

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

MILLE LACS COUNTY
MILACA, MINNESOTA

YEAR ENDED DECEMBER 31, 2015

Description of the Office of the State Auditor

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

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

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

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

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

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

Pension - monitors investment, financial, and actuarial reporting for approximately 700 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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**MILLE LACS COUNTY
MILACA, MINNESOTA**

Year Ended December 31, 2015



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

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**MILLE LACS COUNTY
MILACA, MINNESOTA**

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**MILLE LACS COUNTY
MILACA, MINNESOTA**

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**MILLE LACS COUNTY
MILACA, MINNESOTA**

**ORGANIZATION
2015**

| Office | Name | Term | |
|---|---------------------|--------------|---------------|
| | | From | To |
| Commissioners | | | |
| 1st District | Genny Reynolds | January 2013 | January 2017 |
| 2nd District | Timothy Wilhelm | January 2015 | January 2019 |
| 3rd District | Phil Peterson* | January 2013 | January 2017 |
| 4th District | Roger Tellinghuisen | January 2015 | January 2019 |
| 5th District | David Oslin | January 2013 | January 2017 |
| Officers | | | |
| Elected | | | |
| Attorney | Joe Walsh | January 2015 | January 2019 |
| Auditor/Treasurer | Philip Thompson | January 2015 | January 2019 |
| Sheriff | Brent Lindgren | January 2015 | January 2019 |
| Appointed | | | |
| County Administrator | Pat Oman | October 2015 | Indefinite |
| County Assessor | Al Heim | August 2014 | December 2016 |
| County Engineer | Bruce Cochran | May 2015 | May 2019 |
| Community and Veterans Services Director | Beth Crook | January 2014 | Indefinite |
| Court Services Director | Ben Davis | August 2015 | Indefinite |
| Land Services Director | Michele McPherson | March 2009 | Indefinite |
| Medical Examiner | Dr. Quinn Strobl | January 2015 | December 2015 |

*Board Chair

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REBECCA OTTO
STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Mille Lacs County
Milaca, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mille Lacs County, Minnesota, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the County's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of

expressing an opinion on the effectiveness of the County's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Mille Lacs County as of December 31, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter - Change in Accounting Principle

As discussed in Note 1 to the financial statements, in 2015 the County adopted new accounting guidance by implementing the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, and GASB Statement No. 82, *Pension Issues*, which represents a change in accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Mille Lacs County's basic financial statements. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying

accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 27, 2016, on our consideration of Mille Lacs County’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Mille Lacs County’s internal control over financial reporting and compliance.

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

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

July 27, 2016

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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**MILLE LACS COUNTY
MILACA, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2015
(Unaudited)**

Mille Lacs 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, 2015. We encourage readers to consider the information presented here in conjunction with the County's basic financial statements following this section. All amounts, unless otherwise indicated, are expressed in whole dollars.

FINANCIAL HIGHLIGHTS

- Governmental activities' total net position is \$72,372,019, of which \$62,621,106 is the net investment in capital assets, and \$4,792,366 is restricted to specific purposes/uses by the County.
- The net cost of Mille Lacs County's governmental activities for the year ended December 31, 2015, was \$17,187,218; the net cost was funded by general revenues and other items totaling \$17,878,456.
- At the close of 2015, Mille Lacs County's governmental funds reported combined ending fund balances of \$26,637,147, an increase of \$504,295 from the previous year-end balance. At the end of the year, Mille Lacs County's assigned and unassigned fund balance totaled \$16,018,656, which is available for spending at the County Board's discretion.

OVERVIEW OF THE FINANCIAL STATEMENTS

Mille Lacs County's MD&A serves as an introduction to the basic financial statements. The County's basic financial statements consist of three parts: government-wide financial statements, fund financial statements, and notes to the financial statements. The MD&A (this section); certain budgetary comparison schedules; the Schedules of Proportionate Share of Net Pension Liability and Schedules of Contributions for the Public Employees Retirement Association of Minnesota (PERA) General Employees Retirement Fund, Public Employees Police and Fire Fund, and Public Employees Correctional Fund; and the Schedule of Funding Progress - Other Postemployment Benefits are required to accompany the basic financial statements and, therefore, are included as required supplementary information. The following chart demonstrates how the different pieces are inter-related.

| |
|---|
| Management’s Discussion and Analysis (Required Supplementary Information) |
|---|

| | |
|---|----------------------------------|
| Government-Wide Financial Statements | Fund Financial Statements |
| Notes to the Financial Statements | |

| |
|--|
| Required Supplementary Information (Other than Management’s Discussion and Analysis) |
|--|

Mille Lacs County presents two government-wide financial statements: the Statement of Net Position and the Statement of Activities. These two government-wide financial statements provide information about the activities of the County as a whole and present a longer-term view of Mille Lacs County’s finances. The County’s fund financial statements follow these two government-wide financial statements. For governmental activities, these statements tell how Mille Lacs County financed its services in the short term as well as what remains for future spending. Fund financial statements also report the County’s operations in more detail than the government-wide statements by providing information about the County’s most significant/major funds. The remaining statements provide financial information about activities for which the County acts solely as a trustee or agent for the benefit of those outside of the government.

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

The Statement of Net Position and the Statement of Activities report information about Mille Lacs County as a whole and about its activities in a way that helps the reader determine whether Mille Lacs County’s financial condition has improved or declined as a result of the current 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.

These two statements consider all of Mille Lacs County’s current year revenues and expenses, regardless of when the County receives the revenue or pays the expenditure, and report the County’s net position and changes in it. You can think of the County’s net position--the difference between assets and liabilities--as one way to measure Mille Lacs County’s financial health or financial position. Over time, increases or decreases in the County’s net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the County’s property tax base and the general economic conditions of the state and County, to assess the overall health of Mille Lacs County.

Governmental activities--Mille Lacs County reports its basic services in the “Governmental Activities” column of these statements. The activities reported by the County include general government, public safety, highways and streets, sanitation, human services, health, culture and recreation, conservation of natural resources, economic development, and interest expense on long-term debt. Mille Lacs County finances the majority of these activities with local property taxes, state-paid aids, fees, charges for services, and federal and state grants.

Fund Financial Statements

Mille Lacs County's fund financial statements provide detailed information about the significant funds--not the County as a whole. Significant governmental, proprietary, and fiduciary funds may be established by the County to meet requirements of a specific state law; to help control and manage money for a particular purpose/project; or to show that it is meeting specific legal responsibilities and obligations when expending property tax revenues, grants, and/or other funds designated for a specific purpose.

Governmental funds--Most of Mille Lacs 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 in the financial statements using modified accrual accounting, which measures cash and other financial assets that the County can readily convert 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 determine whether financial resources are available that can be spent in the near future to finance various programs within Mille Lacs County. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in a reconciliation statement following each governmental fund financial statement.

Proprietary funds--The County maintains one proprietary fund type, an internal service fund, which is an accounting device used to accumulate and allocate costs internally. Mille Lacs County uses an internal service fund to account for its self-insurance activities. These services benefit governmental functions and have been allocated to governmental activities in the government-wide financial statements.

Reporting the County's Fiduciary Responsibilities

Mille Lacs County is the trustee, or fiduciary, over assets that can be used only for the trust beneficiaries based on the trust arrangement. The County reports all of its fiduciary activities in separate Statements of Fiduciary Net Position and Changes in Fiduciary Net Position. These activities have been excluded from the County's other financial statements because the County cannot use these assets to finance its operations. Mille Lacs County is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

THE COUNTY AS A WHOLE

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

**Table 1
Net Position**

| | 2015 | 2014 |
|---|-----------------------|-----------------------|
| Assets | | |
| Current and other assets | \$ 30,318,632 | \$ 29,774,989 |
| Capital assets | <u>70,851,855</u> | <u>70,331,519</u> |
| Total Assets | <u>\$ 101,170,487</u> | <u>\$ 100,106,508</u> |
| Deferred Outflows of Resources | | |
| Deferred pension outflows | <u>\$ 1,789,947</u> | <u>\$ -</u> |
| Liabilities | | |
| Long-term liabilities outstanding | \$ 27,324,496 | \$ 18,082,926 |
| Other liabilities | <u>2,016,427</u> | <u>1,670,912</u> |
| Total Liabilities | <u>\$ 29,340,923</u> | <u>\$ 19,753,838</u> |
| Deferred Inflows of Resources | | |
| Deferred pension inflows | <u>\$ 1,247,492</u> | <u>\$ -</u> |
| Net Position | | |
| Net investment in capital assets | \$ 62,621,106 | \$ 61,431,956 |
| Restricted | 4,792,366 | 4,600,410 |
| Unrestricted | <u>4,958,547</u> | <u>14,320,304</u> |
| Total Net Position, as Reported | <u>\$ 72,372,019</u> | \$ 80,352,670 |
| Change in accounting principles* | | <u>(8,671,889)</u> |
| Total Net Position, as Restated | | <u>\$ 71,680,781</u> |

*This is the first year the County implemented the new pension accounting and financial reporting standards, Governmental Accounting Standards Board Statements 68, 71, and 82. The County had to make a prior year change in accounting principles to record the County's net pension liability and related deferred outflows of resources.

A large portion of Mille Lacs County's net position, \$62,621,106 (86.53 percent), reflects the County's investment in capital assets, less any related debt used to acquire those assets. The County uses these capital assets to provide services to citizens. However, it should be noted that these assets are not available for future spending or for liquidating any remaining debt. The portion of the County's net position subject to external restrictions on how they are used is \$4,792,366 (6.62 percent). The unrestricted net position of \$4,958,547 (or 6.85 percent) decreased by \$9,361,757 due to the implementation of GASB Statements 68, 71, and 82.

**Table 2
Changes in Net Position**

| | 2015 | 2014 |
|---------------------------------------|----------------------|----------------------|
| Program revenues | | |
| Fees, charges, fines, and other | \$ 3,356,808 | \$ 2,937,922 |
| Operating grants and contributions | 11,867,736 | 11,475,285 |
| Capital grants and contributions | 1,131,843 | 1,890,886 |
| General revenues | | |
| Property taxes | 15,052,978 | 14,832,805 |
| Other | 2,825,478 | 2,666,035 |
| Total Revenues | \$ 34,234,843 | \$ 33,802,933 |
| Expenses | | |
| General government | \$ 6,299,748 | \$ 6,769,763 |
| Public safety | 8,417,126 | 8,230,611 |
| Highways and streets | 6,720,953 | 5,941,524 |
| Sanitation | 81,436 | 82,624 |
| Human services | 9,877,663 | 9,064,471 |
| Health | 739,805 | 756,789 |
| Culture and recreation | 467,624 | 292,492 |
| Conservation of natural resources | 298,909 | 176,520 |
| Economic development | 135,283 | 93,701 |
| Interest | 505,058 | 421,410 |
| Total Expenses | \$ 33,543,605 | \$ 31,829,905 |
| Change in Net Position | \$ 691,238 | \$ 1,973,028 |
| Net Position - January 1, as restated | 71,680,781 * | 78,379,642 |
| Net Position - December 31 | \$ 72,372,019 | \$ 80,352,670 |

*Amount includes a prior period adjustment for a change in accounting principles.

Governmental Activities

Revenues for Mille Lacs County's governmental activities for the year ended December 31, 2015, were \$34,234,843. The County's cost for all governmental activities for the year ended December 31, 2015, was \$33,543,605. The net position for the County's governmental activities increased by \$691,238 in 2015.

As shown in the Statement of Activities, the amount that Mille Lacs County taxpayers ultimately financed for these governmental activities through local property taxation was \$15,052,978 because \$3,356,808 of the costs were paid by those who directly benefited from the programs, and \$12,999,579 was paid by other governments and organizations that subsidized certain programs with grants and contributions. Mille Lacs County paid for the remaining “public benefit” portion of governmental activities with \$1,901,180 in grants and contributions not restricted to specific programs and \$924,298 in other revenues, such as investment income, mortgage registry tax, and state deed tax.

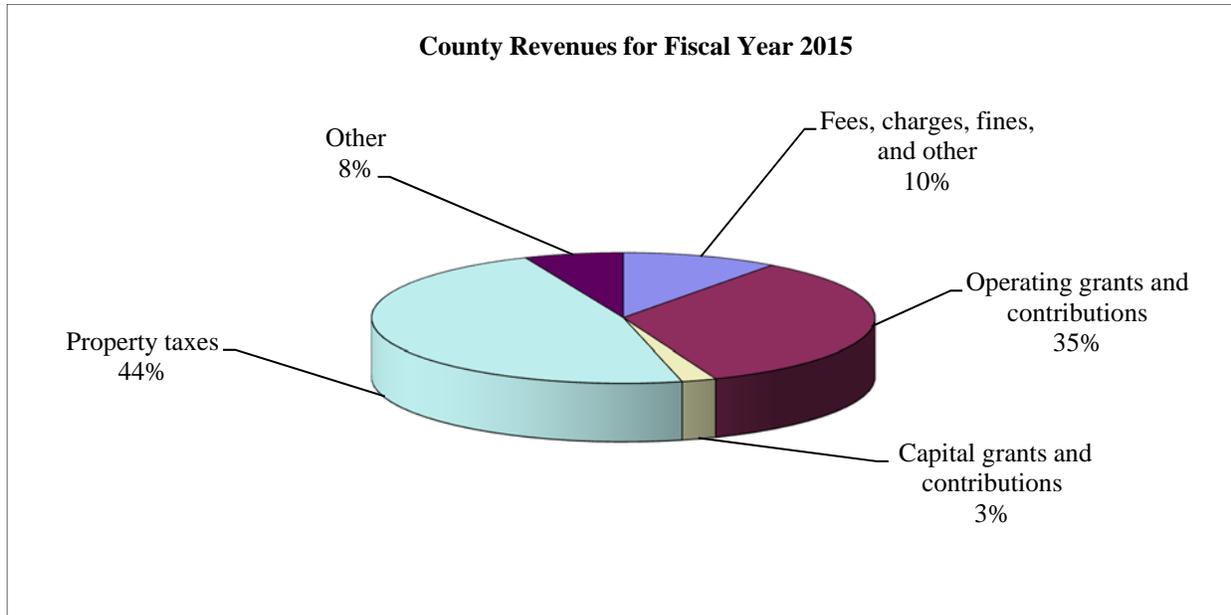
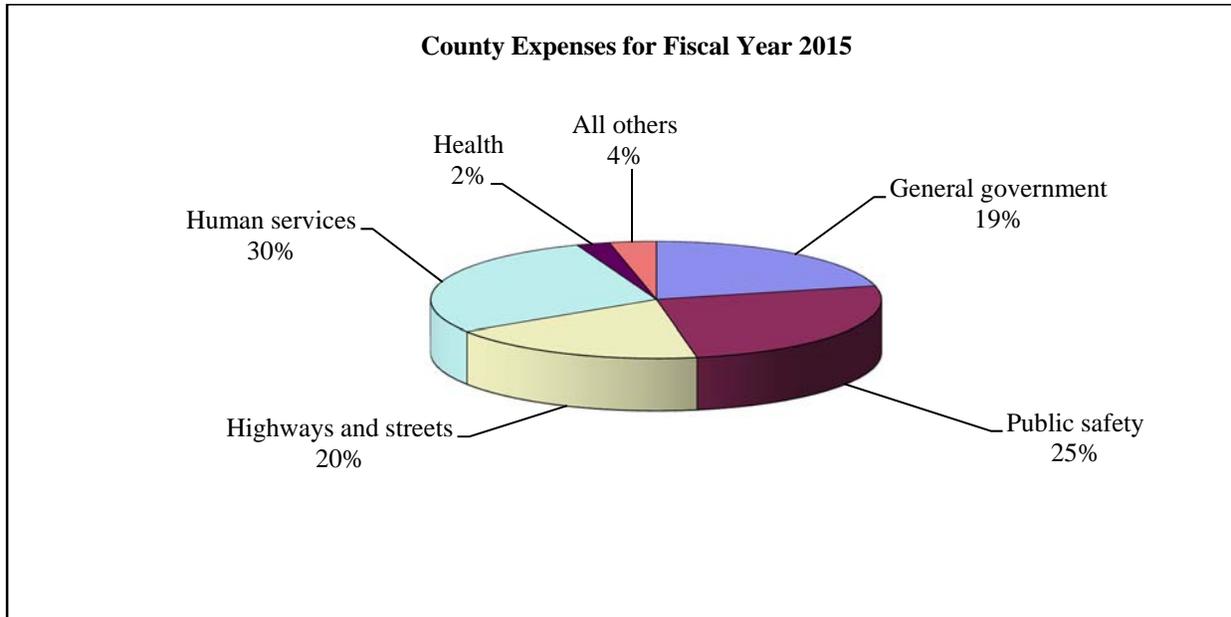


Table 3 presents the cost of each of Mille Lacs County’s five largest program functions as well as each function’s net cost (total cost, less revenues generated by the activities). The net cost shows the financial burden placed on Mille Lacs County’s taxpayers by each of these functions.

**Table 3
Governmental Activities**

| | 2015 | |
|-------------------------------|------------------------|----------------------|
| | Total Cost of Services | Net Cost of Services |
| Program expenses | | |
| General government | \$ 6,299,748 | \$ 5,233,651 |
| Public safety | 8,417,126 | 6,303,232 |
| Highways and streets | 6,720,953 | 850,661 |
| Human services | 9,877,663 | 3,914,901 |
| Health | 739,805 | (4,456) |
| All others | 1,488,310 | 889,229 |
| Total Program Expenses | \$ 33,543,605 | \$ 17,187,218 |



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

Governmental Funds

The focus of the County's governmental funds is to provide information on short-term inflows, outflows, and the balances left at year-end that are available for spending. Such information is useful in assessing the County's financing requirements. In particular, committed, assigned, and unassigned fund balance may serve as a useful measure of net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, governmental funds reported combined ending fund balances of \$26,637,147, an increase of \$504,295 in comparison with the prior year. Of the combined ending fund balances, \$16,225,851 represents unrestricted (committed, assigned, and unassigned) fund balance, which is available for spending at the County's discretion. The remainder of fund balance, \$10,411,296, is not available for general spending due to restrictions for specific purposes or is considered nonspendable.

The General Fund is the main operating fund of the County. At the end of the 2015, the General Fund's fund balance was \$7,415,212, of which \$5,902,782 was committed, assigned, or unassigned. As a measure of the General Fund's liquidity, it may be useful to compare unrestricted fund balance to total expenditures. The General Fund unrestricted fund balance represents 41.35 percent of total General Fund expenditures. During 2015, the ending fund balance increased by \$611,594.

The Road and Bridge Special Revenue Fund had total fund balance of \$2,911,531 at the end of 2015. The fund balance decreased \$57,711 during 2015, which can be attributed to less federal revenue received and services rendered than what was budgeted.

The Community and Veteran Services Special Revenue Fund had total fund balance of \$4,608,876 at the end of 2015. The fund balance increased \$240,075, in part, due to higher federal revenue and more services rendered than the prior year.

The Debt Service Fund had total fund balance of \$8,367,428 at the end of 2015. The fund balance decreased \$81,877 during 2015 due, in part, to an increase in scheduled debt service expenditures.

The Capital Projects Fund had total fund balance of \$3,362,481 at the end of 2015. The fund balance decreased \$181,633 during 2015 due to planned capital improvements during the year.

General Fund Budgetary Highlights

The Mille Lacs County Board of Commissioners, over the course of a budget year, may amend/revise the County’s General Fund budget. Budget amendments/revisions fall into one of three categories: new information changing original budget estimations, greater than anticipated revenues or costs, and final agreement reached on employee contracts.

In 2015, the General Fund’s actual revenues exceeded expected revenues by \$1,296,998, and actual expenditures exceeded budgeted expenditures by \$565,931. During the year, the County spent \$128,589 for land records and information, \$48,717 for a records system, and \$99,288 on aquatic invasive species aid; these expenditures were not budgeted. In addition, expenditures in the Sheriff’s Department and for court security were higher than anticipated.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2015, Mille Lacs County had \$70,851,855 invested in a broad range of capital assets, net of depreciation. This investment in capital assets includes land, land improvements, buildings, highways and streets, equipment, and software (see Table 4 below).

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

| | 2015 | 2014 |
|--------------------------|----------------------|----------------------|
| Land | \$ 2,563,159 | \$ 2,470,272 |
| Construction in progress | 35,416 | 28,752 |
| Land improvements | 388,890 | 432,214 |
| Buildings | 18,758,105 | 19,149,379 |
| Machinery and equipment | 2,812,888 | 2,725,952 |
| Infrastructure | 46,200,937 | 45,401,639 |
| Software | 92,460 | 123,311 |
| | <u>\$ 70,851,855</u> | <u>\$ 70,331,519</u> |
| Total | | |

Debt Administration

At December 31, 2015, Mille Lacs County had \$14,185,000 in bonds outstanding, compared with \$14,740,000 as of December 31, 2014, a decrease of 3.77 percent, as shown in Table 5.

**Table 5
Outstanding Debt at Year-End**

| Bonds and Notes Payable | Governmental Activities | | Percent (%) Change |
|--|-------------------------|----------------------|--------------------|
| | 2015 | 2014 | |
| 2007 HRA Lease Revenue Refunding Bonds | \$ 495,000 | \$ 605,000 | (18.18) |
| 2008 G.O. Capital Improvement Plan Bonds | 6,285,000 | 6,620,000 | (5.06) |
| 2010A G.O. Capital Improvement Plan Bonds | 470,000 | 580,000 | (18.97) |
| 2010B Taxable Capital Improvement Bonds - Recovery Zone Economic Development Bonds | 920,000 | 920,000 | - |
| 2014 G.O. Capital Improvement Plan Refunding Bonds | <u>6,015,000</u> | <u>6,015,000</u> | - |
| Total | <u>\$ 14,185,000</u> | <u>\$ 14,740,000</u> | (3.77) |

Other long-term obligations include compensated absences, the other postemployment benefits liability, and the net pension liability. Mille Lacs County’s notes to the financial statements provide detailed information about the County’s long-term liabilities.

ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS AND RATES

The County’s elected and appointed officials considered many factors when setting the fiscal year 2016 budget and tax rates.

- Major revenue sources for the County are state-paid aids, credits, and grants. The County is anticipating no significant changes to these programs in 2016.

CONTACTING THE COUNTY’S FINANCIAL MANAGEMENT

Mille Lacs County’s financial report provides citizens, taxpayers, customers, investors, and creditors with a general overview of Mille Lacs County’s finances and shows the County’s accountability for the money it receives and spends. If you have questions about this report, or need additional financial information, contact Pat Oman, Mille Lacs County Administrator, (320-983-8218), Mille Lacs County Courthouse, 635 - 2nd Street S.E., Milaca, Minnesota 56353.

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BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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**MILLE LACS COUNTY
MILACA, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET POSITION
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2015**

Assets

| | | |
|---|----|-----------------------|
| Cash and pooled investments | \$ | 20,348,294 |
| Petty cash and change funds | | 850 |
| Departmental cash | | 11,996 |
| Cash with escrow agent | | 6,021,838 |
| Taxes receivable | | |
| Delinquent | | 778,844 |
| Special assessments receivable | | |
| Delinquent | | 1,392 |
| Accounts receivable | | 226,331 |
| Accrued interest receivable | | 25,036 |
| Due from other governments | | 2,529,646 |
| Inventories | | 345,767 |
| Prepaid items | | 28,638 |
| Capital assets | | |
| Non-depreciable | | 2,598,575 |
| Depreciable - net of accumulated depreciation | | 68,253,280 |
| | | \$ 101,170,487 |

Deferred Outflows of Resources

| | | |
|---------------------------|----|------------------|
| Deferred pension outflows | \$ | 1,789,947 |
|---------------------------|----|------------------|

Liabilities

| | | |
|---|----|----------------------|
| Accounts payable | \$ | 871,529 |
| Salaries payable | | 537,142 |
| Claims payable | | 11,874 |
| Contracts payable | | 20,494 |
| Due to other governments | | 235,626 |
| Accrued interest payable | | 209,900 |
| Unearned revenue | | 129,862 |
| Long-term liabilities | | |
| Due within one year | | 6,680,948 |
| Due in more than one year | | 9,761,538 |
| Net pension liability | | 9,477,445 |
| Other postemployment benefits liability | | 1,404,565 |
| | | \$ 29,340,923 |

Deferred Inflows of Resources

| | | |
|--------------------------|----|------------------|
| Deferred pension inflows | \$ | 1,247,492 |
|--------------------------|----|------------------|

MILLE LACS COUNTY
MILACA, MINNESOTA

EXHIBIT 1
(Continued)

STATEMENT OF NET POSITION
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2015

Net Position

| | | |
|-----------------------------------|-----------|---------------------------------|
| Net investment in capital assets | \$ | 62,621,106 |
| Restricted for | | |
| General government | | 154,445 |
| Public safety | | 1,008,902 |
| Highways and streets | | 977,278 |
| Conservation of natural resources | | 162,489 |
| Sanitation | | 143,662 |
| Debt service | | 2,345,590 |
| Unrestricted | | 4,958,547 |
| | | <hr/> |
| Total Net Position | \$ | <u><u>72,372,019</u></u> |

**MILLE LACS COUNTY
MILACA, MINNESOTA**

EXHIBIT 2

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2015**

| | <u>Expenses</u> | <u>Program Revenues</u> | | | <u>Net (Expense) Revenue and Changes in Net Position</u> |
|--|----------------------|--|---|---|--|
| | | <u>Fees, Charges, Fines, and Other</u> | <u>Operating Grants and Contributions</u> | <u>Capital Grants and Contributions</u> | |
| <u>Functions/Programs</u> | | | | | |
| Governmental activities | | | | | |
| General government | \$ 6,299,748 | \$ 794,696 | \$ 269,060 | \$ 2,341 | \$ (5,233,651) |
| Public safety | 8,417,126 | 1,321,457 | 792,437 | - | (6,303,232) |
| Highways and streets | 6,720,953 | 121,406 | 4,811,651 | 937,235 | (850,661) |
| Sanitation | 81,436 | 22,767 | 77,140 | - | 18,471 |
| Human services | 9,877,663 | 965,075 | 4,997,687 | - | (3,914,901) |
| Health | 739,805 | 111,200 | 633,061 | - | 4,456 |
| Culture and recreation | 467,624 | - | 122,379 | 192,267 | (152,978) |
| Conservation of natural resources | 298,909 | 19,832 | 118,525 | - | (160,552) |
| Economic development | 135,283 | 375 | 30,500 | - | (104,408) |
| Interest expense on long-term debt | 505,058 | - | 15,296 | - | (489,762) |
| Total Governmental Activities | \$ 33,543,605 | \$ 3,356,808 | \$ 11,867,736 | \$ 1,131,843 | \$ (17,187,218) |
| General Revenues | | | | | |
| Property taxes | | | | | \$ 15,052,978 |
| Gravel tax | | | | | 40,534 |
| Mortgage registry and deed tax | | | | | 17,677 |
| Wheelage tax | | | | | 277,738 |
| Payments in lieu of tax | | | | | 248,147 |
| Grants and contributions not restricted to specific programs | | | | | 1,901,180 |
| Unrestricted investment earnings | | | | | 63,887 |
| Miscellaneous | | | | | 242,157 |
| Gain on sale of capital assets | | | | | 34,158 |
| Total general revenues | | | | | \$ 17,878,456 |
| Change in net position | | | | | \$ 691,238 |
| Net Position - January 1, as restated (Note 1.E.) | | | | | 71,680,781 |
| Net Position - December 31 | | | | | \$ 72,372,019 |

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

**MILLE LACS COUNTY
MILACA, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2015**

| | General | Road and Bridge |
|---|---------------------|----------------------------|
| <u>Assets</u> | | |
| Cash and pooled investments | \$ 7,712,428 | \$ 2,654,292 |
| Petty cash and change funds | 800 | - |
| Departmental cash | 11,996 | - |
| Cash with escrow agent | - | - |
| Taxes receivable | | |
| Delinquent | 490,693 | 46,364 |
| Special assessments receivable | | |
| Delinquent | 1,392 | - |
| Accounts receivable | 53,215 | 14,145 |
| Accrued interest receivable | 25,036 | - |
| Due from other funds | 12,340 | - |
| Due from other governments | 462,498 | 950,356 |
| Inventories | - | 345,767 |
| Prepaid items | 12,250 | 928 |
| Advances to other funds | 91,764 | - |
| | \$ 8,874,412 | \$ 4,011,852 |
| <u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u> | | |
| Liabilities | | |
| Accounts payable | \$ 269,016 | \$ 56,357 |
| Salaries payable | 329,781 | 51,080 |
| Contracts payable | - | 20,494 |
| Due to other funds | - | - |
| Due to other governments | 197,401 | 3,548 |
| Unearned revenue | 54,431 | - |
| Advances from other funds | - | - |
| | \$ 850,629 | \$ 131,479 |
| Deferred Inflows of Resources | | |
| Unavailable revenue | \$ 608,571 | \$ 968,842 |

EXHIBIT 3

| <u>Community and Veteran Services</u> | <u>Debt Service</u> | <u>Capital Projects</u> | <u>Nonmajor Ditch</u> | <u>Total</u> |
|---|----------------------------|-----------------------------|---------------------------|-----------------------------|
| \$ 4,153,458 | \$ 2,338,334 | \$ 3,390,891 | \$ 63,383 | \$ 20,312,786 |
| 50 | - | - | - | 850 |
| - | - | - | - | 11,996 |
| - | 6,021,838 | - | - | 6,021,838 |
| 186,538 | 51,322 | 3,927 | - | 778,844 |
| - | - | - | - | 1,392 |
| 158,971 | - | - | - | 226,331 |
| - | - | - | - | 25,036 |
| - | - | 11,685 | - | 24,025 |
| 1,095,792 | - | 21,000 | - | 2,529,646 |
| - | - | - | - | 345,767 |
| 15,460 | - | - | - | 28,638 |
| - | - | - | - | 91,764 |
| <u>\$ 5,610,269</u> | <u>\$ 8,411,494</u> | <u>\$ 3,427,503</u> | <u>\$ 63,383</u> | <u>\$ 30,398,913</u> |
| \$ 484,971 | \$ - | \$ 61,185 | \$ - | \$ 871,529 |
| 156,281 | - | - | - | 537,142 |
| - | - | - | - | 20,494 |
| 24,025 | - | - | - | 24,025 |
| 34,677 | - | - | - | 235,626 |
| 75,431 | - | - | - | 129,862 |
| - | - | - | 91,764 | 91,764 |
| <u>\$ 775,385</u> | <u>\$ -</u> | <u>\$ 61,185</u> | <u>\$ 91,764</u> | <u>\$ 1,910,442</u> |
| <u>\$ 226,008</u> | <u>\$ 44,066</u> | <u>\$ 3,837</u> | <u>\$ -</u> | <u>\$ 1,851,324</u> |

**MILLE LACS COUNTY
MILACA, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2015**

| | General | Road and Bridge |
|--|---------------------|----------------------------|
| <u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u> (Continued) | | |
| Fund Balances | | |
| Nonspendable | | |
| Inventories | \$ - | \$ 345,767 |
| Prepaid items | 12,250 | 928 |
| Advances to other funds | 91,764 | - |
| Restricted for | | |
| Debt service | - | - |
| Law library | 21,793 | - |
| Recorder's technology and equipment | 53,937 | - |
| Administering the carrying of weapons | 173,885 | - |
| Law enforcement | 241,509 | - |
| Highway construction projects | - | 108,201 |
| Gravel pit restoration | 50,788 | - |
| DARE program | 54,689 | - |
| Prisoner account | 538,819 | - |
| Prosecutorial purposes | 78,715 | - |
| Aquatic invasive species | 50,619 | - |
| Ditch maintenance and repairs | - | - |
| SCORE | 143,662 | - |
| Committed to | | |
| Gravel pit restoration | - | 207,195 |
| Assigned to | | |
| General government | 63,760 | - |
| Public safety | 205,100 | - |
| Highways and streets | - | 2,249,440 |
| Community and veteran services programs | - | - |
| Capital projects | - | - |
| Unassigned | 5,633,922 | - |
| Total Fund Balances | \$ 7,415,212 | \$ 2,911,531 |
| Total Liabilities, Deferred Inflows of Resources, and Fund Balances | \$ 8,874,412 | \$ 4,011,852 |

EXHIBIT 3
(Continued)

| <u>Community and Veteran Services</u> | <u>Debt Service</u> | <u>Capital Projects</u> | <u>Nonmajor Ditch</u> | <u>Total</u> |
|---|-------------------------|-----------------------------|---------------------------|----------------------|
| \$ - | \$ - | \$ - | \$ - | \$ 345,767 |
| 15,460 | - | - | - | 28,638 |
| - | - | - | - | 91,764 |
| - | 8,367,428 | - | - | 8,367,428 |
| - | - | - | - | 21,793 |
| - | - | - | - | 53,937 |
| - | - | - | - | 173,885 |
| - | - | - | - | 241,509 |
| - | - | - | - | 108,201 |
| - | - | - | - | 50,788 |
| - | - | - | - | 54,689 |
| - | - | - | - | 538,819 |
| - | - | - | - | 78,715 |
| - | - | - | - | 50,619 |
| - | - | - | 61,082 | 61,082 |
| - | - | - | - | 143,662 |
| - | - | - | - | 207,195 |
| - | - | - | - | 63,760 |
| - | - | - | - | 205,100 |
| - | - | - | - | 2,249,440 |
| 4,593,416 | - | - | - | 4,593,416 |
| - | - | 3,362,481 | - | 3,362,481 |
| - | - | - | (89,463) | 5,544,459 |
| <u>\$ 4,608,876</u> | <u>\$ 8,367,428</u> | <u>\$ 3,362,481</u> | <u>\$ (28,381)</u> | <u>\$ 26,637,147</u> |
| <u>\$ 5,610,269</u> | <u>\$ 8,411,494</u> | <u>\$ 3,427,503</u> | <u>\$ 63,383</u> | <u>\$ 30,398,913</u> |

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**MILLE LACS COUNTY
MILACA, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2015**

| | | |
|--|-----------------|----------------------|
| Fund balances - total governmental funds (Exhibit 3) | | \$ 26,637,147 |
| Amounts reported for governmental activities in the statement of net position are different because: | | |
| Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. | | 70,851,855 |
| Revenues in the statement of activities that do not provide current financial resources are not reported in the governmental funds. | | 1,851,324 |
| 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 | \$ (13,690,000) | |
| Lease revenue bonds | (495,000) | |
| Unamortized premium on bonds | (242,794) | |
| Unamortized discount on bonds | 2,955 | |
| Compensated absences | (2,017,647) | |
| Net pension liability | (9,477,445) | |
| Other postemployment benefits liability | (1,404,565) | (27,324,496) |
| Deferred outflows of resources and deferred inflows of resources are the result of various differences related to pension obligations that are not recognized in the governmental funds. | | |
| Deferred pension outflows | | 1,789,947 |
| Deferred pension inflows | | (1,247,492) |
| Accrued interest payable is not due and payable in the current period and, therefore, is not reported in the governmental funds. | | (209,900) |
| An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position. | | 23,634 |
| Net Position of Governmental Activities (Exhibit 1) | | \$ 72,372,019 |

**MILLE LACS COUNTY
MILACA, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

| | General | Road and Bridge |
|-----------------------------------|----------------------|----------------------------|
| Revenues | | |
| Taxes | \$ 9,469,299 | \$ 840,663 |
| Special assessments | 15,660 | - |
| Licenses and permits | 237,027 | 10,730 |
| Intergovernmental | 3,264,411 | 6,297,527 |
| Charges for services | 1,254,383 | 99,263 |
| Fines and forfeits | 163,189 | - |
| Gifts and contributions | 2,695 | - |
| Investment earnings | 55,244 | - |
| Miscellaneous | 540,380 | 11,413 |
| | \$ 15,002,288 | \$ 7,259,596 |
| Expenditures | | |
| Current | | |
| General government | \$ 5,287,607 | \$ - |
| Public safety | 8,021,389 | - |
| Highways and streets | - | 7,321,392 |
| Sanitation | 81,436 | - |
| Human services | - | - |
| Health | - | - |
| Culture and recreation | 199,595 | - |
| Conservation of natural resources | 282,477 | - |
| Economic development | 133,188 | - |
| Intergovernmental | | |
| Highways and streets | - | 238,835 |
| Culture and recreation | 268,029 | - |
| Capital outlay | | |
| General government | - | - |
| Public safety | - | - |
| Highways and streets | - | - |
| Debt service | | |
| Principal | - | - |
| Interest | - | - |
| | \$ 14,273,721 | \$ 7,560,227 |

EXHIBIT 5

| <u>Community and Veteran Services</u> | <u>Debt Service</u> | <u>Capital Projects</u> | <u>Nonmajor Ditch</u> | <u>Total</u> |
|---|-------------------------|-----------------------------|---------------------------|----------------------|
| \$ 3,953,785 | \$ 888,670 | \$ 279,850 | \$ - | \$ 15,432,267 |
| - | - | - | 19,832 | 35,492 |
| - | - | - | - | 247,757 |
| 5,818,187 | 30,260 | - | - | 15,410,385 |
| 768,685 | - | - | - | 2,122,331 |
| - | - | - | - | 163,189 |
| 27,080 | - | - | - | 29,775 |
| - | 6,278 | - | - | 61,522 |
| 307,590 | - | 2,932 | - | 862,315 |
| \$ 10,875,327 | \$ 925,208 | \$ 282,782 | \$ 19,832 | \$ 34,365,033 |
| | | | | |
| \$ 150,810 | \$ - | \$ 12,540 | \$ - | \$ 5,450,957 |
| - | - | 15,659 | - | 8,037,048 |
| - | - | 17,832 | - | 7,339,224 |
| - | - | - | - | 81,436 |
| 9,767,761 | - | - | - | 9,767,761 |
| 716,681 | - | - | - | 716,681 |
| - | - | - | - | 199,595 |
| - | - | - | 45,985 | 328,462 |
| - | - | - | - | 133,188 |
| - | - | - | - | 238,835 |
| - | - | - | - | 268,029 |
| - | - | 136,241 | - | 136,241 |
| - | - | 132,137 | - | 132,137 |
| - | - | 183,882 | - | 183,882 |
| - | 555,000 | - | - | 555,000 |
| - | 452,085 | - | - | 452,085 |
| \$ 10,635,252 | \$ 1,007,085 | \$ 498,291 | \$ 45,985 | \$ 34,020,561 |

**MILLE LACS COUNTY
MILACA, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

| | General | Road and Bridge |
|---|---------------------|----------------------------|
| Excess of Revenues Over (Under) Expenditures | \$ 728,567 | \$ (300,631) |
| Other Financing Sources (Uses) | | |
| Transfers in | \$ - | \$ 137,629 |
| Transfers out | (117,738) | - |
| Proceeds from sale of capital assets | 765 | - |
| | \$ (116,973) | \$ 137,629 |
| Net Change in Fund Balance | \$ 611,594 | \$ (163,002) |
| Fund Balance - January 1 | 6,803,618 | 2,969,242 |
| Increase (decrease) in inventories | - | 105,291 |
| Fund Balance - December 31 | \$ 7,415,212 | \$ 2,911,531 |

EXHIBIT 5
(Continued)

| <u>Community and Veteran Services</u> | <u>Debt Service</u> | <u>Capital Projects</u> | <u>Nonmajor Ditch</u> | <u>Total</u> |
|---|----------------------------|-----------------------------|---------------------------|-----------------------------|
| <u>\$ 240,075</u> | <u>\$ (81,877)</u> | <u>\$ (215,509)</u> | <u>\$ (26,153)</u> | <u>\$ 344,472</u> |
| \$ - | \$ - | \$ 117,738 | \$ - | \$ 255,367 |
| - | - | (137,629) | - | (255,367) |
| <u>-</u> | <u>-</u> | <u>53,767</u> | <u>-</u> | <u>54,532</u> |
| <u>\$ -</u> | <u>\$ -</u> | <u>\$ 33,876</u> | <u>\$ -</u> | <u>\$ 54,532</u> |
| <u>\$ 240,075</u> | <u>\$ (81,877)</u> | <u>\$ (181,633)</u> | <u>\$ (26,153)</u> | <u>\$ 399,004</u> |
| <u>4,368,801</u> | <u>8,449,305</u> | <u>3,544,114</u> | <u>(2,228)</u> | <u>26,132,852</u> |
| <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>105,291</u> |
| <u><u>\$ 4,608,876</u></u> | <u><u>\$ 8,367,428</u></u> | <u><u>\$ 3,362,481</u></u> | <u><u>\$ (28,381)</u></u> | <u><u>\$ 26,637,147</u></u> |

**MILLE LACS COUNTY
MILACA, MINNESOTA**

EXHIBIT 6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2015**

Net change in fund balance - total governmental funds (Exhibit 5) \$ 399,004

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

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 unavailable revenue.

| | | |
|-----------------------------------|--------------------|-----------|
| Unavailable revenue - December 31 | \$ 1,851,324 | |
| Unavailable revenue - January 1 | <u>(2,082,528)</u> | (231,204) |

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. Also, in the statement of activities, only the gain or loss on the disposal of assets is reported; whereas, in the governmental funds, the proceeds from the sale increase financial resources. Therefore, the change in net position differs from the change in fund balance by the net book value of the assets sold.

| | | |
|--|--------------------|---------|
| Expenditures for general capital assets and infrastructure and other related capital asset adjustments | \$ 3,234,746 | |
| Net book value of assets sold or disposed of | (43,049) | |
| Current year depreciation | <u>(2,671,361)</u> | 520,336 |

Issuing long-term debt provides current financial resources to governmental funds, while the repayment of debt consumes current financial resources. Neither transaction, however, has any effect on net position.

| | | |
|--------------------------|----------------|---------|
| Principal repayments | | |
| General obligation bonds | \$ 445,000 | |
| Lease revenue bonds | <u>110,000</u> | 555,000 |

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 | \$ (69,577) | |
| Change in compensated absences | (127,721) | |
| Change in OPEB liability | (208,008) | |
| Change in net pension liability, as restated | (286,288) | |
| Change in deferred pension outflows, as restated | 1,270,679 | |
| Change in deferred pension inflows | (1,247,492) | |
| Change in inventories | 105,291 | |
| Current year amortization of bond discounts and premiums | <u>16,604</u> | (546,512) |

The increase or decrease in net position of the internal service fund is reported in the statement of activities as governmental activities. (5,386)

Change in Net Position of Governmental Activities (Exhibit 2) \$ 691,238

SELF-INSURANCE INTERNAL SERVICE FUND

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MILLE LACS COUNTY
MILACA, MINNESOTA

EXHIBIT 7

STATEMENT OF FUND NET POSITION
SELF-INSURANCE INTERNAL SERVICE FUND
DECEMBER 31, 2015

| | <u>Governmental Activities</u> |
|-----------------------------|------------------------------------|
| <u>Assets</u> | |
| Cash and pooled investments | \$ 35,508 |
| <u>Liabilities</u> | |
| Claims payable | <u>11,874</u> |
| <u>Net Position</u> | |
| Unrestricted | <u><u>\$ 23,634</u></u> |

MILLE LACS COUNTY
MILACA, MINNESOTA

EXHIBIT 8

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
SELF-INSURANCE INTERNAL SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2015

| | <u>Governmental Activities</u> |
|-----------------------------------|------------------------------------|
| Operating Revenues | |
| Insurance fees | \$ 120,566 |
| Operating Expenses | |
| Insurance | <u>125,952</u> |
| Operating Income (Loss) | \$ (5,386) |
| Net Position - January 1 | <u>29,020</u> |
| Net Position - December 31 | <u><u>\$ 23,634</u></u> |

MILLE LACS COUNTY
MILACA, MINNESOTA

EXHIBIT 9

STATEMENT OF CASH FLOWS
SELF-INSURANCE INTERNAL SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2015
Increase (Decrease) in Cash and Cash Equivalents

| | <u>Governmental Activities</u> |
|--|------------------------------------|
| Cash Flows From Operating Activities | |
| Insurance fees | \$ 120,566 |
| Insurance | <u>(128,092)</u> |
| Net Cash Provided by (Used in) Operating Activities | \$ (7,526) |
| Cash and Cash Equivalents at January 1 | <u>43,034</u> |
| Cash and Cash Equivalents at December 31 | <u>\$ 35,508</u> |
| Reconciliation of operating income (loss) to net cash provided by (used in) operating activities | |
| Operating income (loss) | \$ (5,386) |
| Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities | |
| Increase (decrease) in claims payable | <u>(2,140)</u> |
| Net Cash Provided by (Used in) Operating Activities | <u>\$ (7,526)</u> |

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FIDUCIARY FUNDS

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**MILLE LACS COUNTY
MILACA, MINNESOTA**

EXHIBIT 10

**STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
DECEMBER 31, 2015**

| | Private-Purpose Trust | Agency |
|-------------------------------|----------------------------------|-------------------|
| <u>Assets</u> | | |
| Cash and pooled investments | \$ 124,515 | \$ 624,857 |
| Accrued interest receivable | 14 | - |
| | \$ 124,529 | \$ 624,857 |
| <u>Liabilities</u> | | |
| Due to other governments | - | \$ 624,857 |
| | - | \$ 624,857 |
| <u>Net Position</u> | | |
| Restricted for other purposes | \$ 124,529 | |
| | \$ 124,529 | |

MILLE LACS COUNTY
MILACA, MINNESOTA

EXHIBIT 11

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
PRIVATE-PURPOSE TRUST FUND
FOR THE YEAR ENDED DECEMBER 31, 2015

| <u>Additions</u> | |
|--|---------------------------------|
| Investment income | \$ 79 |
| <u>Deductions</u> | |
| Payments in accordance with trust agreements | <u>93</u> |
| Change in net position | \$ (14) |
| Net Position - January 1 | <u>124,543</u> |
| Net Position - December 31 | <u><u>\$ 124,529</u></u> |

**MILLE LACS COUNTY
MILACA, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2015**

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, 2015. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

Mille Lacs County was established May 23, 1857, and is an organized county having the powers, duties, and privileges granted counties by Minn. Stat. ch. 373. 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. The County Administrator, who is an appointed officer, serves as the Clerk of the Board of Commissioners but does not vote in its decisions.

For financial reporting purposes, Mille Lacs County has included all funds, organizations, account groups, agencies, boards, commissions, and authorities, and has considered all potential component units for which the County is financially accountable, and other organizations for which the nature and significance of their relationship with the County are such that exclusion would cause Mille Lacs County's financial statements to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the County to impose its will on that organization; or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the County.

As required by accounting principles generally accepted in the United States of America, these financial statements present Mille Lacs County (the primary government) and its component unit for which the County is financially accountable.

**MILLE LACS COUNTY
MILACA, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Blended Component Unit

The Mille Lacs County Housing and Redevelopment Authority (HRA), a blended component unit of Mille Lacs County, is governed by a five-member Board consisting of the Mille Lacs County Board of Commissioners and has the power to levy taxes, issue bonds, and enter into contracts. The HRA was established to assist with the implementation of a redevelopment plan to promote economic development within Mille Lacs County. Although it is legally separate from the County, the activity of the HRA is included in the Mille Lacs County General Fund because the HRA's governing body is the same as the governing body of the County and Mille Lacs County has operational responsibility for the HRA. Separate financial statements are not prepared for the HRA.

Joint Ventures

The County participates in several joint ventures described in Note 5.C.

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (the statement of net position and the statement of activities) display information about the primary government and its component unit. These statements include the financial activities of the overall County government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. Governmental activities, which normally are supported by taxes and intergovernmental revenue, are reported in a single column.

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

**MILLE LACS COUNTY
MILACA, MINNESOTA**

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 are offset by program revenues. Direct expenses are those clearly identifiable with a specific function or activity. Program revenues include: (1) fees, fines, and charges paid by the recipients of goods, services, or privileges provided by a given function or activity; and (2) grants and contributions restricted to meeting the operational or capital requirements of a particular function or activity. Revenues not classified as program revenues, including all taxes, are presented as general revenues.

2. Fund Financial Statements

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations.

The principal operating revenues of the County's internal service fund include insurance fees, and the principal operating expenses include insurance payments. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**MILLE LACS COUNTY
MILACA, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

The County reports the following major governmental funds:

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

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

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

The Capital Projects Fund is used to account for the financial resources to be used for capital acquisition, construction, or improvement of capital assets, exclusive of infrastructure (roads, bridges, etc.).

Additionally, the County reports the following fund types:

The Self-Insurance Internal Service Fund accounts for the County's self-insurance activities.

The Private-Purpose Trust Fund accounts for funds that the County Auditor/Treasurer is holding for the cemetery, missing heirs, and Court Administrator.

The Agency Fund is custodial in nature and does not present results of operations or have a measurement focus. This fund accounts for assets that the County holds for others in an agent capacity.

**MILLE LACS COUNTY
MILACA, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus and the 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. Mille Lacs County considers all revenues as available if collected within 60 days after the end of the current period. Property and other taxes, licenses, and interest are all considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

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

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

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Auditor/Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2015, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments of governmental and fiduciary funds 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 2015 were \$55,244.

**MILLE LACS COUNTY
MILACA, MINNESOTA**

1. Summary of Significant Accounting Policies

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

1. Deposits and Investments (Continued)

Cash and cash equivalents are identified only for the purpose of the statement of cash flows for the proprietary fund. Pooled investments, which have the characteristics of demand deposits, are considered to be cash and cash equivalents on the statement of cash flows.

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

2. Receivables and Payables

Activities between funds representative of lending/borrowing arrangements outstanding at the end of the fiscal year are 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.”

Advances between funds, as reported in the fund financial statements, are offset by nonspendable fund balance in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources.

Property taxes are levied as of January 1 on property values assessed as of January 1 of the previous year. 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. Special assessments receivable consist of delinquent special assessments payable in the years 2009 through 2015.

**MILLE LACS COUNTY
MILACA, MINNESOTA**

1. Summary of Significant Accounting Policies

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

3. Inventories and Prepaid Items

All inventories are valued at cost using the first in/first out method. Inventories in governmental funds are recorded as expenditures when purchased rather than when consumed. Reported inventories are equally offset by nonspendable fund balance to indicate that they do not constitute available spendable resources. Inventories at the government-wide level are recorded as expenses when consumed.

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

4. Capital Assets

Capital assets, including property, plant, equipment, and infrastructure assets (for example, roads, bridges, and similar items), are reported in the government-wide financial statements. The County defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. 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.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

| <u>Assets</u> | <u>Years</u> |
|-------------------------|--------------|
| Land improvements | 20 - 35 |
| Buildings | 25 - 40 |
| Machinery and equipment | 3 - 15 |
| Infrastructure | 15 - 70 |
| Software | 5 |

**MILLE LACS COUNTY
MILACA, MINNESOTA**

1. Summary of Significant Accounting Policies

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

5. Unearned Revenue

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

6. Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated annual vacation 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. 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. Compensated absences are accrued when incurred in the government-wide financial statements. The government-wide statement of net position reports both current and noncurrent portions of compensated absences. The current portion consists of an amount based on a three-year average of terminated employees. The noncurrent portion consists of the remaining amount of vacation and vested sick leave.

7. Long-Term Obligations

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

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 an other financing source. Premiums received on debt issuances are reported as other financing sources, while discounts

**MILLE LACS COUNTY
MILACA, MINNESOTA**

1. Summary of Significant Accounting Policies

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

7. Long-Term Obligations (Continued)

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.

8. Deferred Outflows/Inflows of Resources

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

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Currently, the County has two types of deferred inflows. The governmental funds report unavailable revenue from delinquent taxes receivable, and delinquent and deferred special assessments receivable, for amounts that are not considered to be available to liquidate liabilities of the current period. Unavailable revenue arises only under the modified accrual basis of accounting and, accordingly, is reported only in the governmental funds balance sheet. The unavailable revenue amount is deferred and recognized as an inflow of resources in the period that the amounts become available. The County also has deferred pension inflows. These inflows arise only under the full accrual basis of accounting and consist of differences between expected and actual pension plan economic experience and also pension plan changes in proportionate share and, accordingly, are reported only in the statement of net position.

**MILLE LACS COUNTY
MILACA, MINNESOTA**

1. Summary of Significant Accounting Policies

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

9. Pension Plan

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA, except that PERA's fiscal year-end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Plan investments are reported at fair value. The net pension liability is liquidated primarily by the General Fund.

10. Classification of Net Position

Net position in the government-wide financial statements is classified in the following categories:

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

Restricted net position - the amount of net position for which external restrictions have been imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position - the amount of net position that does not meet the definition of restricted or net investment in capital assets.

**MILLE LACS COUNTY
MILACA, MINNESOTA**

1. Summary of Significant Accounting Policies

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

11. Classification of Fund Balances

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

Nonspendable - amounts that cannot be spent because they are not in spendable form, or are legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

Restricted - amounts for which constraints have been placed on the use of resources either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Committed - amounts that can be used only for the specific purposes imposed by formal action (resolution) of the County Board. Those committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit these amounts.

Assigned - amounts the County intends to use for specific purposes that do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the County Board or the County Administrator.

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

**MILLE LACS COUNTY
MILACA, MINNESOTA**

1. Summary of Significant Accounting Policies

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

11. Classification of Fund Balances (Continued)

The County has adopted a minimum fund balance policy for the General Fund and the Road and Bridge and Community and Veteran Services Special Revenue Funds. All three funds are heavily reliant on property tax revenues to fund current operations. However, current property tax revenues are not available for distribution until June. Therefore, the County Board has determined it needs to maintain a minimum unrestricted (committed, assigned, and unassigned) fund balance in the General Fund and the Road and Bridge and Community and Veteran Services Special Revenue Funds to meet operating needs until those tax revenues are distributed. The County Board has set the minimum year-end unrestricted fund balance amount for the General Fund and the Community and Veteran Services Special Revenue Fund at 45 to 50 percent of the following year's operating budget. The minimum unrestricted fund balance policy for the Road and Bridge Special Revenue Fund is 30 to 35 percent of the following year's operating budget.

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

12. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make 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.

**MILLE LACS COUNTY
MILACA, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

E. Change in Accounting Principles

During the year ended December 31, 2015, the County adopted new accounting guidance by implementing the provisions of GASB Statements 68, 71, and 82. GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, requires governments providing defined benefit pensions to employees through pension plans administered through trusts to record their proportionate share of the net pension obligation as a liability on their financial statements along with related deferred outflows of resources, deferred inflows of resources, and pension expense. This statement also requires additional note disclosure and schedules in the required supplementary information.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, addresses an issue regarding amounts associated with contributions made to a pension plan after the measurement date of the net pension liability.

GASB Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*, modifies the measure of payroll presented in the required supplementary information schedules.

GASB Statements 68 and 71 require the County to report its proportionate share of the PERA total employers' unfunded pension liability. As a result, beginning net position has been restated to record the County's net pension liability and related deferred outflows of resources.

| | <u>Governmental Activities</u> |
|---|------------------------------------|
| Net Position, January 1, 2015, as previously reported | \$ 80,352,670 |
| Change in accounting principles | <u>(8,671,889)</u> |
| Net Position, January 1, 2015, as restated | <u><u>\$ 71,680,781</u></u> |

**MILLE LACS COUNTY
MILACA, MINNESOTA**

2. Stewardship, Compliance, and Accountability

Deficit Fund Equity

Three of six drainage systems of the Ditch Special Revenue Fund have incurred expenditures in excess of revenues and available resources. These deficits will be eliminated with future special assessment levies against benefited properties. The following summary shows the fund balance for the year ended December 31, 2015:

| | |
|--------------------|--------------------|
| Account balances | \$ 61,082 |
| Account deficits | <u>(89,463)</u> |
| Total Fund Balance | <u>\$ (28,381)</u> |

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

Reconciliation of Mille Lacs County's total cash and investments to the basic financial statements follows:

| | |
|---|----------------------|
| Government-wide statement of net position | |
| Governmental activities | |
| Cash and pooled investments | \$ 20,348,294 |
| Petty cash and change funds | 850 |
| Departmental cash | 11,996 |
| Cash with escrow agent | 6,021,838 |
| Statement of fiduciary net position | |
| Cash and pooled investments | |
| Private-purpose trust fund | 124,515 |
| Agency fund | <u>624,857</u> |
| Total Cash and Investments | <u>\$ 27,132,350</u> |

**MILLE LACS COUNTY
MILACA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

a. Deposits

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

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. It is the County's policy to minimize custodial credit risk by obtaining collateral for all uninsured amounts on deposit. As of December 31, 2015, the County's deposits were not exposed to custodial credit risk.

b. Investments

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

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

**MILLE LACS COUNTY
MILACA, MINNESOTA**

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 does not have a policy regarding interest rate risk.

**MILLE LACS COUNTY
MILACA, MINNESOTA**

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 the 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. It is the County's policy to minimize investment custodial credit risk by permitting brokers that obtain investments for the County to hold them only to the extent there is Securities Investor Protection Corporation (SIPC) Insurance and excess SIPC coverage available. At December 31, 2015, none of the County's investments were subject to custodial credit risk.

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the County's investment in a single issuer. It is the County's policy that U.S. Treasury securities, U.S. agency securities, and obligations backed by U.S. Treasury and/or U.S. agency securities may be held without limit.

**MILLE LACS COUNTY
MILACA, 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, 2015, and information relating to potential investment risks:

| Investment Type | Credit Risk | | Concentration Risk | Interest Rate Risk | Carrying (Fair) Value |
|------------------------------------|---------------|---------------|-----------------------------|--------------------|-----------------------|
| | Credit Rating | Rating Agency | Over 5 Percent of Portfolio | Maturity Date | |
| Investment pools/mutual funds | | | | | |
| MAGIC Fund | N/R | N/A | 55.3% | N/A | \$ 8,873,084 |
| Negotiable certificates of deposit | N/A | N/A | 44.7 | < 1 year | <u>7,178,000</u> |
| Total investments | | | | | \$ 16,051,084 |
| Deposits | | | | | 5,046,582 |
| Petty cash and change funds | | | | | 850 |
| Departmental cash | | | | | 11,996 |
| Cash with escrow agent | | | | | <u>6,021,838</u> |
| Total Cash and Investments | | | | | <u>\$ 27,132,350</u> |

N/A - Not Applicable; N/R - Not Rated

2. Receivables

Property taxes and special assessments which remain unpaid at December 31 are delinquent. No allowance for uncollectible receivables has been provided because such amounts are not expected to be material.

The County had no receivables scheduled to be collected beyond one year.

**MILLE LACS COUNTY
MILACA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2015, was as follows:

| | Beginning Balance | Increase | Decrease | Ending Balance |
|--|-----------------------|---------------------|-------------------|-----------------------|
| Capital assets not depreciated | | | | |
| Land | \$ 2,470,272 | \$ 92,887 | \$ - | \$ 2,563,159 |
| Construction in progress | 28,752 | 6,664 | - | 35,416 |
| Total capital assets not depreciated | <u>\$ 2,499,024</u> | <u>\$ 99,551</u> | <u>\$ -</u> | <u>\$ 2,598,575</u> |
| Capital assets depreciated | | | | |
| Land improvements | \$ 968,190 | \$ - | \$ - | \$ 968,190 |
| Buildings | 25,890,067 | 356,531 | 22,751 | 26,223,847 |
| Machinery and equipment | 8,357,300 | 630,883 | 184,243 | 8,803,940 |
| Infrastructure | 65,276,237 | 2,147,781 | - | 67,424,018 |
| Software | 330,933 | - | - | 330,933 |
| Total capital assets depreciated | <u>\$ 100,822,727</u> | <u>\$ 3,135,195</u> | <u>\$ 206,994</u> | <u>\$ 103,750,928</u> |
| Less: accumulated depreciation for | | | | |
| Land improvements | \$ 535,976 | \$ 43,324 | \$ - | \$ 579,300 |
| Buildings | 6,740,688 | 725,130 | 76 | 7,465,742 |
| Machinery and equipment | 5,631,348 | 523,573 | 163,869 | 5,991,052 |
| Infrastructure | 19,874,598 | 1,348,483 | - | 21,223,081 |
| Software | 207,622 | 30,851 | - | 238,473 |
| Total accumulated depreciation | <u>\$ 32,990,232</u> | <u>\$ 2,671,361</u> | <u>\$ 163,945</u> | <u>\$ 35,497,648</u> |
| Total capital assets depreciated, net | <u>\$ 67,832,495</u> | <u>\$ 463,834</u> | <u>\$ 43,049</u> | <u>\$ 68,253,280</u> |
| Governmental Activities Capital Assets, Net | <u>\$ 70,331,519</u> | <u>\$ 563,385</u> | <u>\$ 43,049</u> | <u>\$ 70,851,855</u> |

**MILLE LACS COUNTY
MILACA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

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

| | | |
|---|----|-----------|
| Governmental Activities | | |
| General government | \$ | 887,358 |
| Public safety | | 155,339 |
| Highways and streets, including depreciation of infrastructure assets | | 1,603,381 |
| Human services | | 24,974 |
| Conservation | | 309 |
| Total Depreciation Expense - Governmental Activities | \$ | 2,671,361 |

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2015, was as follows:

1. Due To/From Other Funds

| | Receivable | Payable |
|---|------------|-----------|
| Major governmental funds | | |
| General Fund | \$ 12,340 | \$ - |
| Community and Veteran Services Special Revenue Fund | - | 24,025 |
| Capital Projects Fund | 11,685 | - |
| Total Due To/From Other Funds | \$ 24,025 | \$ 24,025 |

The interfund balances above represent Community and Veteran Services Special Revenue Fund payments to the General Fund for attorney expenses and to the Capital Projects Fund for equipment purchases.

**MILLE LACS COUNTY
MILACA, MINNESOTA**

3. Detailed Notes on All Funds

B. Interfund Receivables, Payables, and Transfers (Continued)

2. Advances From/To Other Funds

The General Fund advanced the Ditch Special Revenue Fund \$91,764 for cash flow purposes.

3. Transfers

Interfund transfers at December 31, 2015, were as follows:

| | <u>Transfers In</u> | <u>Description</u> |
|---|---------------------|------------------------------|
| Transfers to Road and Bridge Fund from Capital Projects Fund | \$ 137,629 | Reimburse project costs |
| Transfers to Capital Projects Fund from General Fund | <u>117,738</u> | Transfer excess fund balance |
| Total Interfund Transfers | <u>\$ 255,367</u> | |

C. Liabilities and Deferred Inflows of Resources

1. Construction and Other Commitments

The County has active construction projects as of December 31, 2015. The remaining commitment for highway projects are state-funded and, therefore, not obligations of the County at December 31, 2015.

**MILLE LACS COUNTY
MILACA, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources (Continued)

2. Unearned Revenues/Deferred Inflows of Resources

Deferred inflows of resources consist of taxes, special assessments, and state and federal grants receivable not collected soon enough after year-end to pay liabilities of the current period. Unearned revenues consist of state and federal grants received but not yet earned. Unearned revenues and deferred inflows of resources at December 31, 2015, are summarized below by fund:

| | <u>Taxes</u> | <u>Special Assessments</u> | <u>Grants and Highway Allotments</u> | <u>Other</u> | <u>Total</u> |
|-----------------------------------|-------------------|--------------------------------|--|-------------------|---------------------|
| Major governmental funds | | | | | |
| General | \$ 416,815 | \$ 1,195 | \$ 78,291 | \$ 166,701 | \$ 663,002 |
| Special Revenue | | | | | |
| Road and Bridge | 39,740 | - | 929,102 | - | 968,842 |
| Community and Veteran Services | 156,071 | - | 145,368 | - | 301,439 |
| Debt Service | 44,066 | - | - | - | 44,066 |
| Capital Projects | 3,837 | - | - | - | 3,837 |
| Total | <u>\$ 660,529</u> | <u>\$ 1,195</u> | <u>\$ 1,152,761</u> | <u>\$ 166,701</u> | <u>\$ 1,981,186</u> |
| Liability | | | | | |
| Unearned revenue | \$ - | \$ - | \$ 129,862 | \$ - | \$ 129,862 |
| Deferred inflows of resources | | | | | |
| Unavailable revenue | <u>660,529</u> | <u>1,195</u> | <u>1,022,899</u> | <u>166,701</u> | <u>1,851,324</u> |
| Total | <u>\$ 660,529</u> | <u>\$ 1,195</u> | <u>\$ 1,152,761</u> | <u>\$ 166,701</u> | <u>\$ 1,981,186</u> |

**MILLE LACS COUNTY
MILACA, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources (Continued)

3. Long-Term Debt

| Type of Indebtedness | Final Maturity | Installment Amounts | Interest Rate (%) | Original Issue Amount | Outstanding Balance December 31, 2015 |
|--|-------------------|--------------------------|-------------------------|-----------------------------|--|
| 2007 HRA Lease Revenue Refunding Bonds | 02/01/2019 | \$85,000 - \$130,000 | 4.00 - 4.40 | \$ 1,280,000 | \$ 495,000 |
| 2008 G.O. Capital Improvement Plan Bonds | 02/01/2029 | \$140,000 - \$575,000 | 4.10 - 4.40 | 7,985,000 | 6,285,000 |
| 2010A G.O. Capital Improvement Plan Bonds | 02/01/2019 | \$100,000 - \$120,000 | 0.70 - 2.40 | 900,000 | 470,000 |
| 2010B Taxable Capital Improvement Bonds - Recovery Zone Economic Development Bonds | 02/01/2026 | \$125,000 - \$140,000 | 3.30 - 4.45 | 920,000 | 920,000 |
| 2014 G.O. Capital Improvement Plan Refunding Bonds | 02/01/2029 | \$395,000 - \$540,000 | 2.50 - 3.00 | 6,015,000 | 6,015,000 |
| Total | | | | <u>\$ 17,100,000</u> | <u>\$ 14,185,000</u> |

On December 9, 2014, the County issued \$6,015,000 General Obligation Capital Improvement Plan Refunding Bonds, with an interest rate of 2.50 to 3.00 percent to refund \$5,940,000 of outstanding General Obligation Capital Improvement Plan Bonds, Series 2008, with an average interest rate of 4.20 percent. The refunding of the 2008 bonds will be conducted by means of a crossover refunding mechanism. The County will continue to make principal and interest payments on the refunded bonds through the call date of February 1, 2016. The County refunded the bonds to reduce its total debt service payments by \$552,070 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$458,581.

**MILLE LACS COUNTY
MILACA, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources (Continued)

4. Debt Service Requirements

Debt service requirements at December 31, 2015, were as follows:

| Year Ending December 31 | General Obligation Bonds | | Lease Revenue Bonds | |
|----------------------------|--------------------------|---------------------|---------------------|------------------|
| | Principal | Interest | Principal | Interest |
| 2016 | \$ 6,400,000 | \$ 313,305 | \$ 115,000 | \$ 19,071 |
| 2017 | 510,000 | 173,939 | 120,000 | 14,018 |
| 2018 | 520,000 | 159,633 | 130,000 | 8,564 |
| 2019 | 535,000 | 144,677 | 130,000 | 2,860 |
| 2020 | 425,000 | 130,638 | - | - |
| 2021 - 2025 | 2,305,000 | 462,106 | - | - |
| 2026 - 2029 | 2,075,000 | 125,900 | - | - |
| Total | <u>\$ 12,770,000</u> | <u>\$ 1,510,198</u> | <u>\$ 495,000</u> | <u>\$ 44,513</u> |

| Year Ending December 31 | Taxable General Obligation Bonds | | Total | |
|----------------------------|----------------------------------|-------------------|----------------------|---------------------|
| | Principal | Interest | Principal | Interest |
| 2016 | \$ - | \$ 36,595 | \$ 6,515,000 | \$ 368,971 |
| 2017 | - | 36,595 | 630,000 | 224,552 |
| 2018 | - | 36,595 | 650,000 | 204,792 |
| 2019 | - | 36,595 | 665,000 | 184,132 |
| 2020 | 125,000 | 34,533 | 550,000 | 165,171 |
| 2021 - 2025 | 655,000 | 99,767 | 2,960,000 | 561,873 |
| 2026 - 2029 | 140,000 | 3,115 | 2,215,000 | 129,015 |
| Total | <u>\$ 920,000</u> | <u>\$ 283,795</u> | <u>\$ 14,185,000</u> | <u>\$ 1,838,506</u> |

As part of the American Recovery and Reinvestment Act of 2009 (ARRA), Mille Lacs County issued \$920,000 of Recovery Zone Economic Development Bonds (RZEDBs), which were issued for the Historical Courthouse Square remodel project. The Series 2010B Bonds are direct pay tax credit RZEDBs, in which the County will receive a payment from the federal government equal to 45 percent of the amount of interest payable on each interest payment date. The County has complied with all requirements of ARRA to be eligible for the RZEDB interest credit. Pursuant to the requirements of the Balanced Budget and Emergency Deficit Control Act of 1985, the refundable credit has been reduced by 7.3 percent from Sequestration through September 30, 2015, and 6.8 percent for the remainder of the

**MILLE LACS COUNTY
MILACA, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources

4. Debt Service Requirements (Continued)

year. The Series 2010B Bonds were issued as taxable obligations, which the County will elect to irrevocably designate as qualified RZEDBs. The entire County has been designated as a recovery zone pursuant to a resolution adopted by the Board of Commissioners of the County on July 20, 2010.

Taking into consideration the aforementioned RZEDB interest credit, as of December 31, 2015, the County's net annual debt service requirements to amortize all taxable general obligation bonds outstanding, including interest of \$164,772 on the governmental activities debt, is as follows:

| Year Ending December 31 | Principal | Interest | Federal Subsidy | Net Interest | Total Payment |
|----------------------------|-------------------|-------------------|---------------------|-------------------|---------------------|
| 2016 | \$ - | \$ 36,595 | \$ (15,348) | \$ 21,247 | \$ 21,247 |
| 2017 | - | 36,595 | (15,348) | 21,247 | 21,247 |
| 2018 | - | 36,595 | (15,348) | 21,247 | 21,247 |
| 2019 | - | 36,595 | (15,348) | 21,247 | 21,247 |
| 2020 | 125,000 | 34,533 | (14,483) | 20,050 | 145,050 |
| 2021 - 2025 | 655,000 | 99,767 | (41,841) | 57,926 | 712,926 |
| 2026 | 140,000 | 3,115 | (1,307) | 1,808 | 141,808 |
| Total | <u>\$ 920,000</u> | <u>\$ 283,795</u> | <u>\$ (119,023)</u> | <u>\$ 164,772</u> | <u>\$ 1,084,772</u> |

5. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2015, was as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|----------------------------------|----------------------|-------------------|-------------------|----------------------|------------------------|
| General obligation bonds | \$ 13,215,000 | \$ - | \$ 445,000 | \$ 12,770,000 | \$ 6,400,000 |
| Lease revenue bonds | 605,000 | - | 110,000 | 495,000 | 115,000 |
| Taxable general obligation bonds | 920,000 | - | - | 920,000 | - |
| Add: premium on bonds | 260,136 | - | 17,342 | 242,794 | - |
| Less: discounts on bonds | (3,693) | - | (738) | (2,955) | - |
| Compensated absences | 1,889,926 | 288,424 | 160,703 | 2,017,647 | 165,948 |
| Long-Term Liabilities | <u>\$ 16,886,369</u> | <u>\$ 288,424</u> | <u>\$ 732,307</u> | <u>\$ 16,442,486</u> | <u>\$ 6,680,948</u> |

**MILLE LACS COUNTY
MILACA, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

1. Plan Description

All full-time and certain part-time employees of Mille Lacs County are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General 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. PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

General 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. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan, for which benefits vest after five years of credited service.

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

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

**MILLE LACS COUNTY
MILACA, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans (Continued)

2. Benefits Provided

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

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

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for General Employees Retirement Fund 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 remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years of service and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For Public Employees Police and 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.

**MILLE LACS COUNTY
MILACA, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

2. Benefits Provided (Continued)

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

3. Contributions

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the state legislature. General Employees Retirement Fund Basic Plan members and Coordinated Plan members were required to contribute 9.10 percent and 6.50 percent, respectively, of their annual covered salary in 2015. Public Employees Police and Fire Fund members were required to contribute 10.80 percent of their annual covered salary in 2015. Public Employees Correctional Fund members were required to contribute 5.83 percent of their annual covered salary in 2015.

In 2015, the County was required to contribute the following percentages of annual covered salary:

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

The General Employees Retirement Fund Coordinated Plan member and employer contribution rates each reflect a 0.25 percent increase from 2014. The Public Employees Police and Fire Fund member and employer contribution rates increased 0.60 percent and 0.90 percent, respectively, from 2014.

**MILLE LACS COUNTY
MILACA, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

3. Contributions (Continued)

The County's contributions for the year ended December 31, 2015, to the pension plans were:

| | |
|---------------------------------------|------------|
| General Employees Retirement Fund | \$ 621,767 |
| Public Employees Police and Fire Fund | 275,247 |
| Public Employees Correctional Fund | 185,187 |

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

4. Pension Costs

General Employees Retirement Fund

At December 31, 2015, the County reported a liability of \$7,239,979 for its proportionate share of the General Employees Retirement Fund's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the County's proportion was 0.1397 percent. It was 0.1533 percent measured as of June 30, 2014. The County recognized pension expense of \$803,245 for its proportionate share of the General Employees Retirement Fund's pension expense.

**MILLE LACS COUNTY
MILACA, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

4. Pension Costs

General Employees Retirement Fund (Continued)

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

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------------|-------------------------------------|
| Differences between expected and actual economic experience | \$ - | \$ 365,018 |
| Difference between projected and actual investment earnings | 685,375 | - |
| Changes in proportion | - | 479,145 |
| Contributions paid to PERA subsequent to the measurement date | 310,091 | - |
| Total | \$ 995,466 | \$ 844,163 |

A total of \$301,091 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

| Year Ended December 31 | Pension Expense Amount |
|---------------------------|------------------------------|
| 2016 | \$ (110,044) |
| 2017 | (110,044) |
| 2018 | (110,044) |
| 2019 | 171,344 |

**MILLE LACS COUNTY
MILACA, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

4. Pension Costs (Continued)

Public Employees Police and Fire Fund

At December 31, 2015, the County reported a liability of \$2,056,584 for its proportionate share of the Public Employees Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the County's proportion was 0.181 percent. It was 0.176 percent measured as of June 30, 2014. The County recognized pension expense of \$363,788 for its proportionate share of the Public Employees Police and Fire Fund's pension expense.

The County also recognized \$16,290 as revenue, which results in a reduction of the net pension liability, for its proportionate share of the State of Minnesota's on-behalf contribution to the Public Employees Police and Fire Fund. Legislation requires the State of Minnesota to contribute \$9 million to the Public Employees Police and Fire Fund each year, starting in fiscal year 2014, until the plan is 90 percent funded.

**MILLE LACS COUNTY
MILACA, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

4. Pension Costs

Public Employees Police and Fire Fund (Continued)

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

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------------|-------------------------------------|
| Differences between expected and actual economic experience | \$ - | \$ 333,511 |
| Difference between projected and actual investment earnings | 358,326 | - |
| Changes in proportion | 45,002 | - |
| Contributions paid to PERA subsequent to the measurement date | 145,253 | - |
| Total | \$ 548,581 | \$ 333,511 |

A total of \$145,253 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

| Year Ended December 31 | Pension Expense Amount |
|---------------------------|------------------------------|
| 2016 | \$ 31,880 |
| 2017 | 31,880 |
| 2018 | 31,880 |
| 2019 | 31,880 |
| 2020 | (57,703) |

**MILLE LACS COUNTY
MILACA, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

4. Pension Costs (Continued)

Public Employees Correctional Fund

At December 31, 2015, the County reported a liability of \$180,882 for its proportionate share of the Public Employees Correctional Fund's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the County's proportion was 1.168 percent. It was 1.180 percent measured as of June 30, 2014. The County recognized pension expense of \$194,559 for its proportionate share of the Public Employees Correctional Fund's pension expense.

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

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------------|-------------------------------------|
| | <u> </u> | <u> </u> |
| Differences between expected and actual economic experience | \$ - | \$ 69,252 |
| Difference between projected and actual investment earnings | 150,778 | - |
| Changes in proportion | - | 566 |
| Contributions paid to PERA subsequent to the measurement date | 95,122 | - |
| | <u> </u> | <u> </u> |
| Total | <u>\$ 245,900</u> | <u>\$ 69,818</u> |

**MILLE LACS COUNTY
MILACA, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

4. Pension Costs

Public Employees Correctional Fund (Continued)

A total of \$95,122 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

| <u>Year Ended December 31</u> | <u>Pension Expense Amount</u> |
|-----------------------------------|---------------------------------------|
| 2016 | \$ 14,422 |
| 2017 | 14,422 |
| 2018 | 14,422 |
| 2019 | 37,694 |

Total Pension Expense

The total pension expense for all plans recognized by the County for the year ended December 31, 2015, was \$1,361,592.

5. Actuarial Assumptions

The total pension liability in the June 30, 2015, actuarial valuation was determined using the individual entry age normal actuarial cost method and the following additional actuarial assumptions:

| | |
|------------------------------|-----------------------|
| Inflation | 2.75 percent per year |
| Active member payroll growth | 3.50 percent per year |
| Investment rate of return | 7.90 percent |

**MILLE LACS COUNTY
MILACA, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

5. Actuarial Assumptions (Continued)

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on RP-2000 tables for males or females, as appropriate, with slight adjustments. For the General Employees Retirement Fund and the Public Employees Police and Fire Fund, cost of living benefit increases for retirees are assumed to be 1.0 percent effective every January 1 through 2035 and 2037, respectively, and 2.5 percent thereafter. Cost of living benefit increases for retirees are assumed to be 2.5 percent for all years for the Public Employees Correctional Fund.

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of actuarial experience studies. The experience study in the General Employees Retirement Fund was for the period July 1, 2004, through June 30, 2008, with an update of economic assumptions in 2014. The experience study for the Public Employees Police and Fire Fund was for the period July 1, 2004, through June 30, 2009. The experience study for the Public Employees Correctional Fund was for the period July 1, 2006, through June 30, 2011.

In 2015, an updated experience study was done for PERA's General Employees Retirement Fund for the six-year period ending June 30, 2014, which would result in a larger pension liability. However, PERA will not implement the changes in assumptions until its June 30, 2016, estimate of pension liability.

The long-term expected rate of return on pension plan investments is 7.9 percent. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

**MILLE LACS COUNTY
MILACA, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

5. Actuarial Assumptions (Continued)

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

6. Discount Rate

The discount rate used to measure the total pension liability was 7.9 percent. The discount rate did not change since the prior measurement date. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

7. Pension Liability Sensitivity

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

| | <u>1% Decrease in Discount Rate (6.9%)</u> | <u>Discount Rate (7.9%)</u> | <u>1% Increase in Discount Rate (8.9%)</u> |
|--|--|---------------------------------|--|
| Proportionate share of the General Employees Retirement Fund net pension liability | \$ 11,383,821 | \$ 7,239,979 | \$ 3,817,803 |
| Public Employees Police and Fire Fund net pension liability | 4,008,303 | 2,056,584 | 444,123 |
| Public Employees Correctional Fund net pension liability (asset) | 1,259,692 | 180,882 | (682,601) |

**MILLE LACS COUNTY
MILACA, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans (Continued)

8. Pension Plan Fiduciary Net Position

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

B. Other Postemployment Benefits (OPEB)

Plan Description

Mille Lacs County provides a single-employer defined benefit health care plan to eligible retirees and their spouses. The plan offers medical and dental insurance benefits. The County provides benefits for retirees as required by Minn. Stat. § 471.61, subd. 2b.

Funding Policy

The contribution requirements of the plan members and the County are established and may be amended by the Mille Lacs County Board of Commissioners. The required contribution is based on projected pay-as-you-go financing requirements. Retirees and their spouses contribute to the health care plan at the same rate as County employees. This results in the retirees receiving an implicit rate subsidy. For fiscal year 2015, the County contributed \$76,574 to the plan; there were 246 participants in the plan.

Annual OPEB Cost and Net OPEB Obligation

The County's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial accrued liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the County's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the County's net OPEB obligation to the plan.

**MILLE LACS COUNTY
MILACA, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

B. Other Postemployment Benefits (OPEB)

Annual OPEB Cost and Net OPEB Obligation (Continued)

| | | |
|--|----|------------------|
| ARC | \$ | 304,573 |
| Interest on net OPEB obligation | | 47,862 |
| Adjustment to ARC | | <u>(67,853)</u> |
| Annual OPEB cost (expense) | \$ | 284,582 |
| Contributions made - indirect implicit subsidy | | <u>(76,574)</u> |
| Increase in net OPEB obligation | \$ | 208,008 |
| Net OPEB Obligation - January 1 | | <u>1,196,557</u> |
| Net OPEB Obligation - December 31 | \$ | <u>1,404,565</u> |

The County's annual OPEB cost; the percentage of annual OPEB cost contributed to the plan; and the net OPEB obligation for the years ended December 31, 2013, 2014, and 2015, were as follows:

| <u>Fiscal Year Ended</u> | <u>Annual OPEB Cost</u> | <u>Employer Contribution</u> | <u>Percentage Contributed</u> | <u>Net OPEB Obligation</u> |
|--------------------------|-----------------------------|----------------------------------|-----------------------------------|--------------------------------|
| December 31, 2013 | \$ 263,094 | \$ 80,175 | 30.47% | \$ 976,686 |
| December 31, 2014 | 285,821 | 65,950 | 23.07 | 1,196,557 |
| December 31, 2015 | 284,582 | 76,574 | 26.91 | 1,404,565 |

Funded Status and Funding Progress

As of January 1, 2014, the most recent actuarial valuation date, the County had no assets to fund the plan. The actuarial accrued liability for benefits was \$2,001,833, and the actuarial valuation of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$2,001,833. The covered payroll (annual payroll of active employees covered by the plan) was \$11,399,191, and the ratio of the UAAL to the covered payroll was 17.56 percent.

**MILLE LACS COUNTY
MILACA, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

B. Other Postemployment Benefits (OPEB)

Funded Status and Funding Progress (Continued)

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

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of the benefit cost between the employer and plan members to that point.

Actuarial Methods and Assumptions

The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2014, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4.0 percent investment rate of return (net of administrative expenses), which is Mille Lacs County's implicit rate of return on the General Fund, and an annual health care cost trend rate of 7.5 percent initially, reduced by decrements to an ultimate rate of 5.0 percent after ten years. Both rates included a 2.5 percent inflation assumption. The actuarial value of assets was set equal to the market value of assets. The UAAL is being amortized over 30 years on a closed basis. The remaining amortization period at December 31, 2015, was 22 years.

**MILLE LACS COUNTY
MILACA, MINNESOTA**

5. 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 these risks, the County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Intergovernmental Trust (MCIT). The County is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. For other risk, the County carries commercial insurance. There were no significant reductions in insurance coverage from the previous year or settlements in excess of insurance coverage for any of 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 \$490,000 per claim in 2015 and \$500,000 per claim in 2016. 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.

On January 1, 2010, the County contracted with Delta Dental of Minnesota to administer the County's dental benefit plan for its employees as provided by the plan accepted from Delta Dental. The County sets annual premiums for the plan based on the recommendation of the plan administration and accumulates premiums collected from all participating funds in the Self-Insurance Internal Service Fund.

At the beginning of each month, the County is billed by Delta Dental of Minnesota for the previous month's claims processed and the per-employee administrative fee. The payment is made to Delta Dental from the premiums accumulated in the Self-Insurance Internal Service Fund.

**MILLE LACS COUNTY
MILACA, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

A. Risk Management (Continued)

Changes in the balance of claims payable during the year are as follows:

| | |
|------------------------------|------------------|
| Claims payable - January 1 | \$ 14,014 |
| Current year claims | 125,952 |
| Claim payments | <u>(128,092)</u> |
| Claims payable - December 31 | <u>\$ 11,874</u> |

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, in connection with the normal conduct of its affairs, is involved in various claims, judgments, and litigation. 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 County.

C. Joint Ventures

East Central Solid Waste Commission

The East Central Solid Waste Commission was established in March 1988 by a joint powers agreement among Chisago, Isanti, Kanabec, Mille Lacs, and Pine Counties to conduct a solid waste management program on behalf of the participating counties. The Commission is an organized joint venture having the powers, duties, and privileges granted joint powers by Minn. Stat. § 471.59. The Commission has five voting members, one from each county. At its annual meeting, the Board of County Commissioners of each county chooses a member and an alternate, both County Commissioners, as representatives of the county. Each county has one voting member and, in the absence of the voting member, the alternate votes.

**MILLE LACS COUNTY
MILACA, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

East Central Solid Waste Commission (Continued)

Each county's proportionate share of the total operating costs is based on the most recent census data available and is to be adjusted upon the admission of additional counties or the withdrawal of present counties. The Commission will remain in existence as long as two or more counties remain as parties to the agreement. Upon dissolution of the Commission, there will be an accounting to determine assets and liabilities. The assets of the Commission will be liquidated and, after payment of liabilities, the proceeds will be distributed to the counties based on their respective ratios set by the most recent census data. Each county's share of the Commission's assets, liabilities, and equities cannot be accurately determined since it will fluctuate with census data rather than ownership interest.

Following is a summary of the financial information as of and for the year ended December 31, 2014 (most recent figures available):

| | |
|-------------------------------------|---------------------|
| Total Assets | \$ 14,682,659 |
| Total Liabilities | <u>(6,369,237)</u> |
| Total Net Position | <u>\$ 8,313,422</u> |
| | |
| Operating and nonoperating revenues | \$ 5,854,380 |
| Operating and nonoperating expenses | <u>(5,604,999)</u> |
| Change in Net Position | <u>\$ 249,381</u> |

Complete financial statements of the East Central Solid Waste Commission can be obtained from:

East Central Solid Waste Commission
1756 - 180th Avenue
Mora, Minnesota 55051

**MILLE LACS COUNTY
MILACA, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

East Central Regional Library

The East Central Regional Library was established by a joint powers agreement among Aitkin, Chisago, Isanti, Kanabec, Mille Lacs, and Pine Counties to provide an efficient and improved regional public library service. The Library Board comprises 18 members: one County Board member and two appointees from each member county. Mille Lacs County's contribution for 2015 was \$268,029.

Complete financial statements of the East Central Regional Library can be obtained from:

East Central Regional Library
244 South Birch
Cambridge, Minnesota 55008

Snake River Watershed Management Board

The Snake River Watershed Management Board (SRWMB) was established in April 1983 by Aitkin, Kanabec, Mille Lacs, and Pine Counties, pursuant to the provisions of Minn. Stat. § 471.59. The purpose of the Board is to coordinate the member counties' water plans and to develop objectives to promote sound hydrologic management of water and related land resources.

The four-member Board consists of one County Commissioner from each of the participating counties. The Kanabec County Auditor/Treasurer is the fiscal agent for the Board. The Board is funded through an annual budget, and participation in the administrative costs are in the following percentages:

| | |
|-------------------|-------|
| Aitkin County | 20.8% |
| Kanabec County | 49.5 |
| Mille Lacs County | 9.2 |
| Pine County | 20.5 |

Mille Lacs County provided \$4,379 in funding to the SRWMB during 2015. Upon dissolution, the personal property shall be returned to the member county contributing the same.

**MILLE LACS COUNTY
MILACA, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Snake River Watershed Management Board (Continued)

Complete financial statements of the SRWMB can be obtained from:

Snake River Watershed Management Board
Kanabec County Courthouse
18 North Vine Street
Mora, Minnesota 55051

Central Minnesota Emergency Medical Services Region

The Central Minnesota Emergency Medical Services Region was established in 2001, under Minn. Stat. § 471.59, to improve access, delivery, and effectiveness of the emergency medical services system; promote systematic and cost-effective delivery of services; and identify and address system needs within the member counties. The member counties are Benton, Cass, Chisago, Crow Wing, Isanti, Kanabec, Mille Lacs, Morrison, Pine, Sherburne, Stearns, Todd, Wadena, and Wright. The Region established a Board comprising one Commissioner from each member county. The Region's Board has financial responsibility, and Stearns County is the fiscal agent.

Complete financial information can be obtained from:

Central Minnesota Emergency Medical Services Region
Administration Center
705 Courthouse Square
St. Cloud, Minnesota 56303-4701

Central Minnesota Emergency Services Board

The Central Minnesota Regional Radio Board was established in 2007, under the authority conferred upon the member parties by Minn. Stat. §§ 471.59 and 403.39. As of June 1, 2011, the Central Minnesota Regional Radio Board changed its name to the Central Minnesota Emergency Services Board. Members include the City of St. Cloud and the Counties of Benton, Big Stone, Douglas, Grant, Kandiyohi, Meeker, Mille Lacs, Morrison, Otter Tail, Pope, Sherburne, Stearns, Stevens, Swift, Todd, Traverse, Wadena, Wilkin, and Wright.

**MILLE LACS COUNTY
MILACA, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Central Minnesota Emergency Services Board (Continued)

The purpose of the Central Minnesota Emergency Services Board is to provide for regional administration of enhancements to the Statewide Public Safety Radio and Communication System (ARMER) owned and operated by the State of Minnesota.

The Central Minnesota Emergency Services Board is composed of one Commissioner of each county appointed by their respective County Board and one City Council member appointed by the City Council, as provided in the Central Minnesota Emergency Services Board's by-laws.

In the event of dissolution of the Central Minnesota Emergency Services Board, all property, assets, and funds of the Board shall be distributed to the parties of the agreement upon termination in direct proportion to their participation and contribution. Any city or county that has withdrawn from the agreement prior to termination of the Board shall share in the distribution of property, assets, and funds of the Board only to the extent they shared in the original expense.

The Central Minnesota Emergency Services Board has no long-term debt. Financing is provided by the appropriations from member parties and by state and federal grants. During 2015, Mille Lacs County contributed \$10,134 to the Joint Powers Board.

Complete financial information can be obtained from:

Central Minnesota Emergency Services Board
City of St. Cloud
Office of the Mayor
City Hall
400 Second Street South
St. Cloud, Minnesota 56303

**MILLE LACS COUNTY
MILACA, MINNESOTA**

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

D. Subsequent Event

On April 19, 2016, Mille Lacs County gave notice of call for redemption for the 2007 HRA Lease Revenue Refunding Bonds having a stated maturity date of February 1 in the years 2017 through 2019, both inclusive, totaling \$380,000 in principal. The bonds are being called at a price of par plus accrued interest to June 1, 2016, on which date, all interest on the bonds will cease to accrue.

REQUIRED SUPPLEMENTARY INFORMATION

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**MILLE LACS COUNTY
MILACA, MINNESOTA**

EXHIBIT A-1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2015**

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget</u> |
|-----------------------------------|-------------------------|----------------------|---------------------------|---------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues | | | | |
| Taxes | \$ 9,473,744 | \$ 9,473,744 | \$ 9,469,299 | \$ (4,445) |
| Special assessments | 30,400 | 30,400 | 15,660 | (14,740) |
| Licenses and permits | 196,712 | 196,712 | 237,027 | 40,315 |
| Intergovernmental | 2,568,904 | 2,568,904 | 3,264,411 | 695,507 |
| Charges for services | 1,033,600 | 1,033,600 | 1,254,383 | 220,783 |
| Fines and forfeits | 59,000 | 59,000 | 163,189 | 104,189 |
| Gifts and contributions | 1,700 | 1,700 | 2,695 | 995 |
| Investment earnings | 60,000 | 60,000 | 55,244 | (4,756) |
| Miscellaneous | 281,230 | 281,230 | 540,380 | 259,150 |
| Total Revenues | \$ 13,705,290 | \$ 13,705,290 | \$ 15,002,288 | \$ 1,296,998 |
| Expenditures | | | | |
| Current | | | | |
| General government | | | | |
| Commissioners | \$ 176,663 | \$ 176,663 | \$ 208,384 | \$ (31,721) |
| Court administrator | 73,750 | 73,750 | 85,389 | (11,639) |
| Law library | 40,000 | 40,000 | 20,155 | 19,845 |
| County administrator | 989,059 | 989,059 | 913,761 | 75,298 |
| Auditor/treasurer | 380,596 | 380,596 | 379,629 | 967 |
| Auditing | 53,000 | 53,000 | 43,499 | 9,501 |
| General administration | 564,500 | 564,500 | 445,039 | 119,461 |
| Information services | 33,650 | 33,650 | 33,039 | 611 |
| Data processing | 72,250 | 72,250 | 79,895 | (7,645) |
| Elections | 20,100 | 20,100 | 15,056 | 5,044 |
| County attorney | 1,398,900 | 1,398,900 | 1,294,642 | 104,258 |
| Victim emergency grant | 60,543 | 60,543 | 60,136 | 407 |
| Assessor | 371,940 | 371,940 | 380,392 | (8,452) |
| Land records and information | - | - | 128,589 | (128,589) |
| Zoning and environmental services | 633,789 | 633,789 | 719,963 | (86,174) |
| Building maintenance | 346,000 | 346,000 | 312,264 | 33,736 |
| Other general government | 165,000 | 165,000 | 167,775 | (2,775) |
| Total general government | \$ 5,379,740 | \$ 5,379,740 | \$ 5,287,607 | \$ 92,133 |

**MILLE LACS COUNTY
MILACA, MINNESOTA**

**EXHIBIT A-1
(Continued)**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2015**

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget</u> |
|-------------------------------------|-------------------------|---------------------|---------------------------|---------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Expenditures | | | | |
| Current (Continued) | | | | |
| Public safety | | | | |
| Sheriff | \$ 2,314,224 | \$ 2,314,224 | \$ 2,502,768 | \$ (188,544) |
| Court security | 403,612 | 403,612 | 436,809 | (33,197) |
| Drug and alcohol contingency | 2,000 | 2,000 | - | 2,000 |
| Boat and water safety | 57,500 | 57,500 | 59,905 | (2,405) |
| Snowmobile safety enforcement | 3,750 | 3,750 | - | 3,750 |
| ATV grant | 3,500 | 3,500 | 2,268 | 1,232 |
| DARE program | 2,500 | 2,500 | 3,564 | (1,064) |
| Hooked on fishing account | 1,500 | 1,500 | 1,658 | (158) |
| Chaplaincy | 100 | 100 | 109 | (9) |
| Deputy reserve account | 100 | 100 | 603 | (503) |
| DWI forfeiture | 4,000 | 4,000 | 7,655 | (3,655) |
| DWI assessment | 1,000 | 1,000 | - | 1,000 |
| Drug forfeiture | 4,000 | 4,000 | 7,846 | (3,846) |
| Fleeing an officer forfeiture | 500 | 500 | 182 | 318 |
| Records system | - | - | 48,717 | (48,717) |
| Permit to carry | 10,000 | 10,000 | 5,100 | 4,900 |
| Animal control | 15,500 | 15,500 | 17,000 | (1,500) |
| Coroner | 64,683 | 64,683 | 64,683 | - |
| County jail | 2,884,414 | 2,884,414 | 2,891,884 | (7,470) |
| Prisoner account | 145,000 | 145,000 | 191,328 | (46,328) |
| Probation | 826,909 | 826,909 | 739,153 | 87,756 |
| Case load reduction account | 134,365 | 134,365 | 141,736 | (7,371) |
| 911 services and civil defense | 99,255 | 99,255 | 137,543 | (38,288) |
| E-911 | 65,249 | 65,249 | 28,591 | 36,658 |
| Public safety answering point | 690,306 | 690,306 | 732,287 | (41,981) |
| Total public safety | \$ 7,733,967 | \$ 7,733,967 | \$ 8,021,389 | \$ (287,422) |
| Sanitation | | | | |
| Solid waste | \$ 85,500 | \$ 85,500 | \$ 81,436 | \$ 4,064 |
| Culture and recreation | | | | |
| Historical society | \$ 4,600 | \$ 4,600 | \$ 4,600 | \$ - |
| Snowmobile trails | - | - | 194,995 | (194,995) |
| Total culture and recreation | \$ 4,600 | \$ 4,600 | \$ 199,595 | \$ (194,995) |

**MILLE LACS COUNTY
MILACA, MINNESOTA**

**EXHIBIT A-1
(Continued)**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2015**

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget</u> |
|---|-------------------------|----------------------|---------------------------|---------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Expenditures | | | | |
| Current (Continued) | | | | |
| Conservation of natural resources | | | | |
| County agricultural society | \$ 12,500 | \$ 12,500 | \$ 12,500 | \$ - |
| County extension service | 65,400 | 65,400 | 69,821 | (4,421) |
| Soil and water conservation | 80,000 | 80,000 | 96,489 | (16,489) |
| Aquatic invasive species aid | - | - | 99,288 | (99,288) |
| Other conservation | 4,379 | 4,379 | 4,379 | - |
| Total conservation of natural resources | \$ 162,279 | \$ 162,279 | \$ 282,477 | \$ (120,198) |
| Economic development | | | | |
| Community development | \$ 73,675 | \$ 73,675 | \$ 133,188 | \$ (59,513) |
| Intergovernmental | | | | |
| Culture and recreation | | | | |
| Library | \$ 268,029 | \$ 268,029 | \$ 268,029 | \$ - |
| Total Expenditures | \$ 13,707,790 | \$ 13,707,790 | \$ 14,273,721 | \$ (565,931) |
| Excess of Revenues Over (Under) Expenditures | \$ (2,500) | \$ (2,500) | \$ 728,567 | \$ 731,067 |
| Other Financing Sources (Uses) | | | | |
| Transfers out | \$ - | \$ - | \$ (117,738) | \$ (117,738) |
| Proceeds from sale of capital assets | 2,500 | 2,500 | 765 | (1,735) |
| Total Other Financing Sources (Uses) | \$ 2,500 | \$ 2,500 | \$ (116,973) | \$ (119,473) |
| Net Change in Fund Balance | \$ - | \$ - | \$ 611,594 | \$ 611,594 |
| Fund Balance - January 1 | 6,803,618 | 6,803,618 | 6,803,618 | - |
| Fund Balance - December 31 | \$ 6,803,618 | \$ 6,803,618 | \$ 7,415,212 | \$ 611,594 |

**MILLE LACS COUNTY
MILACA, MINNESOTA**

EXHIBIT A-2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2015**

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget</u> |
|---|-------------------------|---------------------|---------------------------|---------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues | | | | |
| Taxes | \$ 821,926 | \$ 821,926 | \$ 840,663 | \$ 18,737 |
| Licenses and permits | 9,000 | 9,000 | 10,730 | 1,730 |
| Intergovernmental | 6,874,199 | 6,874,199 | 6,297,527 | (576,672) |
| Charges for services | 281,000 | 281,000 | 99,263 | (181,737) |
| Miscellaneous | 10,000 | 10,000 | 11,413 | 1,413 |
| Total Revenues | \$ 7,996,125 | \$ 7,996,125 | \$ 7,259,596 | \$ (736,529) |
| Expenditures | | | | |
| Current | | | | |
| Highways and streets | | | | |
| Administration | \$ 629,015 | \$ 629,015 | \$ 649,752 | \$ (20,737) |
| Construction | 5,298,418 | 5,298,418 | 4,600,519 | 697,899 |
| Maintenance | 1,567,102 | 1,567,102 | 1,536,422 | 30,680 |
| Equipment maintenance and shop | 611,251 | 611,251 | 534,699 | 76,552 |
| Total highways and streets | \$ 8,105,786 | \$ 8,105,786 | \$ 7,321,392 | \$ 784,394 |
| Intergovernmental | | | | |
| Highways and streets | 227,000 | 227,000 | 238,835 | (11,835) |
| Total Expenditures | \$ 8,332,786 | \$ 8,332,786 | \$ 7,560,227 | \$ 772,559 |
| Excess of Revenues Over (Under) Expenditures | \$ (336,661) | \$ (336,661) | \$ (300,631) | \$ 36,030 |
| Other Financing Sources (Uses) | | | | |
| Transfers in | 236,000 | 236,000 | 137,629 | (98,371) |
| Net Change in Fund Balance | \$ (100,661) | \$ (100,661) | \$ (163,002) | \$ (62,341) |
| Fund Balance - January 1 | 2,969,242 | 2,969,242 | 2,969,242 | - |
| Increase (decrease) in inventories | - | - | 105,291 | 105,291 |
| Fund Balance - December 31 | \$ 2,868,581 | \$ 2,868,581 | \$ 2,911,531 | \$ 42,950 |

**MILLE LACS COUNTY
MILACA, MINNESOTA**

EXHIBIT A-3

**BUDGETARY COMPARISON SCHEDULE
COMMUNITY AND VETERAN SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2015**

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget</u> |
|-----------------------------------|-------------------------|----------------------|---------------------------|---------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues | | | | |
| Taxes | \$ 4,033,871 | \$ 4,033,871 | \$ 3,953,785 | \$ (80,086) |
| Intergovernmental | 5,268,312 | 5,268,312 | 5,818,187 | 549,875 |
| Charges for services | 583,784 | 583,784 | 768,685 | 184,901 |
| Gifts and contributions | 550 | 550 | 27,080 | 26,530 |
| Miscellaneous | 214,792 | 214,792 | 307,590 | 92,798 |
| Total Revenues | \$ 10,101,309 | \$ 10,101,309 | \$ 10,875,327 | \$ 774,018 |
| Expenditures | | | | |
| Current | | | | |
| General government | | | | |
| Veteran services | \$ 169,126 | \$ 169,126 | \$ 150,810 | \$ 18,316 |
| Human services | | | | |
| Income maintenance | \$ 2,292,881 | \$ 2,292,881 | \$ 2,375,710 | \$ (82,829) |
| Social services | 6,874,031 | 6,874,031 | 7,392,051 | (518,020) |
| Total human services | \$ 9,166,912 | \$ 9,166,912 | \$ 9,767,761 | \$ (600,849) |
| Health | | | | |
| Public health | \$ 788,271 | \$ 788,271 | \$ 716,681 | \$ 71,590 |
| Total Expenditures | \$ 10,124,309 | \$ 10,124,309 | \$ 10,635,252 | \$ (510,943) |
| Net Change in Fund Balance | \$ (23,000) | \$ (23,000) | \$ 240,075 | \$ 263,075 |
| Fund Balance - January 1 | 4,368,801 | 4,368,801 | 4,368,801 | - |
| Fund Balance - December 31 | \$ 4,345,801 | \$ 4,345,801 | \$ 4,608,876 | \$ 263,075 |

**MILLE LACS COUNTY
MILACA, MINNESOTA**

EXHIBIT A-4

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA GENERAL EMPLOYEES RETIREMENT FUND
DECEMBER 31, 2015**

| Measurement Date | Employer's Proportion of the Net Pension Liability (Asset) | Employer's Proportionate Share of the Net Pension Liability (Asset) (a) | Covered Payroll (b) | Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b) | Plan Fiduciary Net Position as a Percentage of the Total Pension Liability |
|-------------------------|---|--|----------------------------|---|---|
| June 30, 2015 | 0.1397% | \$ 7,239,979 | \$ 8,211,771 | 88.17% | 78.20% |

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

**MILLE LACS COUNTY
MILACA, MINNESOTA**

EXHIBIT A-5

**SCHEDULE OF CONTRIBUTIONS
PERA GENERAL EMPLOYEES RETIREMENT FUND
DECEMBER 31, 2015**

| Year Ending | Statutorily Required Contributions (a) | Actual Contributions in Relation to Statutorily Required Contributions (b) | Contribution (Deficiency) Excess (b-a) | Covered Payroll (c) | Actual Contributions as a Percentage of Covered Payroll (b/c) |
|--------------------|---|---|---|----------------------------|--|
| December 31, 2015 | \$ 621,767 | \$ 621,767 | \$ - | \$ 8,290,223 | 7.50% |

This schedule is intended to show information for ten years. Additional years will be displayed as they become available. The County's year-end is December 31.

**MILLE LACS COUNTY
MILACA, MINNESOTA**

EXHIBIT A-6

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA PUBLIC EMPLOYEES POLICE AND FIRE FUND
DECEMBER 31, 2015**

| Measurement Date | Employer's Proportion of the Net Pension Liability (Asset) | Employer's Proportionate Share of the Net Pension Liability (Asset) (a) | Covered Payroll (b) | Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b) | Plan Fiduciary Net Position as a Percentage of the Total Pension Liability |
|-------------------------|---|--|----------------------------|---|---|
| June 30, 2015 | 0.181% | \$ 2,056,584 | \$ 1,662,624 | 123.70% | 86.60% |

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

**MILLE LACS COUNTY
MILACA, MINNESOTA**

EXHIBIT A-7

**SCHEDULE OF CONTRIBUTIONS
PERA PUBLIC EMPLOYEES POLICE AND FIRE FUND
DECEMBER 31, 2015**

| Year Ending | Statutorily Required Contributions (a) | Actual Contributions in Relation to Statutorily Required Contributions (b) | Contribution (Deficiency) Excess (b-a) | Covered Payroll (c) | Actual Contributions as a Percentage of Covered Payroll (b/c) |
|--------------------|---|---|---|----------------------------|--|
| December 31, 2015 | \$ 275,247 | \$ 275,247 | \$ - | \$ 1,699,054 | 16.20% |

This schedule is intended to show information for ten years. Additional years will be displayed as they become available. The County's year-end is December 31.

**MILLE LACS COUNTY
MILACA, MINNESOTA**

EXHIBIT A-8

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA PUBLIC EMPLOYEES CORRECTIONAL FUND
DECEMBER 31, 2015**

| Measurement Date | Employer's Proportion of the Net Pension Liability (Asset) | Employer's Proportionate Share of the Net Pension Liability (Asset) (a) | Covered Payroll (b) | Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b) | Plan Fiduciary Net Position as a Percentage of the Total Pension Liability |
|-------------------------|---|--|----------------------------|---|---|
| June 30, 2015 | 1.168% | \$ 180,882 | \$ 2,098,927 | 8.62% | 96.95% |

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

**MILLE LACS COUNTY
MILACA, MINNESOTA**

EXHIBIT A-9

**SCHEDULE OF CONTRIBUTIONS
PERA PUBLIC EMPLOYEES CORRECTIONAL FUND
DECEMBER 31, 2015**

| Year Ending | Statutorily Required Contributions (a) | Actual Contributions in Relation to Statutorily Required Contributions (b) | Contribution (Deficiency) Excess (b-a) | Covered Payroll (c) | Actual Contributions as a Percentage of Covered Payroll (b/c) |
|--------------------|---|---|---|----------------------------|--|
| December 31, 2015 | \$ 185,187 | \$ 185,187 | \$ - | \$ 2,116,421 | 8.75% |

This schedule is intended to show information for ten years. Additional years will be displayed as they become available. The County's year-end is December 31.

**MILLE LACS COUNTY
MILACA, MINNESOTA**

EXHIBIT A-10

**SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS
FOR THE YEAR ENDED DECEMBER 31, 2015**

| 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, 2010 | \$ - | \$ 1,469,265 | \$ 1,469,265 | 0.00% | \$ 11,088,106 | 13.25% |
| January 1, 2012 | - | 1,783,533 | 1,783,533 | 0.00 | 10,968,844 | 16.26 |
| January 1, 2014 | - | 2,001,833 | 2,001,833 | 0.00 | 11,399,191 | 17.56 |

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**MILLE LACS COUNTY
MILACA, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2015**

1. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds, except for the Ditch Special Revenue Fund, the Debt Service Fund, and the Capital Projects Fund. All annual appropriations lapse at fiscal year-end unless specifically carried over to the next budget year by Board action.

On or before mid-June of each year, all departments and agencies submit requests for appropriations to the County Auditor/Treasurer so that a budget can be prepared. Before October 31, the proposed budget is presented to the County Board for review. The Board holds public hearings, and a final budget must be prepared and adopted no later than December 31.

The appropriated budget is prepared by fund, function, and department. The County's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require approval of the County Board. The legal level of budgetary control (the level at which expenditures may not legally exceed appropriations) is the function level.

2. Excess of Expenditures Over Appropriations

The following major governmental funds had expenditures in excess of budget at the function level for the year ended December 31, 2015:

| | <u>Expenditures</u> | <u>Final Budget</u> | <u>Excess</u> |
|--------------------------------------|---------------------|---------------------|---------------|
| General Fund | | | |
| Current | | | |
| Public safety | \$ 8,021,389 | \$ 7,733,967 | \$ 287,422 |
| Culture and recreation | 199,595 | 4,600 | 194,995 |
| Conservation of natural resources | 282,477 | 162,279 | 120,198 |
| Economic development | 133,188 | 73,675 | 59,513 |
| Road and Bridge Special Revenue Fund | | | |
| Intergovernmental | | | |
| Highways and streets | 238,835 | 227,000 | 11,835 |

**MILLE LACS COUNTY
MILACA, MINNESOTA**

2. Excess of Expenditures Over Appropriations (Continued)

| | <u>Expenditures</u> | <u>Final Budget</u> | <u>Excess</u> |
|---|---------------------|---------------------|---------------|
| Community and Veteran Services Special Revenue Fund Current Human services | 9,767,761 | 9,166,912 | 600,849 |

3. Other Postemployment Benefits Funding Status

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

See Note 4.B. in the notes to the financial statements for additional information regarding the County's other postemployment benefits.

SUPPLEMENTARY INFORMATION

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**MILLE LACS COUNTY
MILACA, MINNESOTA**

FIDUCIARY FUND

Agency Fund - to account for assets held by the County as an agent for other governmental units, individuals, private organizations, or other funds.

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MILLE LACS COUNTY
MILACA, MINNESOTA

EXHIBIT B-1

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUND
FOR THE YEAR ENDED DECEMBER 31, 2015

| | <u>Balance January 1</u> | <u>Additions</u> | <u>Deductions</u> | <u>Balance December 31</u> |
|-----------------------------|------------------------------|----------------------|----------------------|--------------------------------|
| <u>Assets</u> | | | | |
| Cash and pooled investments | <u>\$ 782,545</u> | <u>\$ 52,459,225</u> | <u>\$ 52,616,913</u> | <u>\$ 624,857</u> |
| <u>Liabilities</u> | | | | |
| Due to other governments | <u>\$ 782,545</u> | <u>\$ 52,459,225</u> | <u>\$ 52,616,913</u> | <u>\$ 624,857</u> |

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OTHER SCHEDULES

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**MILLE LACS COUNTY
MILACA, MINNESOTA**

EXHIBIT C-1

**BALANCE SHEET - BY DITCH
DITCH SPECIAL REVENUE FUND
DECEMBER 31, 2015**

| | <u>Fund Balance</u> | | | | | <u>Total Liabilities and Fund Balance</u> |
|---------------------|--|---|---|--------------------|-----------------------------------|---|
| | <u>Assets</u> Cash and Pooled Investments | <u>Liabilities</u> Advances From Other Funds | <u>Restricted for Ditch Maintenance and Repairs</u> | <u>Unassigned</u> | <u>Total Fund Balance</u> | |
| County Ditch | | | | | | |
| 2 | \$ 152 | \$ 18,911 | \$ - | \$ (18,759) | \$ (18,759) | \$ 152 |
| 3 | 35,101 | - | 35,101 | - | 35,101 | 35,101 |
| 4 | 18,981 | - | 18,981 | - | 18,981 | 18,981 |
| 5 | 7,000 | - | 7,000 | - | 7,000 | 7,000 |
| 14 | 2,210 | 72,853 | - | (70,643) | (70,643) | 2,210 |
| Judicial Ditch 3 | (61) | - | - | (61) | (61) | (61) |
| Total | \$ 63,383 | \$ 91,764 | \$ 61,082 | \$ (89,463) | \$ (28,381) | \$ 63,383 |

**MILLE LACS COUNTY
MILACA, MINNESOTA**

EXHIBIT C-2

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2015**

Shared Revenue

State

| | | |
|------------------------------|----|-----------|
| Highway users tax | \$ | 5,070,953 |
| County program aid | | 1,526,109 |
| PERA rate reimbursement | | 30,786 |
| Disparity reduction aid | | 24,710 |
| Police aid | | 191,415 |
| Indian casino aid | | 75,603 |
| Enhanced 911 | | 101,936 |
| SCORE | | 77,140 |
| Aquatic invasive species aid | | 102,036 |
| Market value credit | | 227,682 |
| | | 227,682 |

Total shared revenue **\$ 7,428,370**

Reimbursement for Services

State

| | | |
|--|----|------------------|
| Minnesota Department of Human Services | \$ | 1,133,702 |
| | | 1,133,702 |

Payments

Local

| | | |
|---------------------------|----|---------|
| Payments in lieu of taxes | \$ | 248,147 |
| University of Minnesota | | 30,500 |
| | | 30,500 |

Total payments **\$ 278,647**

Grants

State

| | | |
|--|----|-----------|
| Minnesota Department/Board of | | |
| Public Safety | \$ | 510 |
| Commerce | | 122,111 |
| Health | | 56,173 |
| Natural Resources | | 143,573 |
| Human Services | | 1,878,670 |
| Veterans Affairs | | 10,585 |
| Corrections | | 206,577 |
| Transportation | | 765,258 |
| Water and Soil Resources | | 117,794 |
| Peace Officer Standards and Training Board | | 11,929 |
| | | 11,929 |

Total state **\$ 3,313,180**

MILLE LACS COUNTY
MILACA, MINNESOTA

EXHIBIT C-2
(Continued)

SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2015

Grants (Continued)

Federal

| | |
|------------------------------|------------|
| Department of Agriculture | \$ 293,196 |
| Transportation | 385,070 |
| Health and Human Services | 2,504,145 |
| Homeland Security | 58,779 |

Total federal \$ 3,241,190

Total state and federal grants \$ 6,554,370

Build America Bonds interest subsidy \$ 15,296

Total Intergovernmental Revenue \$ 15,410,385

**MILLE LACS COUNTY
MILACA, MINNESOTA**

EXHIBIT C-3

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

| Federal Grantor Pass-Through Agency Program or Cluster Title | Federal CFDA Number | Pass-Through Grant Numbers | Expenditures |
|--|------------------------------------|--|--------------------------|
| U.S. Department of Agriculture | | | |
| Passed Through Minnesota Department of Health Special Supplemental Nutrition Program for Women, Infants, and Children | 10.557 | 16162MN004W1003 | \$ 93,128 |
| Passed Through Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program | 10.561 | 15152MN10152514 | <u>200,068</u> |
| Total U.S. Department of Agriculture | | | <u>\$ 293,196</u> |
| U.S. Department of Transportation | | | |
| Passed Through Minnesota Department of Transportation Highway Planning and Construction Cluster Highway Planning and Construction | 20.205 | 00047 05768 | \$ 171,977 |
| <i>(Total expenditures for Highway Planning and Construction Cluster \$364,244)</i> | | | |
| Federal Transit Capital Investment Grants | 20.500 | MN-04-0048-00 MN-04-0048-01 | 2,341 |
| Passed Through Minnesota Department of Natural Resources Highway Planning and Construction Cluster Recreational Trails Program | 20.219 | 88347 | 192,267 |
| <i>(Total expenditures for Highway Planning and Construction Cluster \$364,244)</i> | | | |
| Passed Through Minnesota Department of Public Safety Highway Safety Cluster State and Community Highway Safety | 20.600 | F-ENFRC15-2015- MILLACSO-0962 F-ENFRC15-2015- MILLACSO-1140 F-ENFRC15-2015- MILLACSO-1330 | 2,979 |
| National Priority Safety Programs | 20.616 | F-ENFRC15-2015- MILLACSO-0962 F-ENFRC15-2015- MILLACSO-1140 | 9,904 |
| <i>(Total expenditures for Highway Safety Cluster \$12,883)</i> | | | |
| Minimum Penalties for Repeat Offenders for Driving While Intoxicated | 20.608 | F-ENFRC15-2015- MILLACSO-0962 F-ENFRC15-2015- MILLACSO-1330 | <u>5,602</u> |
| Total U.S. Department of Transportation | | | <u>\$ 385,070</u> |

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

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**MILLE LACS COUNTY
MILACA, MINNESOTA**

**EXHIBIT C-3
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

| Federal Grantor Pass-Through Agency Program or Cluster Title | Federal CFDA Number | Pass-Through Grant Numbers | Expenditures |
|---|------------------------------------|---|---------------------|
| U.S. Department of Health and Human Services | | | |
| Passed Through Isanti-Mille Lacs Community Health Board | | | |
| Public Health Emergency Preparedness <i>(Total Public Health Emergency Preparedness 93.069 \$46,759)</i> | 93.069 | Not Provided | \$ 18,127 |
| Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program <i>(Total Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program 93.505 \$246,220)</i> | 93.505 | Not Provided | 72,885 |
| Maternal and Child Health Services Block Grant to the States <i>(Total Maternal and Child Health Services Block Grant to the States 93.994 \$27,033)</i> | 93.994 | Not Provided | 2,551 |
| Passed Through Minnesota Department of Health | | | |
| Public Health Emergency Preparedness <i>(Total Public Health Emergency Preparedness 93.069 \$46,759)</i> | 93.069 | 90TP000529 | 28,632 |
| Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program <i>(Total Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program 93.505 \$246,220)</i> | 93.505 | X02MC23111 | 173,335 |
| Temporary Assistance for Needy Families <i>(Total Temporary Assistance for Needy Families 93.558 \$318,178)</i> | 93.558 | 2015G996115 | 36,644 |
| Maternal and Child Health Services Block Grant to the States <i>(Total Maternal and Child Health Services Block Grant to the States 93.994 \$27,033)</i> | 93.994 | B04MC28107 | 24,482 |
| Passed Through Minnesota Department of Human Services | | | |
| Promoting Safe and Stable Families | 93.556 | 1401MNPFS | 9,140 |
| Temporary Assistance for Needy Families <i>(Total Temporary Assistance for Needy Families 93.558 \$318,178)</i> | 93.558 | 1502MNTANF | 281,534 |
| Child Support Enforcement | 93.563 | 1504MN4005 | 504,238 |
| Refugee and Entrant Assistance - State-Administered Programs | 93.566 | 1501MNRCA | 297 |
| Child Care and Development Block Grant | 93.575 | G1501MNCCDF | 11,620 |
| Community-Based Child Abuse Prevention Grants | 93.590 | 1302MNFPRG | 23,480 |
| Stephanie Tubbs Jones Child Welfare Services Program | 93.645 | 1401MNCWSS | 4,969 |
| Foster Care Title IV-E | 93.658 | 1501MNFOST | 303,401 |
| Social Services Block Grant | 93.667 | 1501MNSOSR | 194,069 |
| Chafee Foster Care Independence Program | 93.674 | 1401MN1420 | 6,004 |
| Children's Health Insurance Program | 93.767 | 1405MN5021 | 99 |
| Medical Assistance Program | 93.778 | 1505MN5ADM | 752,884 |
| Block Grants for Prevention and Treatment of Substance Abuse | 93.959 | Not Provided | 640 |
| Total U.S. Department of Health and Human Services | | | \$ 2,449,031 |

**MILLE LACS COUNTY
MILACA, MINNESOTA**

**EXHIBIT C-3
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

| Federal Grantor Pass-Through Agency Program or Cluster Title | Federal CFDA Number | Pass-Through Grant Numbers | Expenditures |
|---|------------------------------------|--|---------------------|
| U.S. Department of Homeland Security | | | |
| Passed Through Minnesota Department of Natural Resources Boating Safety Financial Assistance | 97.012 | 121814 101315 120115 | \$ 18,550 |
| Passed Through Minnesota Department of Public Safety Emergency Management Performance Grants | 97.042 | F-EMPG-2014- MILLACCO-0805 F-EMPG-2015- MILLACCO-1209 | <u>40,229</u> |
| Total U.S. Department of Homeland Security | | | \$ 58,779 |
| Total Federal Awards | | | \$ 3,186,076 |

Mille Lacs County did not pass any federal awards through to subrecipients during the year ended December 31, 2015.

**MILLE LACS COUNTY
MILACA, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by Mille Lacs 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 Mille Lacs County under programs of the federal government for the year ended December 31, 2015. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of Mille Lacs County, it is not intended to and does not present the financial position, changes in net position, or cash flows of Mille Lacs 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, as applicable, either the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Mille Lacs County has elected to not use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

4. Reconciliation to Schedule of Intergovernmental Revenue

| | |
|---|--------------|
| Federal grant revenue per Schedule of Intergovernmental Revenue | \$ 3,241,190 |
| Grants received more than 60 days after year-end, unavailable in 2015 | |
| Temporary Assistance for Needy Families | 1,312 |
| Child Support Enforcement | 18,300 |
| Unavailable in 2014, recognized as revenue in 2015 | |
| Public Health Emergency Preparedness | (4,079) |
| Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program | (68,315) |
| Temporary Assistance for Needy Families | (1,613) |
| Child Care and Development Block Grant | (719) |
| | <hr/> |
| Expenditures Per Schedule of Expenditures of Federal Awards | \$ 3,186,076 |

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**MILLE LACS COUNTY
MILACA, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2015**

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with generally accepted accounting principles: **Unmodified**

Internal control over financial reporting:

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

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

Federal Awards

Internal control over major programs:

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

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? **No**

The major federal program is:

Medical Assistance Program

CFDA No. 93.778

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

Mille Lacs County qualified as a low-risk auditee? **Yes**

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding 1996-001

Segregation of Duties

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

Condition: Several of the County's departments that collect fees lack proper segregation of duties. These departments generally have one staff person who is responsible for billing, collecting, recording, and depositing receipts as well as reconciling bank accounts.

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

Effect: Inadequate segregation of duties could adversely affect the County's ability to detect misstatements in a timely period by employees in the normal course of performing their assigned functions.

Cause: The County informed us that, due to the available resources, it would not be able to hire additional qualified accounting staff to segregate duties in every department.

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

Client's Response:

Mille Lacs County management is aware of this situation. The County will continue to review and modify procedures periodically to address issues related to the lack of segregation of duties.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

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

Independent Auditor's Report

Board of County Commissioners
Mille Lacs County
Milaca, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mille Lacs County, Minnesota, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated July 27, 2016.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Minnesota Legal Compliance

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

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

Mille Lacs County's Response to Finding

Mille Lacs County's response to the internal control finding identified in our audit has been included in the Schedule of Findings and Questioned Costs. The County's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of This Report

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

July 27, 2016

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

Independent Auditor's Report

Board of County Commissioners
Mille Lacs County
Milaca, Minnesota

Report on Compliance for the Major Federal Program

We have audited Mille Lacs County's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on the County's major federal program for the year ended December 31, 2015. Mille Lacs County's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on the Major Federal Program

In our opinion, Mille Lacs County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2015.

Report on Internal Control Over Compliance

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

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

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

Purpose of This Report

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

July 27, 2016