make wire transfers,
  - make general journal entries, or
  - prepare billings.
- Individuals who process vouchers for payments should not also:
  - print or sign checks or
  - make journal entries.

Lake County does not segregate the duties of cash collection and receipting from posting receipts to the general ledger system, maintaining the general ledger, making journal entries, processing cash disbursements, or making bank deposits. Also, the same person who processes cash disbursements has the ability to print and sign checks. In addition, bank reconciliations are prepared by the same person who does some cash receipting. At the department level, many of these functions are also not segregated.

We recommend the County Board segregate these functions as much as possible. If it is not possible to segregate these duties, Lake County management should be aware of the lack of segregation of the accounting functions and implement oversight procedures to ensure that the internal control policies and procedures are being performed by staff. One possible oversight procedure is to distribute detailed monthly revenue and expenditure reports to department heads and require them to affirm they have reviewed the reports and concur with the revenues and expenditures reported for their department.

Client's Response:

*Limited staff does not allow the desired segregation of duties. Occasional re-assignment of duties will be attempted in order to increase the review of various functions.*

03-2 Capital Assets

The County maintains its capital asset records on a capital asset software system called Assetkeeper. Capital asset additions and deletions are entered into this system, and depreciation is calculated by the system. Capital asset policies utilized by the County in maintaining the capital asset system have not been formally approved by the County Board. A capital asset policy should be adopted which defines the County's accounting policies over capital assets, such as capitalization thresholds, useful lives, and depreciation methods. The policy should also include the procedures to be used to identify capital asset additions and deletions.

A physical inventory of capital assets has not been done since the capital asset records were initially established in 2003.

We recommend the County Board establish a capital asset policy to define the accounting policies for capital assets. The policy should also establish procedures to identify capital asset additions and deletions. Department heads should report capital asset additions and deletions to the person maintaining Assetkeeper at least annually. Also, we recommend a physical inventory of capital assets be performed periodically. This physical inventory

can be rotated so that a portion of the capital assets is inventoried each year. Each asset should be inventoried at least once every five years. Some critical capital assets may need to be inventoried more frequently.

Client's Response:

*The County will attempt to develop policies and procedures for capital assets and determine a process of doing a physical inventory.*

03-4 Preparation of Financial Statements

The County is required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). The preparation of the financial statements is the responsibility of the County's management. Financial statement preparation in accordance with GAAP requires internal controls over both: (1) recording, processing, and summarizing accounting data (maintaining internal books and records); and (2) preparing and reporting appropriate government-wide and fund financial statements, including the related notes to the financial statements.

As is the case with many small and medium-sized entities, the County has relied on its independent external auditors to assist in the preparation of the basic financial statements, including notes to the financial statements, as part of its external financial reporting process. Accordingly, the County's ability to prepare financial statements in accordance with GAAP is based, at least in part, on its reliance on its external auditors, who cannot by definition be considered part of the government's internal control. This condition was caused by the County's decision that it is more cost effective to have its auditors prepare its annual basic financial statements than to incur the time and expense of obtaining the necessary training and expertise required to prepare the financial statements internally. As a result of this condition, the government lacks internal control over the preparation of financial statements in accordance with GAAP.

We recommend the County obtain the training and expertise to internally prepare its annual financial statements in accordance with GAAP. If County management intends to have staff from the Office of the State Auditor assist in preparation then, at a minimum, it must identify and train individuals to obtain the expertise that can sufficiently review, understand, and approve the County's financial statements, including notes.



Client's Response:

*The County has established a financial coordinator position in the auditor's office. This position will attend outside training that is available and continue to work with the state auditor's office to prepare financial statements.*

06-1 Journal Entries

Lake County limits access to the journal entry function on the Integrated Financial System (IFS) to select County employees. At the time of our review, ten County employees had access to this function. Most journal entries are made by the Financial Coordinator, the County Auditor/Treasurer, and the Human Services Accountant. The journal entries made by these employees are not reviewed or approved by anyone else.

The ability to make journal entries on the IFS general ledger system is a powerful function. It allows those employees with access to the journal entry function to make changes to the general ledger system. To prevent abuse of this function, it should be limited to those employees who have a logical need for this access. Also needed is a procedure for review and approval of the journal entries made.

We recommend the County Auditor/Treasurer review the access to the journal entry function to determine if there is a logical need for that access for all employees who have access. We also recommend a procedure be established to require review and approval of journal entries by someone other than the person making the journal entries. This person should obtain an understanding of the journal entry and its purpose before approval. The approval could be documented by signature on a journal entry form or a printed copy of the journal entry made. Supporting documentation or sufficient explanation should be attached to or included on the journal entry to explain why the journal entry is being made and who is making the journal entry. Journal entries should be filed in a manner that allows for their review should questions arise. A report should be generated from the IFS system that lists all journal entries made. The person charged with review and approval of journal entries should periodically review this report. Review of this report would be to ensure that no journal entries have been made which have not been submitted for review and approval.

Client's Response:

*The County Auditor has reviewed the employees in his office who have the authority to make journal entries in IFS. He has reduced the number with this authority by 2. He will work to develop a form to use for the review and approval of journal entries.*

06-2 Budgeting

The Lake County Board has adopted a formal written budget policy that includes policies on when budget amendments must go before the County Board for approval and when they may be submitted to the County Auditor/Treasurer only. However, the budget policy does not address how the budget will be monitored and who will monitor it.

We recommend the budget policy be revised to include budget monitoring procedures. These procedures could include department head review of monthly budget to actual reports, County Board review of periodic budget to actual reports, or County Budget Officer review of budget to actual reports. Reviewers should indicate their review of budget to actual reports by signing off on them.

Client's Response:

*The County is going to amend the budget policy as it hasn't worked as intended. In the amendment process the County will address monitoring procedures.*

06-3 Audit Adjustments

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements of the financial statements on a timely basis. Statement on Auditing Standards No. 115 defines a material weakness as a deficiency, or combination of deficiencies, in internal control such that this is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

During our audit, we proposed 15 adjustments that were material to the County's financial statements. The County provides cash basis financial statements and prepares some of the modified accrual information necessary to adjust the cash basis financial statements to the modified accrual basis. However, County staff do not have the time nor the governmental accounting expertise to prepare all of the information necessary to provide accurate financial statements. Therefore, audit adjustments were necessary to record additional payables, record housing grant expenditures, make a prior period adjustment for taconite production taxes, adjust the capital projects activity out of the debt service funds, adjust fund balance reserves, adjust state-aid highway allotments, set up the advance received on the regular construction allotment, allocate unallocated

revenues and expenditures, adjust receivables for uncollectible amounts, and make reclassification entries as necessary. Audit adjustments were also necessary to adjust modified accrual financial statements to the accrual basis for the government-wide financial statements.

We recommend that County staff review the trial balances and journal entries in detail to ensure they have an understanding of all audit adjustments made so that, in future audits, this information can be prepared by the County.

Client's Response:

*It is the County's expectation the financial coordinator will be able to fulfill these recommendations.*

06-4 Accounting Policies and Procedures Manual

The County does not have a current and comprehensive accounting policies and procedures manual. All governments should document their accounting policies and procedures. Although other methods might suffice, this documentation is traditionally in the form of an accounting policies and procedures manual. This manual should document the accounting policies and procedures that make up the County's internal control system.

An accounting policies and procedures manual will enhance employees' understanding of their role and function in the internal control system, establish responsibilities, provide guidance for employees, improve efficiency and consistency of transaction processing, and improve compliance with established policies. It can also help to prevent deterioration of key elements in the County's internal control system and can help to avoid circumvention of County policies.

We recommend the County establish an accounting policies and procedures manual. The accounting policies and procedures manual should be prepared by appropriate levels of management and be approved by the County Board to emphasize its importance and authority. The documentation should describe procedures as they are intended to be performed, indicate which employees are to perform which procedures, and explain the design and purpose of control-related procedures to increase employee understanding and support for controls.

Client's Response:

*The auditor will attempt to assemble information for the County Board to review on this issue.*

06-6 New Vendors

Lake County does not have any formal procedures for determining if new vendors have been added to the accounts payable system or if the new vendors added are legitimate vendors.

The ability to set up new vendors on the accounts payable system should be limited to those individuals with a logical need for this function. In addition, periodically, a report listing active vendors should be printed and reviewed by someone independent of the accounts payable system. That person should document the review by signing off on the report.

Also, when invoices are submitted for vendors that have not previously done business with the County, some procedures should be required to verify whether the vendor is legitimate. Procedures could include looking up the vendor in the phone book or on the internet or requiring the company to send information about its business. Periodically, the vendor listing should be reviewed for old, unused vendors, and those vendors should be removed from the system.

Client's Response:

*The auditor will review current procedures and develop new procedures if necessary.*

06-7 Payroll

In Lake County, authorization for payroll changes such as new hires, promotions, and step increases, is initiated in the personnel office. Notification of the changes to be made is sent to the payroll department. In the payroll department, the payroll clerk inputs the changes into the master file of the payroll system and subsequently checks payroll edit reports to make sure the changes went into the system properly.

After the payroll clerk clears the payroll edit reports, she runs the final payroll reports and payroll checks. No one independent of the payroll function reviews the checks or payroll reports to determine that all payments were made to actual employees and the hours worked appear to be correct.

We recommend that someone independent of the payroll processing function review the payroll edit reports to make sure all changes made to the payroll system master file were authorized. This independent person should also review the final payroll reports and check to verify all employees paid are actual employees and the hours worked appear to be correct. The functions of generating and signing payroll checks should be segregated from the payroll processing function, if possible.

Client's Response:

*We will attempt to have either the auditor or the financial coordinator review the payroll edits before final payroll processing. Also, copies may be sent to the human resources department for review.*

07-1 Approval of Time Sheets

During our current audit, we noted that supervisors and certain employees who do not have immediate supervisors are approving their own time sheets. Approval of time sheets is an important internal control which helps to ensure that the time worked is reported accurately and reliably.

We recommend that each time sheet contain two attestations of the hours worked. One attestation should be by the employee, and the other should be by the employee's supervisor or other appropriate person.

Client's Response:

*The County will require all employees with a direct supervisor to have two attestations on their time sheet and evaluate what procedures we will implement for Department Heads that don't have a direct supervisor.*

PREVIOUSLY REPORTED ITEMS RESOLVED

**Budgeting (06-2)**

Lake County had no procedures or forms in place to implement the new budget policy that was approved in 2008. Also, we noted one instance of a budget amendment that was approved by the County Board, but was not entered into the IFS system.

**Resolution**

In 2009, Lake County developed a budget form to be used by departments to request budget amendments by the County Board. This form is also used by the County Auditor/Treasurer as a basis for entering the budget amendments into the IFS system. We did not note any instances where County Board-approved budget amendments were not entered into the IFS system during our current audit.

**Computer Risk Management (06-5)**

Lake County had not updated its policies related to information technology on an ongoing basis and had no formal procedures to identify and manage risks associated with its computer system.

**Resolution**

Lake County updated its information technology (IT) policies in 2009 and completed a formal computer risk assessment in January 2010.

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

INTERNAL CONTROL

ITEMS ARISING THIS YEAR

09-1 Expenditure Approval - Community Development Block Grant - Small Cities Program (CFDA #14.228)

Lake County is the grantee of a Small Cities Development Grant funded under the federal Community Development Block Grant Program. The grant is administered by a Housing Coordinator who was jointly hired by the Lake County Housing and Redevelopment Authority (LCHRA) and the Cook County Economic Development Authority (CCEDA).

During our review of expenditures under this program, we determined that the expenditure approval process was not well documented. The Housing Coordinator submits expenditure invoices to be paid to the Lake County Auditor/Treasurer, along with a copy of the Disbursement Request Form that has been submitted to the Minnesota Department of Employment and Economic Development, in order to obtain reimbursement under the federal grant. After Lake County receives payment from the State of Minnesota, the County Auditor/Treasurer's Office pays the expenditure invoices. We were told by the Housing Coordinator that the expenditure invoices are reviewed and approved by the LCHRA Board Chair.

We noted the LCHRA Board Chair's approving signature on only 2 of 20 expenditure invoices that we reviewed during our audit. Also, the Board Chair's signature was on the Disbursement Request Forms which covered only 10 of the 20 expenditures we tested. Therefore, we could not conclude that expenditures were being properly approved prior to being paid.

Lake County, as the grantee on this grant, should have a clear policy and procedure regarding who should be approving these expenditures and how and where that approval should be documented. County staff should determine that the proper approvals are present before making payments on these expenditures. The approving party should be knowledgeable about the grant and what is an allowable expenditure and what is not an allowable expenditure under the grant.

We recommend the County, the LCHRA Board, and the CCEDA Board establish a policy and procedure identifying who should review and approve invoices paid under the grant and how this approval should be documented.

Corrective Action Plan:

Contact Person:

*Lisa DeRosier, Lake County Housing and Redevelopment Authority Executive Director*

Corrective Action Planned:

*The Lake County Housing and Redevelopment Authority Board will designate a signatory to sign each invoice submitted for payment in addition to signing the Disbursement Request form.*

Anticipated Completion Date:

*Now.*

09-2 Supporting Documentation - Community Development Block Grant - Small Cities Program (CFDA #14.228)

Lake County is the grantee of a Small Cities Development Grant funded under the federal Community Development Block Grant Program. The grant is administered by a Housing Coordinator who was jointly hired by the LCHRA and the CCEDA.

During our review of expenditures under this grant, we noted that 2 of 20 expenditures we tested did not have adequate supporting documentation. One expenditure was an administrative charge of \$4,200 that was charged to the grant on Disbursement Request #2 for which there was no documentation attached. The other expenditure was a charge on Disbursement Request #7 for \$1,600 also for administration, for which the only documentation was a memo on LCHRA letterhead instructing the County Auditor/Treasurer to transfer \$1,600 of grant funds.

Expenditures should be properly supported by documentation as to the purpose of the charge or what service was being performed for the grant, the time period the charge was incurred, and any other documentation that would make it clear that a legitimate grant-related expenditure was in fact incurred. For grant expenditures relating to an independent contractor, the expenditure should be supported by a billing from the independent contractor. The amount of necessary detail required in the billing should be established in the contract.

We recommend the County, the LCHRA Board, and the CCEDA Board establish a policy and procedure identifying what documentation should be required to support administrative charges to the grant. The documentation requirements should be included in the contract with the independent contractor.

Corrective Action Plan:

Contact Person:

*Steve McMahon, County Auditor/Treasurer*

Corrective Action Planned:

*The Lake County Auditor will review claims when submitted to make sure the LCHRA Board has approved per their contract with the independent contractor. This contract should have the documentation requirements.*

Anticipated Completion Date:

*Now.*



PREVIOUSLY REPORTED ITEM RESOLVED

**Equipment and Real Property Management - Homeland Security Program  
(CFDA #97.067) (08-1)**

Lake County purchased \$299,873 of radio equipment with federal Homeland Security funds. The purchases were coded to a Homeland Security expense account and were not identified as capital outlays. Therefore, the assets did not get included in the capital asset system. Also, the capital asset management system does not track whether a capital asset was purchased with federal funds.

**Resolution**

Lake County added these assets to its capital asset system in 2009. We noted no capital assets purchased with federal funds in our current audit.

**IV. OTHER FINDINGS AND RECOMMENDATIONS**

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

07-2 Safekeeping of Investments

During 2009, Minn. Stat. § 118A.06 required all County investments to be held in safekeeping with:

- a Federal Reserve bank;
- any bank authorized under the laws of the United States or any state to exercise corporate trust powers including, but not limited to, the bank from which the investment is purchased;
- a primary reporting dealer in United States government securities to the Federal Reserve Bank of New York; or
- a securities broker-dealer having its principal executive office in Minnesota licensed under chapter 80A, or an affiliate of it, and regulated by the Securities and Exchange Commission.

**Schedule 11**  
**(Continued)**

Lake County had on hand at December 31, 2009, government securities totaling \$177,097, which were purchased through Morgan Keegan, and government securities and certificates of deposit totaling \$3,690,139, which were purchased through Wells Fargo Advisors. These broker-dealers are not primary reporting dealers and do not have their principal executive offices in Minnesota. The government investments purchased through Morgan Keegan were purchased in book entry form and are maintained in an account at the Bank of New York. However, for purposes of custody, the securities are “held” by the party who controls their movement which, in this case, is the brokerage firm. The government securities and certificates of deposit purchased through Wells Fargo Advisors are both purchased and held by Wells Fargo Advisors. Therefore, we do not believe that these investments were held in safekeeping in accordance with Minn. Stat. § 118A.06, as it was in effect at December 31, 2009.

We recommend the County Auditor/Treasurer comply with the requirements of Minn. Stat. § 118A.06. The 2010 Legislature changed the requirements effective August 1, 2010, to eliminate the requirement for broker-dealers to have their principal executive offices headquartered in Minnesota. Under the revised statute, investments may be held by a broker-dealer: (1) that is a primary reporting dealer; or (2) that is registered as a broker-dealer under chapter 80A or is exempt from registration requirements, is regulated by the Securities and Exchange Commission, and maintains insurance through the Securities Investor Protection Corporation (SIPC) or excess insurance coverage in an amount equal to or greater than the value of the securities held. The County must verify that brokers have SIPC coverage and excess SIPC coverage sufficient to protect all County securities in their possession in order to be in compliance with Minn. Stat. § 118A.06 after August 1, 2010.

Client’s Response:

*No new funds have been invested with Morgan Keegan since this was brought to the County’s attention. Funds are redeemed and transferred as investments mature. The County had funds invested with Wachovia Securities which was acquired by Wells Fargo Advisors. The County had no control over the acquisition. The County will require Wells Fargo to provide insurance through the Securities Investor Protection Corporation for the County’s deposits.*

ITEMS ARISING THIS YEAR

09-3 Prompt Payment

Of 20 expenditures we reviewed under the Small Cities Development Grant Program, 6 were not paid within 35 days of receipt of the invoice as required by Minn. Stat. § 471.425, subd. 2.

To ensure compliance with Minn. Stat. § 471.425, subd. 2, we recommend the Lake County Auditor/Treasurer and the Housing Coordinator who administers this grant review the payment process and determine what may be causing these payments to be delayed beyond 35 days.

Client's Response:

*Payments were unable to be processed by the auditor's office under the Small Cities Development Grant Program in a timely manner as the invoices were either not forwarded to the auditor quickly enough, or the requested grant amount did not equal the sum of the invoices and reconciliation of the invoice amount(s) and grant disbursement request had to be made.*

09-4 Vendor Gifts

During our current audit, we became aware that the Lake County Sheriff's Department had received various gifts from a vendor when ordering departmental supplies. These gifts included such items as golf balls, buck knives, a George Foreman grill, barbeque tools, and assorted gift certificates/cards to restaurants and a bath and body shop. The gift certificates/cards ranged in value from \$10 to \$25.

The Undersheriff responsible for the purchasing indicated that the gift items had been either kept within the department or distributed to County staff. The Sheriff's Department did not maintain a list of the recipients of the gift items.

During our review of this issue, we also noted that the purchases made from this vendor were increasing over time. The purchases totaled \$4,604 in 2008, \$8,010 in 2009, and \$3,317 in the first three months of 2010. Our discussions with the Lake County Sheriff indicated that he believed that some items, such as evidence bags, were being purchased in amounts far in excess of the department's needs.

*Schedule 11*  
*(Continued)*

A county official or employee may not be “directly or indirectly interested in any contract, work, labor, or business to which the county is a party or in which it is or may be interested or in the furnishing of any article to, or the purchase or sale of any property, real or personal, by, the county, or of which the consideration, price, or expense is payable from the county treasury.” Minn. Stat. § 382.18. In addition, county officials are subject to Minn. Stat. § 471.895, which generally bans gifts to local officials from vendors, with an exception for a trinket or memento costing \$5 or less. Finally, under Minn. Stat. § 471.87, a public officer authorized to take part in making a contract in any manner generally is not allowed to have a personal financial interest in the contract.

The Lake County Code of Conduct Policy generally prohibits public officials or employees of Lake County from accepting gifts or anything of value other than items of nominal value, from any person, firm, or corporation to which a contract or purchase order has been or may be awarded. In addition, the Lake County Purchasing Policy generally states that an elected official or an employee of Lake County should not have a direct or indirect financial interest in any contract or purchase order for goods or services used by the County.

One purpose of the Code of Conduct Policy, the Purchasing Policy, and these statutes is to prevent vendor-provided gifts from influencing the decision-making process during purchasing.

We recommend the County comply with Minn. Stat. §§ 382.18, 471.895, and 471.87 and that its officers and employees comply with the Lake County Code of Conduct Policy and the Lake County Purchasing Policy. We also recommend the County department heads distribute the Lake County Code of Conduct Policy and the Lake County Purchasing Policy to all employees who are or may be involved in the purchasing process to ensure that everyone involved with purchasing is aware of the prohibition against accepting gifts from vendors. If unsolicited gifts are received from a vendor, the County Attorney should be consulted as to the proper disposition of these gifts.

Client’s Response:

*Lake County will comply with Minn. Stat. §§ 382.18, 471.895, and 471.87, and our Code of Conduct and the Purchase Policy. The County will instruct Department Heads to distribute the Code of Conduct and the Purchasing Policy to any and all employees involved in the purchasing process.*

09-5

Bidding

During our current audit, we noted the County purchased a trail groomer for \$160,000 without advertising for bids as required by Minn. Stat. §§ 471.345 and 375.21.

The trail groomer was purchased for the Voyageur Snowmobile Club. It was funded in part by the club and in part by a recreational trail grant received by the County. The County paid the vendor directly for the groomer and was reimbursed by the grant and the snowmobile club.

Minn. Stat. §§ 471.345 and 375.21 require that contracts estimated to exceed \$100,000 be solicited by public notice and be awarded to the lowest responsible bidder.

We recommend the County Board solicit bids by public notice in the official newspaper as required by Minn. Stat. §§ 471.345 and 375.21 for contracts estimated to exceed \$100,000.

Client's Response:

*The County will follow required statutes for contracts exceeding \$100,000.*

B. OTHER ITEM FOR CONSIDERATION

GASB Statement 54

The Governmental Accounting Standards Board (GASB) recently issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The intention of this standard is to enhance the usefulness of information included in the financial report about fund balance through clearer fund balance classifications that can be more consistently applied, as well as to clarify existing governmental fund type definitions.

Fund Balance Reporting

Statement 54 establishes new fund balance classifications based on constraints imposed on how resources can be spent. The existing components of fund balance reserved, unreserved, designated, and undesignated are being replaced by nonspendable, restricted, committed, assigned, and unassigned as defined below:

- *Nonspendable* - amounts that cannot be spent because they are either not in spendable form (for example, inventory or prepaid items) or legally or contractually required to be maintained intact (such as the corpus of a permanent fund).
- *Restricted* - amounts that can be spent only for specific purposes stipulated by constitution, external resource providers, or through enabling legislation.
- *Committed* - amounts that can be used only for specific purposes determined by a formal action of a government's highest level of decision-making authority.
- *Assigned* - amounts a government intends to use for a specific purpose that do not meet the criteria to be classified as restricted or committed.
- *Unassigned* - spendable amounts not contained in the other classifications.

Governmental Fund Type Definitions

The definitions of the general fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are clarified in Statement 54. Interpretations of certain terms within the definition of the special revenue fund type have been provided and, for some governments, those interpretations may affect the activities they choose to report in those funds. The capital projects fund type definition also was clarified for better alignment with the needs of preparers and users. Definitions of other governmental fund types also have been modified for clarity and consistency.

The requirements of GASB Statement 54 are effective for the County for the year ending December 31, 2011.



REBECCA OTTO  
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***

Board of County Commissioners  
Lake County

We have audited 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 as of and for the year ended December 31, 2009, which collectively comprise the County's basic financial statements, and have issued our report thereon dated August 31, 2010. The financial statements include the Nursing Home Enterprise Fund as of and for the year ended September 30, 2009. 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.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Lake County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material

weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected, on a timely basis. We considered the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 06-3 to be a material weakness.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 96-11, 03-2, 03-4, 06-1, 06-2, 06-4, 06-6, 06-7, and 07-1 to be significant deficiencies.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lake County's financial statements are free of 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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Local Government* contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our study included all of the listed categories, except that the testing for compliance with tax increment financing was done with the audit of the Lake County Housing and Redevelopment Authority component unit.



The results of our tests indicate that, for the items tested, Lake County complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Questioned Costs as items 07-2 and 09-3 through 09-5.

Also included in the Schedule of Findings and Questioned Costs is an other item for consideration. We believe this information to be of benefit to the County, and it is reported for that purpose.

Lake County's written responses to the internal control and legal compliance findings identified in our audit have been included in the Schedule of Findings and Questioned Costs. We did not audit the County's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of County Commissioners, management, others within Lake County, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

August 31, 2010

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REBECCA OTTO  
STATE AUDITOR

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## REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of County Commissioners  
Lake County

### Compliance

We have audited the compliance of Lake County with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2009. Lake County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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. Our audit does not provide a legal determination on the County's compliance with those requirements.

In our opinion, Lake County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2009.

### Internal Control Over Compliance

The management of Lake County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a material weakness and another deficiency that we consider to be a significant deficiency.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or 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. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 09-1 to be a material weakness.

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 attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 09-2 to be a significant deficiency.

## Schedule of Expenditures of Federal Awards

We have audited 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 as of and for the year ended December 31, 2009, which collectively comprise the County's basic financial statements, and have issued our report thereon dated August 31, 2010. Our audit was performed for the purpose of forming opinions on the County's financial statements that collectively comprise the County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Lake County's corrective action plans to the federal award findings identified in our audit are included in the accompanying Schedule of Findings and Questioned Costs. We did not audit the County's corrective action plans and, accordingly, we express no opinions on them.

This report is intended solely for the information and use of the Board of County Commissioners, management and others within the County, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

August 31, 2010

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

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**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

Schedule 12

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2009**

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Pass-Through Grant Numbers</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>U.S. Department of Agriculture</b>			
Direct			
U.S. Forest Service Cooperative Agreement		10.R9-9-95-35B	\$ 27,000
Passed Through Carlton, Cook, Lake, and St. Louis Community Health Board			
Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)		10.557	42,589
Passed Through Minnesota Department of Human Services			
Supplemental Nutrition Assistance Program (SNAP) Cluster			
Matching Grant for SNAP Program		10.561	102,969
Matching Grant for SNAP Program - ARRA		10.561	1,682
Passed Through Minnesota Department of Natural Resources			
Cooperative Forestry Assistance		10.664	1,081
Passed Through Minnesota Department of Management & Budget			
National Forest Lands - 25% Payments to States		10.665	<u>2,881,670</u>
<b>Total U.S. Department of Agriculture</b>			<b><u>\$ 3,056,991</u></b>
<b>U.S. Department of Commerce</b>			
Passed Through Minnesota Department of Natural Resources			
Coastal Zone Management Administration Award	306-STAR10-08 306-10-10 306-06-09	11.419	<b><u>\$ 22,959</u></b>
<b>U.S. Department of Housing and Urban Development</b>			
Passed Through Minnesota Department of Employment and Economic Development			
Community Development Block Grant - Small Cities Program	FY08	14.228	<b><u>\$ 617,166</u></b>
<b>U.S. Department of the Interior</b>			
Direct			
Payments in Lieu of Taxes		15.226	<b><u>\$ 237,409</u></b>
<b>U.S. Department of Transportation</b>			
Highway Planning and Construction Cluster			
Passed Through Minnesota Department of Transportation			
Highway Planning and Construction	SP-38-620-03	20.205	\$ 564,672
Passed Through Minnesota Department of Natural Resources			
Recreational Trails Program	013-06-2c	20.219	<u>10,776</u>
<b>Total U.S. Department of Transportation</b>			<b><u>\$ 575,448</u></b>

**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

**Schedule 12  
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2009**

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Pass-Through Grant Numbers</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>U.S. Environmental Protection Agency</b>			
Passed Through Minnesota Pollution Control Agency			
Beach Monitoring and Program Implementation Grants		66.472	\$ <u>5,000</u>
<b>U.S. Department of Health and Human Services</b>			
Passed Through Carlton, Cook, Lake, and St. Louis Community Health Board			
Center for Disease Control and Prevention		93.283	\$ 33,315
Temporary Assistance for Needy Families		93.558	7,161
Maternal and Child Health Services Block Grant		93.994	8,577
Passed Through Minnesota Department of Human Services			
Projects for Assistance in Transition from Homelessness		93.150	16,747
Promoting Safe and Stable Families		93.556	317
Temporary Assistance for Needy Families		93.558	78,801
IV-D Child Support Cluster			
IV-D Child Support		93.563	183,514
IV-D Child Support - ARRA		93.563	22,219
Refugee and Entrant Assistance		93.566	268
Child Care Mandatory and Matching Funds		93.596	4,983
Child Welfare Services - State Grants		93.645	2,683
Foster Care - Title IV-E Cluster			
Foster Care - Title IV-E		93.658	24,890
Foster Care - Title IV-E - ARRA		93.658	6,922
Social Services Block Grant Title XX		93.667	101,388
Support for Emancipation and Living Functionally		93.674	1,968
Medical Assistance		93.778	320,019
Community Mental Health Services Block Grant		93.958	<u>25,055</u>
<b>Total U.S. Department of Health and Human Services</b>			<b>\$ <u>838,827</u></b>
<b>U.S. Department of Homeland Security</b>			
Passed Through Minnesota Department of Natural Resources			
Boating Safety Financial Assistance		97.012	\$ 5,993
Passed Through Minnesota Department of Public Safety			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)		97.036	119,553
Homeland Security Grant Program	2009-OSGP-00283	97.067	<u>241,981</u>
<b>Total U.S. Department of Homeland Security</b>			<b>\$ <u>367,527</u></b>
<b>Total Federal Awards</b>			<b>\$ <u>5,721,327</u></b>



**LAKE COUNTY  
TWO HARBORS, MINNESOTA**

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2009

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, 2009. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. 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 assets, or cash flows of Lake County.

3. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

4. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 5,884,857
Grants received more than 90 days after year-end, deferred in 2009	
Highway Planning and Construction	3,185
Deferred in 2008, recognized as revenue in 2009	
Highway Planning and Construction	(166,715)
Expenditures Per Schedule of Expenditures of Federal Awards	\$ 5,721,327

5. American Recovery and Reinvestment Act

The American Recovery and Reinvestment Act of 2009 (ARRA) requires recipients to clearly distinguish ARRA funds from non-ARRA funding. In the schedule, ARRA funds are denoted by the addition of ARRA to the program name.