

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

MILLE LACS COUNTY
MILACA, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2014

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**

For the Year Ended December 31, 2014



**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
2014**

Office	Name	Term	
		From	To
Commissioners			
1st District	Genny Reynolds	January 2013	January 2017
2nd District	Timothy Wilhelm	January 2013	January 2015
3rd District	Phil Peterson*	January 2013	January 2017
4th District	Roger Tellinghuisen	January 2013	January 2015
5th District	David Oslin	January 2013	January 2017
Officers			
Elected			
Attorney	Janice Jude	January 2011	January 2015
Auditor/Treasurer	Philip Thompson	January 2011	January 2015
Sheriff	Brent Lindgren	January 2011	January 2015
Appointed			
County Administrator	Roxy Traxler	September 2008	Indefinite
County Assessor	Patricia Stotz	January 2013	December 2016
County Engineer	Bruce Cochran	January 2012	December 2015
Community and Veterans Service Director	Roxy Traxler	March 2013	Indefinite
Court Services Director	Warren Liepitz	July 2003	Indefinite
Land Services Director	Michele McPherson	March 2009	Indefinite
Medical Examiner	Dr. Quinn Strobl	January 2014	December 2014

*Board Chair

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
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, 2014, 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 of 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, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise 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 August 11, 2015, 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 OMB Circular A-133

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (SEFA) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 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

August 11, 2015

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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, 2014
(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, 2014. 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 \$80,352,670, of which \$61,431,956 is the net investment in capital assets, and \$10,742,160 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, 2014, was \$15,525,812; the net cost was funded by general revenues and other items totaling \$17,498,840.
- At the close of 2014, Mille Lacs County's governmental funds reported combined ending fund balances of \$26,132,852, an increase of \$7,272,890 from the previous year-end balance. At the end of the year, Mille Lacs County's assigned and unassigned fund balance totaled \$15,964,882, 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, 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)
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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 reports. 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 an accounting method called modified accrual accounting. This accounting method 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 below focuses on the net position (Table 1) and changes in net position (Table 2) of the County's governmental activities.

Table 1
Net Position

	2014	2013
Current and other assets	\$ 29,774,989	\$ 22,774,370
Capital assets	70,331,519	69,395,983
Total Assets	\$ 100,106,508	\$ 92,170,353
Long-term liabilities outstanding	\$ 18,082,926	\$ 12,137,834
Other liabilities	1,670,912	1,652,877
Total Liabilities	\$ 19,753,838	\$ 13,790,711
Net Position		
Net investment in capital assets	\$ 61,431,956	\$ 60,062,609
Restricted	10,742,160	4,324,906
Unrestricted	8,178,554	13,992,127
Total Net Position	\$ 80,352,670	\$ 78,379,642

Mille Lacs County's total net position for the year ended December 31, 2014, was \$80,352,670. The governmental activities' unrestricted net position, totaling \$8,178,554, is available to finance the day-to-day operations of the governmental activities of Mille Lacs County.

Table 2
Changes in Net Position

	2014	2013
Program revenues		
Fees, charges, fines, and other	\$ 2,937,922	\$ 3,154,364
Operating grants and contributions	11,475,285	10,657,833
Capital grants and contributions	1,890,886	694,971
General revenues		
Property taxes	14,832,805	14,865,039
Other	2,666,035	1,995,798
Total Revenues	\$ 33,802,933	\$ 31,368,005

	<u>2014</u>	<u>2013</u>
Expenses		
General government	\$ 6,769,763	\$ 6,180,482
Public safety	8,230,611	7,780,650
Highways and streets	5,941,524	10,180,097
Sanitation	82,624	114,656
Human services	9,064,471	8,213,024
Health	756,789	702,794
Culture and recreation	292,492	333,150
Conservation of natural resources	176,520	185,250
Economic development	93,701	2,300
Interest	421,410	615,465
	<u>31,829,905</u>	<u>34,307,868</u>
Total Expenses	\$ 31,829,905	\$ 34,307,868
Change in Net Position	\$ 1,973,028	\$ (2,939,863)
Net Position, January 1	<u>78,379,642</u>	<u>81,319,505</u>
Net Position, December 31	<u>\$ 80,352,670</u>	<u>\$ 78,379,642</u>

Governmental Activities

Revenues for Mille Lacs County's governmental activities for the year ended December 31, 2014, were \$33,802,933. The County's cost for all governmental activities for the year ended December 31, 2014, was \$31,829,905. The net position for the County's governmental activities increased by \$1,973,028 in 2014.

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 \$14,832,805 because \$2,937,922 of the costs were paid by those who directly benefited from the programs, and \$13,366,171 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 \$1,806,134 in grants and contributions not restricted to specific programs and \$859,901 in other revenues, such as investment income, mortgage registry tax, and state deed tax.

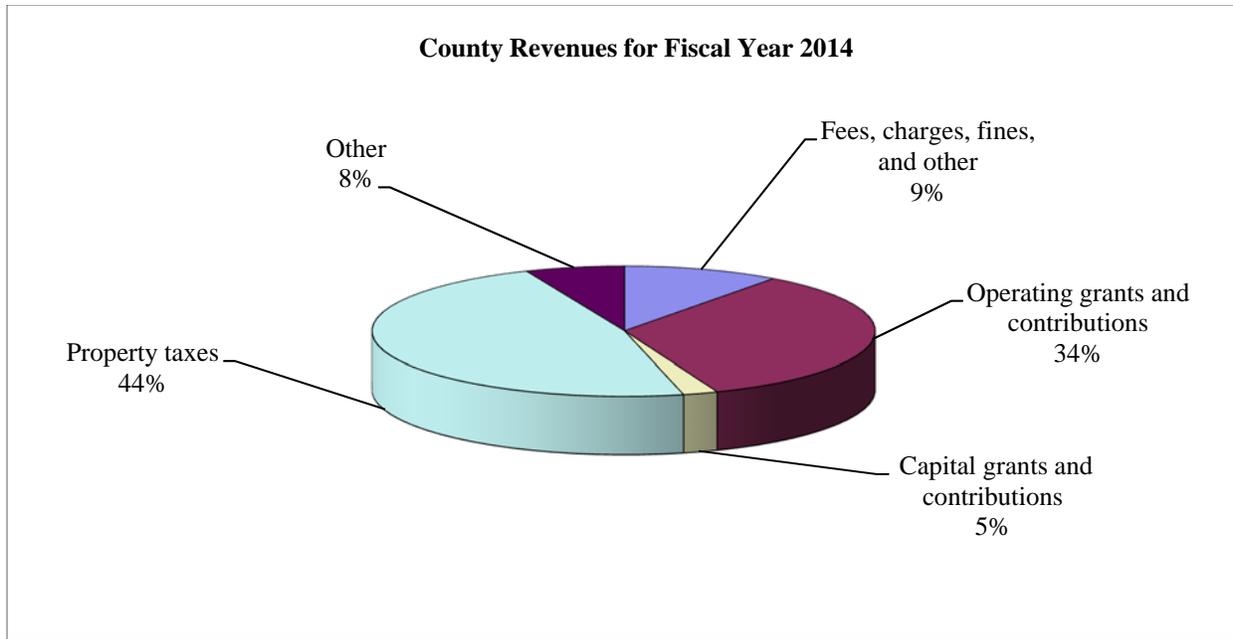
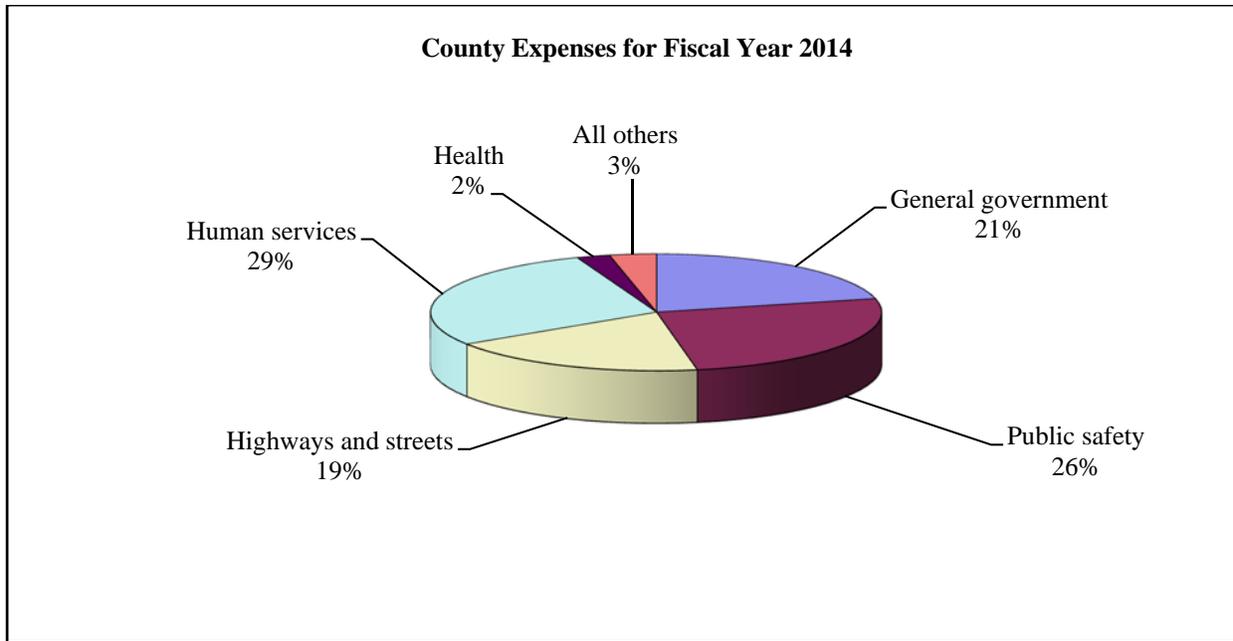


Table 3 presents the cost of each of Mille Lacs County’s five largest program functions as well as each function’s net cost (total cost, less revenues generated by the activities). The net cost shows the financial burden placed on Mille Lacs County’s taxpayers by each of these functions.

**Table 3
Governmental Activities**

	2014	
	Total Cost of Services	Net Cost of Services
Program expenses		
General government	\$ 6,769,763	\$ 5,601,637
Public safety	8,230,611	6,349,015
Highways and streets	5,941,524	(697,567)
Human services	9,064,471	3,694,742
Health	756,789	(137,615)
All others	1,066,747	715,600
Total Program Expenses	\$ 31,829,905	\$ 15,525,812



THE COUNTY'S FUNDS

As Mille Lacs County completed the year, its governmental funds, as presented in the balance sheet, reported a combined fund balance of \$26,132,852.

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 2014, the General Fund actual revenues were \$1,451,045 greater than expected revenues. The actual expenditures were more than budget by \$734,573. The County spent \$137,341 on updating its Developmental Ordinance and implementing enhancements to its GIS program; and \$212,587 of grant money received in previous years for septic installations found to be imminent public health threats, neither of which were budgeted. In addition, the Sheriff's Department budget reflects expenditures of \$182,977 greater than what was budgeted, due in part to timing factors of personnel changes and expense transfers between departments for communication equipment and programs.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2014, Mille Lacs County had \$70,331,519 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)

	2014	2013
Land	\$ 2,470,272	\$ 2,423,356
Construction in progress	28,752	1,165,144
Land improvements	432,214	475,538
Buildings	19,149,379	19,773,594
Machinery and equipment	2,725,952	2,748,066
Infrastructure	45,401,639	42,687,263
Software	123,311	123,022
Total	<u>\$ 70,331,519</u>	<u>\$ 69,395,983</u>

Debt Administration

At December 31, 2014, Mille Lacs County had \$14,740,000 in bonds outstanding, compared with \$9,265,000 as of December 31, 2013, an increase of 59.09 percent, as shown in Table 5.

Table 5
Outstanding Debt at Year-End

Bonds and Notes Payable	Governmental Activities		Percent (%) Change
	2014	2013	
2007 HRA Lease Revenue Refunding Bonds	\$ 605,000	\$ 715,000	(15.38)
2008 G.O. Capital Improvement Bonds	6,620,000	6,940,000	(4.61)
2010A G.O. Capital Improvement Bonds	580,000	690,000	(15.94)
2010B Taxable Capital Improvement Bonds - Recovery Zone Economic Development Bonds	920,000	920,000	-
2014 G.O. Capital Improvement Refunding Bonds	<u>6,015,000</u>	<u>-</u>	N/A
Total	<u>\$ 14,740,000</u>	<u>\$ 9,265,000</u>	59.09

Other long-term obligations include compensated absences and the other postemployment benefits 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 2015 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 2015.

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 Lisa Herges, Interim 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, 2014**

Assets

Cash and pooled investments	\$	19,750,923
Petty cash and change funds		850
Departmental cash		7,496
Cash with escrow agent		6,141,750
Taxes receivable		
Delinquent		878,437
Special assessments receivable		
Delinquent		1,919
Accounts receivable		246,220
Accrued interest receivable		22,671
Due from other governments		2,454,682
Inventories		240,476
Prepaid items		29,565
Capital assets		
Non-depreciable		2,499,024
Depreciable - net of accumulated depreciation		67,832,495
		67,832,495
Total Assets	\$	100,106,508

Liabilities

Accounts payable	\$	733,549
Salaries payable		475,652
Claims payable		14,014
Contracts payable		104,010
Due to other governments		137,977
Accrued interest payable		140,323
Unearned revenue		65,387
Long-term liabilities		
Due within one year		688,394
Due in more than one year		16,197,975
Other postemployment benefits		1,196,557
		1,196,557
Total Liabilities	\$	19,753,838

Net Position

Net investment in capital assets	\$	61,431,956
Restricted for		
General government		97,182
Public safety		765,368
Highways and streets		1,172,126
Conservation of natural resources		137,912
Sanitation		120,267
Debt service		8,449,305
Unrestricted		8,178,554
		8,178,554
Total Net Position	\$	80,352,670

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

**MILLE LACS COUNTY
MILACA, MINNESOTA**

EXHIBIT 2

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<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	\$ 6,769,763	\$ 788,041	\$ 380,085	\$ -	\$ (5,601,637)
Public safety	8,230,611	1,112,268	769,328	-	(6,349,015)
Highways and streets	5,941,524	57,913	4,690,292	1,890,886	697,567
Sanitation	82,624	22,212	189,142	-	128,730
Human services	9,064,471	823,995	4,545,734	-	(3,694,742)
Health	756,789	113,573	780,831	-	137,615
Culture and recreation	292,492	-	37,186	-	(255,306)
Conservation of natural resources	176,520	19,920	62,405	-	(94,195)
Economic development	93,701	-	5,000	-	(88,701)
Interest expense on long-term debt	421,410	-	15,282	-	(406,128)
Total Governmental Activities	\$ 31,829,905	\$ 2,937,922	\$ 11,475,285	\$ 1,890,886	\$ (15,525,812)
General Revenues					
Property taxes				\$ 14,832,805	
Gravel tax				29,096	
Mortgage registry and deed tax				12,988	
Wheelage tax				265,736	
Payments in lieu of tax				256,693	
Grants and contributions not restricted to specific programs				1,806,134	
Unrestricted investment earnings				42,378	
Miscellaneous				243,300	
Gain on sale of capital assets				9,710	
Total general revenues				\$ 17,498,840	
Change in net position				\$ 1,973,028	
Net Position - January 1				78,379,642	
Net Position - December 31				\$ 80,352,670	

FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

**MILLE LACS COUNTY
MILACA, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2014**

	General	Road and Bridge
<u>Assets</u>		
Cash and pooled investments	\$ 6,892,492	\$ 2,883,692
Petty cash and change funds	800	-
Departmental cash	7,496	-
Cash with escrow agent	-	-
Taxes receivable		
Delinquent	560,762	56,702
Special assessments receivable		
Delinquent	1,919	-
Accounts receivable	59,138	40,931
Accrued interest receivable	22,671	-
Due from other funds	18,016	-
Due from other governments	300,109	1,200,599
Inventories	-	240,476
Prepaid items	13,055	800
Advances to other funds	52,600	-
	\$ 7,929,058	\$ 4,423,200
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>		
Liabilities		
Accounts payable	\$ 162,069	\$ 56,977
Salaries payable	301,420	43,625
Contracts payable	-	104,010
Due to other funds	-	1,272
Due to other governments	79,878	5,285
Unearned revenue	55,852	-
Advances from other funds	-	-
	\$ 599,219	\$ 211,169
Deferred Inflows of Resources		
Unavailable revenue	\$ 526,221	\$ 1,242,789

EXHIBIT 3

<u>Community and Veteran Services</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Nonmajor Ditch</u>	<u>Total</u>
\$ 3,950,617	\$ 2,310,457	\$ 3,620,259	\$ 50,372	\$ 19,707,889
50	-	-	-	850
-	-	-	-	7,496
-	6,141,750	-	-	6,141,750
192,382	62,059	6,532	-	878,437
-	-	-	-	1,919
146,151	-	-	-	246,220
-	-	-	-	22,671
-	-	-	-	18,016
935,665	-	18,309	-	2,454,682
-	-	-	-	240,476
15,710	-	-	-	29,565
-	-	-	-	52,600
<u>\$ 5,240,575</u>	<u>\$ 8,514,266</u>	<u>\$ 3,645,100</u>	<u>\$ 50,372</u>	<u>\$ 29,802,571</u>
\$ 405,183	\$ 14,500	\$ 94,820	\$ -	\$ 733,549
130,607	-	-	-	475,652
-	-	-	-	104,010
16,744	-	-	-	18,016
52,814	-	-	-	137,977
9,535	-	-	-	65,387
-	-	-	52,600	52,600
<u>\$ 614,883</u>	<u>\$ 14,500</u>	<u>\$ 94,820</u>	<u>\$ 52,600</u>	<u>\$ 1,587,191</u>
<u>\$ 256,891</u>	<u>\$ 50,461</u>	<u>\$ 6,166</u>	<u>\$ -</u>	<u>\$ 2,082,528</u>

**MILLE LACS COUNTY
MILACA, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2014**

	General	Road and Bridge
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u> (Continued)		
Fund Balances		
Nonspendable		
Inventories	\$ -	\$ 240,476
Prepaid items	13,055	800
Advances to other funds	52,600	-
Restricted for		
Debt service	-	-
Law library	3,884	-
Recorder's technology and equipment	31,266	-
Administering the carrying of weapons	150,695	-
Law enforcement	88,037	-
Highway construction projects	-	98,061
Gravel pit restoration	43,198	-
DARE Program	54,971	-
Prisoner account	471,665	-
Prosecutorial purposes	62,032	-
Aquatic invasive species	45,616	-
Ditch maintenance and repairs	-	-
SCORE	120,267	-
Committed to		
Gravel pit restoration	-	177,235
Assigned to		
General government	93,715	-
Public safety	179,987	-
Highways and streets	-	2,452,670
Community and veteran services programs	-	-
Capital projects	-	-
Unassigned	5,392,630	-
Total Fund Balances	\$ 6,803,618	\$ 2,969,242
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 7,929,058	\$ 4,423,200

EXHIBIT 3
(Continued)

<u>Community and Veteran Services</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Nonmajor Ditch</u>	<u>Total</u>
\$ -	\$ -	\$ -	\$ -	\$ 240,476
15,710	-	-	-	29,565
-	-	-	-	52,600
-	8,449,305	-	-	8,449,305
-	-	-	-	3,884
-	-	-	-	31,266
-	-	-	-	150,695
-	-	-	-	88,037
-	-	-	-	98,061
-	-	-	-	43,198
-	-	-	-	54,971
-	-	-	-	471,665
-	-	-	-	62,032
-	-	-	-	45,616
-	-	-	49,097	49,097
-	-	-	-	120,267
-	-	-	-	177,235
-	-	-	-	93,715
-	-	-	-	179,987
-	-	-	-	2,452,670
4,353,091	-	-	-	4,353,091
-	-	3,544,114	-	3,544,114
-	-	-	(51,325)	5,341,305
<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>\$ 5,240,575</u>	<u>\$ 8,514,266</u>	<u>\$ 3,645,100</u>	<u>\$ 50,372</u>	<u>\$ 29,802,571</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, 2014**

Fund balances - total governmental funds (Exhibit 3)		\$ 26,132,852
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.		70,331,519
Revenues in the statement of activities that do not provide current financial resources are not reported in the governmental funds.		2,082,528
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	\$ (14,135,000)	
Lease revenue bonds	(605,000)	
Unamortized premium on bonds	(260,136)	
Unamortized discount on bonds	3,693	
Compensated absences	(1,889,926)	
OPEB liability	<u>(1,196,557)</u>	(18,082,926)
Accrued interest payable is not due and payable in the current period and, therefore, is not reported in the governmental funds.		(140,323)
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.		<u>29,020</u>
Net Position of Governmental Activities (Exhibit 1)		<u><u>\$ 80,352,670</u></u>

**MILLE LACS COUNTY
MILACA, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

	General	Road and Bridge
Revenues		
Taxes	\$ 9,629,459	\$ 947,628
Special assessments	15,635	-
Licenses and permits	293,887	9,915
Intergovernmental	3,123,455	6,551,229
Charges for services	1,301,931	35,070
Fines and forfeits	97,131	-
Gifts and contributions	4,444	-
Investment earnings	40,448	-
Miscellaneous	529,913	12,928
	\$ 15,036,303	\$ 7,556,770
Expenditures		
Current		
General government	\$ 5,654,629	\$ -
Public safety	8,028,638	-
Highways and streets	-	6,876,171
Sanitation	82,624	-
Human services	-	-
Health	-	-
Culture and recreation	40,786	-
Conservation of natural resources	172,184	-
Economic development	91,764	-
Intergovernmental		
Highways and streets	-	226,085
Culture and recreation	251,706	-
Capital outlay		
General government	-	-
Highways and streets	-	-
Debt service		
Principal	-	-
Interest	-	-
Bond issuance costs	-	-
	\$ 14,322,331	\$ 7,102,256
Excess of Revenues Over (Under) Expenditures	\$ 713,972	\$ 454,514

EXHIBIT 5

<u>Community and Veteran Services</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Nonmajor Ditch</u>	<u>Total</u>
\$ 3,408,281	\$ 936,387	\$ 269,110	\$ -	\$ 15,190,865
-	-	-	18,935	34,570
-	-	-	-	303,802
5,787,300	27,186	61,865	-	15,551,035
681,340	-	-	-	2,018,341
-	-	-	-	97,131
306	-	-	-	4,750
-	-	-	-	40,448
256,228	-	-	-	799,069
\$ 10,133,455	\$ 963,573	\$ 330,975	\$ 18,935	\$ 34,040,011
\$ 124,134	\$ -	\$ 33,378	\$ -	\$ 5,812,141
-	-	6,804	-	8,035,442
-	-	-	-	6,876,171
-	-	-	-	82,624
9,039,950	-	-	-	9,039,950
759,160	-	-	-	759,160
-	-	-	-	40,786
-	-	-	4,244	176,428
-	-	-	-	91,764
-	-	-	-	226,085
-	-	-	-	251,706
-	-	98,019	-	98,019
-	-	450,385	-	450,385
-	540,000	-	-	540,000
-	359,845	-	-	359,845
-	91,741	-	-	91,741
\$ 9,923,244	\$ 991,586	\$ 588,586	\$ 4,244	\$ 32,932,247
\$ 210,211	\$ (28,013)	\$ (257,611)	\$ 14,691	\$ 1,107,764

**MILLE LACS COUNTY
MILACA, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>General</u>	<u>Road and Bridge</u>
Other Financing Sources (Uses)		
Transfers in	\$ 36,844	\$ 91,256
Transfers out	-	-
Refunding bonds issued	-	-
Premium on bonds issued	-	-
Proceeds from sale of capital assets	-	-
	<u> </u>	<u> </u>
Total Other Financing Sources (Uses)	\$ 36,844	\$ 91,256
Net Change in Fund Balance	\$ 750,816	\$ 545,770
Fund Balance - January 1	6,052,802	2,498,259
Increase (decrease) in inventories	-	(74,787)
	<u> </u>	<u> </u>
Fund Balance - December 31	\$ 6,803,618	\$ 2,969,242

EXHIBIT 5
(Continued)

<u>Community and Veteran Services</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Nonmajor Ditch</u>	<u>Total</u>
\$ -	\$ -	\$ -	\$ -	\$ 128,100
-	-	(128,100)	-	(128,100)
-	6,015,000	-	-	6,015,000
-	204,673	-	-	204,673
-	-	20,240	-	20,240
<u>\$ -</u>	<u>\$ 6,219,673</u>	<u>\$ (107,860)</u>	<u>\$ -</u>	<u>\$ 6,239,913</u>
\$ 210,211	\$ 6,191,660	\$ (365,471)	\$ 14,691	\$ 7,347,677
4,158,590	2,257,645	3,909,585	(16,919)	18,859,962
-	-	-	-	(74,787)
<u>\$ 4,368,801</u>	<u>\$ 8,449,305</u>	<u>\$ 3,544,114</u>	<u>\$ (2,228)</u>	<u>\$ 26,132,852</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, 2014**

Net change in fund balance - total governmental funds (Exhibit 5) \$ 7,347,677

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

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

Unavailable revenue - December 31	\$ 2,082,528	
Unavailable revenue - January 1	<u>(2,376,419)</u>	(293,891)

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	\$ 3,554,783	
Net book value of assets sold or disposed of	(10,530)	
Current year depreciation	<u>(2,608,717)</u>	935,536

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.

Proceeds of new debt		
Bonds issued	\$ (6,015,000)	
Premium on bonds issued	<u>(204,673)</u>	(6,219,673)

Principal repayments		
General obligation bonds	\$ 430,000	
Lease revenue bonds	<u>110,000</u>	540,000

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	\$ 13,572	
Change in compensated absences	(62,152)	
Change in OPEB liability	(219,871)	
Change in inventories	(74,787)	
Current year amortization of bond discounts and premiums	<u>16,605</u>	(326,633)

The increase (decrease) in net position of the internal service fund is reported in the statement of activities as governmental activities.		<u>(9,988)</u>
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Change in Net Position of Governmental Activities (Exhibit 2) \$ 1,973,028

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, 2014

	<u>Governmental Activities</u>
<u>Assets</u>	
Cash and pooled investments	\$ 43,034
<u>Liabilities</u>	
Claims payable	<u>14,014</u>
<u>Net Position</u>	
Unrestricted	<u><u>\$ 29,020</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, 2014

	<u>Governmental Activities</u>
Operating Revenues	
Insurance fees	\$ 117,103
Operating Expenses	
Insurance	<u>127,091</u>
Operating Income (Loss)	\$ (9,988)
Net Position - January 1	<u>39,008</u>
Net Position - December 31	<u><u>\$ 29,020</u></u>

**MILLE LACS COUNTY
MILACA, MINNESOTA**

EXHIBIT 9

**STATEMENT OF CASH FLOWS
SELF-INSURANCE INTERNAL SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2014
Increase (Decrease) in Cash and Cash Equivalents**

	Governmental Activities
Cash Flows From Operating Activities	
Insurance fees	\$ 117,103
Insurance	(113,077)
Net Cash Provided by (Used in) Operating Activities	\$ 4,026
Cash and Cash Equivalents at January 1	39,008
Cash and Cash Equivalents at December 31	\$ 43,034
 Reconciliation of operating income (loss) to net cash provided by (used in) operating activities	
Operating income (loss)	\$ (9,988)
 Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities	
Increase (decrease) in claims payable	14,014
Net Cash Provided by (Used in) Operating Activities	\$ 4,026

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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, 2014**

	Private-Purpose Trust	Agency
<u>Assets</u>		
Cash and pooled investments	\$ 124,529	\$ 782,545
Accrued interest receivable	14	-
	\$ 124,543	\$ 782,545
Total Assets	\$ 124,543	\$ 782,545
<u>Liabilities</u>		
Due to other governments	-	\$ 782,545
	-	\$ 782,545
<u>Net Position</u>		
Restricted for other purposes	\$ 124,543	
	\$ 124,543	

MILLE LACS COUNTY
MILACA, MINNESOTA

EXHIBIT 11

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
PRIVATE-PURPOSE TRUST FUND
FOR THE YEAR ENDED DECEMBER 31, 2014

<u>Additions</u>	
Investment income	\$ 80
<u>Deductions</u>	
Payments in accordance with trust agreements	<u>4,631</u>
Change in net position	\$ (4,551)
Net Position - January 1	<u>129,094</u>
Net Position - December 31	<u><u>\$ 124,543</u></u>

**MILLE LACS COUNTY
MILACA, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2014**

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, 2014. 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. 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, 2014, 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 2014 were \$40,448.

**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 was created under a joint powers agreement pursuant to Minn. Stat. § 471.59. The MAGIC Fund is not registered with the Securities and Exchange Commission. The investment in the pool is measured at the amortized cost per share provided by the pool, which would closely approximate fair value.

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 consists of delinquent special assessments payable in the years 2002 through 2014.

**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.

**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)

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 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 will sometimes report 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 no items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report 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 future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The County has only one type of item which arises only under the modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available and consists of receivables for revenues that are not considered to be available to liquidate liabilities of the current period.

**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. 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.

10. 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.

**MILLE LACS COUNTY
MILACA, MINNESOTA**

1. Summary of Significant Accounting Policies

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

10. Classification of Fund Balances (Continued)

Committed - amounts that can be used only for the specific purposes imposed by formal action (ordinance or 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 actions (ordinance or 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.

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.

**MILLE LACS COUNTY
MILACA, MINNESOTA**

1. Summary of Significant Accounting Policies

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

10. Classification of Fund Balances (Continued)

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

11. Use of Estimates

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

E. Future Change in Accounting Standards

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*, replaces Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 50, *Pension Disclosures*, as they relate to employer governments that provide pensions through pension plans administered as trusts or similar arrangement that meet certain criteria. GASB Statement 68 requires governments providing defined benefit pension plans to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This statement will be effective for the County's calendar year 2015. The County has not yet determined the financial statement impact of adopting the new standard.

**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, 2014:

Account balances	\$ 49,097
Account deficits	<u>(51,325)</u>
Total Fund Balance	<u>\$ (2,228)</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	\$ 19,750,923
Petty cash and change funds	850
Departmental cash	7,496
Cash with escrow agent	6,141,750
Statement of fiduciary net position	
Cash and pooled investments	
Private-purpose trust fund	124,529
Agency fund	<u>782,545</u>
Total Cash and Investments	<u>\$ 26,808,093</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, 2014, 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, 2014, 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, 2014, 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	47.1%	N/A	\$ 7,076,655
Negotiable certificates of deposit	N/A	N/A	52.9	< 1 year	<u>7,936,000</u>
Total investments					\$ 15,012,655
Deposits					5,645,342
Petty cash and change funds					850
Departmental cash					7,496
Cash with escrow agent					<u>6,141,750</u>
Total Cash and Investments					<u>\$ 26,808,093</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 taxes/special assessments 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, 2014, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 2,423,356	\$ 46,916	\$ -	\$ 2,470,272
Construction in progress	1,165,144	-	1,136,392	28,752
Total capital assets not depreciated	<u>\$ 3,588,500</u>	<u>\$ 46,916</u>	<u>\$ 1,136,392</u>	<u>\$ 2,499,024</u>
Capital assets depreciated				
Land improvements	\$ 968,190	\$ -	\$ -	\$ 968,190
Buildings	25,793,005	97,062	-	25,890,067
Machinery and equipment	8,040,602	463,459	146,761	8,357,300
Infrastructure	61,256,333	4,019,904	-	65,276,237
Software	282,999	63,834	15,900	330,933
Total capital assets depreciated	<u>\$ 96,341,129</u>	<u>\$ 4,644,259</u>	<u>\$ 162,661</u>	<u>\$ 100,822,727</u>
Less: accumulated depreciation for				
Land improvements	\$ 492,652	\$ 43,324	\$ -	\$ 535,976
Buildings	6,019,411	721,277	-	6,740,688
Machinery and equipment	5,292,536	482,198	143,386	5,631,348
Infrastructure	18,569,070	1,305,528	-	19,874,598
Software	159,977	56,390	8,745	207,622
Total accumulated depreciation	<u>\$ 30,533,646</u>	<u>\$ 2,608,717</u>	<u>\$ 152,131</u>	<u>\$ 32,990,232</u>
Total capital assets depreciated, net	<u>\$ 65,807,483</u>	<u>\$ 2,035,542</u>	<u>\$ 10,530</u>	<u>\$ 67,832,495</u>
Governmental Activities Capital Assets, Net	<u>\$ 69,395,983</u>	<u>\$ 2,082,458</u>	<u>\$ 1,146,922</u>	<u>\$ 70,331,519</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	\$	901,142
Public safety		157,671
Highways and streets, including depreciation of infrastructure assets		1,522,881
Human services		27,023
Total Depreciation Expense - Governmental Activities	\$	2,608,717

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2014, was as follows:

1. Due To/From Other Funds

	Receivable	Payable
Major governmental funds		
General Fund	\$ 18,016	\$ -
Road and Bridge Special Revenue Fund	-	1,272
Community and Veteran Services Special Revenue Fund	-	16,744
Total Due To/From Other Funds	\$ 18,016	\$ 18,016

The interfund balances above represent fourth quarter 2014 phone charges for the Road and Bridge Special Revenue Fund and fourth quarter 2014 phone charges and Child Support billings for the Community and Veteran Services Special Revenue Fund.

**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 \$52,600 for cash flow purposes.

3. Transfers

Interfund transfers at December 31, 2014, were as follows:

	<u>Transfers In</u>	<u>Description</u>
Transfers to General Fund from Capital Projects Fund	\$ 36,844	Reimburse project costs
Transfers to Road and Bridge Fund from Capital Projects Fund	<u>91,256</u>	Reimburse for interns and County matching grant funds
Total Interfund Transfers	<u>\$ 128,100</u>	

C. Liabilities and Deferred Inflows of Resources

1. Construction and Other Commitments

The County has active construction projects as of December 31, 2014. The remaining commitment for highway projects are state-funded and, therefore, not obligations of the County at December 31, 2014.

**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, 2014, 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	\$ 448,751	\$ 1,690	\$ 84,611	\$ 47,021	\$ 582,073
Special Revenue					
Road and Bridge	45,557	-	1,197,232	-	1,242,789
Community and Veteran Services	152,439	-	113,987	-	266,426
Debt Service	50,461	-	-	-	50,461
Capital Projects	6,166	-	-	-	6,166
Total	<u>\$ 703,374</u>	<u>\$ 1,690</u>	<u>\$ 1,395,830</u>	<u>\$ 47,021</u>	<u>\$ 2,147,915</u>
Liability					
Unearned revenue	\$ -	\$ -	\$ 65,387	\$ -	\$ 65,387
Deferred Inflows of Resources					
Unavailable revenue	<u>703,374</u>	<u>1,690</u>	<u>1,330,443</u>	<u>47,021</u>	<u>2,082,528</u>
Total	<u>\$ 703,374</u>	<u>\$ 1,690</u>	<u>\$ 1,395,830</u>	<u>\$ 47,021</u>	<u>\$ 2,147,915</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, 2014
2007 HRA Lease Revenue Refunding Bonds	02/01/2019	\$85,000 - \$130,000	4.00 - 4.40	\$ 1,280,000	\$ 605,000
2008 G.O. Capital Improvement Plan Bonds	02/01/2029	\$140,000 - \$575,000	4.10 - 4.40	7,985,000	6,620,000
2010A G.O. Capital Improvement Plan Bonds	02/01/2019	\$100,000 - \$120,000	0.70 - 2.40	900,000	580,000
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>\$ 14,740,000</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 - 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, 2014, were as follows:

Year Ending December 31	General Obligation Bonds		Lease Revenue Bonds	
	Principal	Interest	Principal	Interest
2015	\$ 445,000	\$ 391,638	\$ 110,000	\$ 23,853
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 - 2024	2,245,000	525,075	-	-
2025 - 2029	2,560,000	193,569	-	-
Total	\$ 13,215,000	\$ 1,901,836	\$ 605,000	\$ 68,366

Year Ending December 31	Taxable General Obligation Bonds		Total	
	Principal	Interest	Principal	Interest
2015	\$ -	\$ 36,595	\$ 555,000	\$ 452,086
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 - 2024	645,000	125,168	2,890,000	650,243
2025 - 2029	275,000	12,247	2,835,000	205,816
Total	\$ 920,000	\$ 320,390	\$ 14,740,000	\$ 2,290,592

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

**MILLE LACS COUNTY
MILACA, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources

4. Debt Service Requirements (Continued)

sequestration. 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, 2014, the County's net annual debt service requirements to amortize all taxable general obligation bonds outstanding, including interest of \$176,213 on the governmental activities debt, is as follows:

Year Ending December 31	Principal	Interest	Federal Subsidy	Net Interest	Total Payment
2015	\$ -	\$ 36,595	\$ (16,468)	\$ 20,127	\$ 20,127
2016	-	36,595	(16,468)	20,127	20,127
2017	-	36,595	(16,468)	20,127	20,127
2018	-	36,595	(16,468)	20,127	20,127
2019	-	36,595	(16,468)	20,127	20,127
2020 - 2024	645,000	125,168	(56,325)	68,843	713,843
2025 - 2026	275,000	12,247	(5,512)	6,735	281,735
Total	<u>\$ 920,000</u>	<u>\$ 320,390</u>	<u>\$ (144,177)</u>	<u>\$ 176,213</u>	<u>\$ 1,096,213</u>

5. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2014, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General obligation bonds	\$ 7,630,000	\$ 6,015,000	\$ 430,000	\$ 13,215,000	\$ 445,000
Lease revenue bonds	715,000	-	110,000	605,000	110,000
Taxable general obligation bonds	920,000	-	-	920,000	-
Add: premium on bonds	72,805	204,673	17,342	260,136	-
Less: discounts on bonds	(4,431)	-	(738)	(3,693)	-
Compensated absences	1,827,774	287,573	225,421	1,889,926	133,394
Long-Term Liabilities	<u>\$ 11,161,148</u>	<u>\$ 6,507,246</u>	<u>\$ 782,025</u>	<u>\$ 16,886,369</u>	<u>\$ 688,394</u>

**MILLE LACS COUNTY
MILACA, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

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.

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. All new members must participate in the Coordinated Plan and 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. Members who are employed in a county correctional institution as a correctional guard or officer, a joint jailer/dispatcher, or as a supervisor of correctional guards or officers or of joint jailer/dispatchers and are directly responsible for the direct security, custody, and control of the county correctional institution and its inmates, are covered by the Public Employees Correctional Fund. For members first eligible for membership after June 30, 2010, benefits vest on a graduated schedule starting with 50 percent after five years and increasing 10 percent for each year of service until fully vested after ten years.

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits are established by state statute. Defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for 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. For a Coordinated Plan member, the annuity accrual rate is 1.2 percent of average

**MILLE LACS COUNTY
MILACA, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

salary for each of the first ten years 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 for each year of service. For Public Employees Correctional Fund members, the annuity accrual rate is 1.9 percent for each year of service.

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

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

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

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the State Legislature. The County makes annual contributions to the pension plans equal to the amount required

**MILLE LACS COUNTY
MILACA, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Funding Policy (Continued)

by state statutes. General Employees Retirement Fund Basic Plan members and Coordinated Plan members were required to contribute 9.10 and 6.25 percent, respectively, of their annual covered salary in 2014. Public Employees Police and Fire Fund members were required to contribute 10.20 percent of their annual covered salary in 2014. Public Employees Correctional Fund members were required to contribute 5.83 percent of their annual covered salary.

In 2014, the County was required to contribute the following percentages of annual covered payroll:

General Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	7.25
Public Employees Police and Fire Fund	15.30
Public Employees Correctional Fund	8.75

The County's contributions for the years ending December 31, 2014, 2013, and 2012, for the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
General Employees Retirement Fund	\$ 590,061	\$ 571,484	\$ 548,767
Public Employees Police and Fire Fund	249,691	220,013	214,330
Public Employees Correctional Fund	180,855	174,478	169,179

These contribution amounts are equal to the contractually required contributions for each year as set by state statute. Contribution rates increased on January 1, 2015, in the General Employees Retirement Fund Coordinated Plan (6.50 percent for members and 7.50 percent for employers) and the Public Employees Police and Fire Fund (10.80 percent for members and 16.20 percent for employers).

**MILLE LACS COUNTY
MILACA, MINNESOTA**

4. Employee Retirement Systems and Pension Plans (Continued)

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 2014, the County contributed \$65,950 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.

ARC	\$	304,573
Interest on net OPEB obligation		39,067
Adjustment to ARC		(57,819)
		Annual OPEB cost (expense)
	\$	285,821
Contributions made - indirect implicit subsidy		(65,950)
		Increase in net OPEB obligation
	\$	219,871
Net OPEB Obligation - January 1		976,686
		Net OPEB Obligation - December 31
	\$	1,196,557

**MILLE LACS COUNTY
MILACA, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

B. Other Postemployment Benefits (OPEB)

Annual OPEB Cost and Net OPEB Obligation (Continued)

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the years ended December 31, 2012, 2013, and 2014, 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, 2012	\$ 266,846	\$ 59,388	22.26%	\$ 793,767
December 31, 2013	263,094	80,175	30.47	976,686
December 31, 2014	285,821	65,950	23.07	1,196,557

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 17.6 percent.

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.

**MILLE LACS COUNTY
MILACA, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

B. Other Postemployment Benefits (OPEB) (Continued)

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, 2014, was 23 years.

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 \$480,000 per claim in 2014 and \$490,000 per claim in 2015. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

**MILLE LACS COUNTY
MILACA, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

A. Risk Management (Continued)

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

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.

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

Claims payable - January 1	\$	-
Current year claims		127,091
Claim payments		<u>(113,077)</u>
Claims payable - December 31	\$	<u>14,014</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.

**MILLE LACS COUNTY
MILACA, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

B. Contingent Liabilities (Continued)

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.

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.

**MILLE LACS COUNTY
MILACA, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

East Central Solid Waste Commission (Continued)

Following is a summary of the financial information as of and for the year ended December 31, 2013 (most recent figures available):

Total Assets	\$ 13,928,012
Total Liabilities	<u>(5,863,971)</u>
Total Net Position	<u>\$ 8,064,041</u>
Operating and nonoperating revenues	\$ 5,531,220
Operating and nonoperating expenses	<u>(5,064,520)</u>
Change in Net Position	<u>\$ 466,700</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

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 2014 was \$251,706.

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

East Central Regional Library
244 South Birch
Cambridge, Minnesota 55008

**MILLE LACS COUNTY
MILACA, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

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 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 2014. Upon dissolution, the personal property shall be returned to the member county contributing the same.

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

**MILLE LACS COUNTY
MILACA, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

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.

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 from each city appointed by their respective City Council, as provided in the Central Minnesota Emergency Services Board's by-laws.

**MILLE LACS COUNTY
MILACA, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Central Minnesota Emergency Services Board (Continued)

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 2014, Mille Lacs County contributed \$4,639 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

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, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 9,481,499	\$ 9,481,499	\$ 9,629,459	\$ 147,960
Special assessments	30,400	30,400	15,635	(14,765)
Licenses and permits	186,712	186,712	293,887	107,175
Intergovernmental	2,443,147	2,443,147	3,123,455	680,308
Charges for services	984,100	984,100	1,301,931	317,831
Fines and forfeits	59,100	59,100	97,131	38,031
Gifts and contributions	1,600	1,600	4,444	2,844
Investment earnings	65,600	65,600	40,448	(25,152)
Miscellaneous	333,100	333,100	529,913	196,813
Total Revenues	\$ 13,585,258	\$ 13,585,258	\$ 15,036,303	\$ 1,451,045
Expenditures				
Current				
General government				
Commissioners	\$ 179,243	\$ 179,243	\$ 199,402	\$ (20,159)
Courts administrator	79,750	79,750	72,806	6,944
Law library	40,000	40,000	24,706	15,294
County administrator	974,279	974,279	939,091	35,188
Auditor/treasurer	426,277	426,277	389,114	37,163
Auditing	58,000	58,000	45,687	12,313
General administration	564,621	564,621	557,698	6,923
Information services	34,027	34,027	32,506	1,521
Data processing	72,363	72,363	72,596	(233)
Elections	52,243	52,243	42,289	9,954
County attorney	1,535,815	1,535,815	1,346,263	189,552
Victim emergency grant	58,951	58,951	51,268	7,683
Assessor	351,466	351,466	382,033	(30,567)
Land records and information	-	-	177,385	(177,385)
Zoning and environmental services	622,179	622,179	942,232	(320,053)
Building maintenance	333,975	333,975	367,164	(33,189)
Other general government	100,000	100,000	12,389	87,611
Total general government	\$ 5,483,189	\$ 5,483,189	\$ 5,654,629	\$ (171,440)

**MILLE LACS COUNTY
MILACA, MINNESOTA**

**EXHIBIT A-1
(Continued)**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<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	\$ 2,290,366	\$ 2,290,366	\$ 2,473,343	\$ (182,977)
Court security	394,292	394,292	429,197	(34,905)
Boat and water safety	61,945	61,945	64,726	(2,781)
Snowmobile safety enforcement	3,300	3,300	4,503	(1,203)
ATV grant	-	-	7,853	(7,853)
DARE Program	5,000	5,000	3,205	1,795
Hooked on fishing account	1,500	1,500	3,160	(1,660)
Chaplaincy	100	100	230	(130)
Deputy reserve account	400	400	144	256
DWI forfeiture	4,000	4,000	21,915	(17,915)
Drug forfeiture	4,000	4,000	52,314	(48,314)
Fleeing an officer forfeiture	1,100	1,100	-	1,100
Communications	-	-	334	(334)
Records system	50,000	50,000	56,579	(6,579)
Permit to carry	5,000	5,000	3,341	1,659
Animal control	17,000	17,000	16,329	671
Coroner	68,772	68,772	68,772	-
County jail	2,762,654	2,762,654	2,803,276	(40,622)
Prisoner account	145,000	145,000	133,520	11,480
Probation	769,148	769,148	856,072	(86,924)
Case load reduction account	133,504	133,504	134,443	(939)
911 services and civil defense	101,087	101,087	106,455	(5,368)
E-911	57,000	57,000	60,071	(3,071)
Public safety answering point	668,430	668,430	728,856	(60,426)
Total public safety	\$ 7,543,598	\$ 7,543,598	\$ 8,028,638	\$ (485,040)
Sanitation				
Solid waste	\$ 80,500	\$ 80,500	\$ 82,624	\$ (2,124)
Culture and recreation				
Historical society	\$ 3,600	\$ 3,600	\$ 3,600	\$ -
Snowmobile trails	-	-	37,186	(37,186)
Total culture and recreation	\$ 3,600	\$ 3,600	\$ 40,786	\$ (37,186)

**MILLE LACS COUNTY
MILACA, MINNESOTA**

*EXHIBIT A-1
(Continued)*

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<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	64,003	64,003	62,531	1,472
Soil and water conservation	91,489	91,489	92,474	(985)
Aquatic invasive species aid	-	-	300	(300)
Other conservation	4,379	4,379	4,379	-
Total conservation of natural resources	\$ 172,371	\$ 172,371	\$ 172,184	\$ 187
Economic development				
Community development	\$ 51,500	\$ 51,500	\$ 91,764	\$ (40,264)
Intergovernmental				
Culture and recreation				
Library	\$ 253,000	\$ 253,000	\$ 251,706	\$ 1,294
Total Expenditures	\$ 13,587,758	\$ 13,587,758	\$ 14,322,331	\$ (734,573)
Excess of Revenues Over (Under) Expenditures	\$ (2,500)	\$ (2,500)	\$ 713,972	\$ 716,472
Other Financing Sources (Uses)				
Transfers in	\$ -	\$ -	\$ 36,844	\$ 36,844
Proceeds from sale of capital assets	2,500	2,500	-	(2,500)
Total Other Financing Sources (Uses)	\$ 2,500	\$ 2,500	\$ 36,844	\$ 34,344
Net Change in Fund Balance	\$ -	\$ -	\$ 750,816	\$ 750,816
Fund Balance - January 1	6,052,802	6,052,802	6,052,802	-
Fund Balance - December 31	\$ 6,052,802	\$ 6,052,802	\$ 6,803,618	\$ 750,816

**MILLE LACS COUNTY
MILACA, MINNESOTA**

EXHIBIT A-2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 930,776	\$ 930,776	\$ 947,628	\$ 16,852
Licenses and permits	8,000	8,000	9,915	1,915
Intergovernmental	8,483,425	8,483,425	6,551,229	(1,932,196)
Charges for services	295,000	295,000	35,070	(259,930)
Miscellaneous	7,500	7,500	12,928	5,428
Total Revenues	\$ 9,724,701	\$ 9,724,701	\$ 7,556,770	\$ (2,167,931)
Expenditures				
Current				
Highways and streets				
Administration	\$ 600,207	\$ 600,207	\$ 631,888	\$ (31,681)
Maintenance	7,128,788	7,128,788	4,262,947	2,865,841
Construction	1,406,296	1,406,296	1,342,859	63,437
Equipment maintenance and shop	617,010	617,010	638,477	(21,467)
Total highways and streets	\$ 9,752,301	\$ 9,752,301	\$ 6,876,171	\$ 2,876,130
Intergovernmental				
Highways and streets	220,000	220,000	226,085	(6,085)
Total Expenditures	\$ 9,972,301	\$ 9,972,301	\$ 7,102,256	\$ 2,870,045
Excess of Revenues Over (Under) Expenditures	\$ (247,600)	\$ (247,600)	\$ 454,514	\$ 702,114
Other Financing Sources (Uses)				
Transfers in	-	-	91,256	91,256
Net Change in Fund Balance	\$ (247,600)	\$ (247,600)	\$ 545,770	\$ 793,370
Fund Balance - January 1	2,498,259	2,498,259	2,498,259	-
Increase (decrease) in inventories	-	-	(74,787)	(74,787)
Fund Balance - December 31	\$ 2,250,659	\$ 2,250,659	\$ 2,969,242	\$ 718,583

**MILLE LACS COUNTY
MILACA, MINNESOTA**

EXHIBIT A-3

**BUDGETARY COMPARISON SCHEDULE
COMMUNITY AND VETERAN SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 3,434,225	\$ 3,434,225	\$ 3,408,281	\$ (25,944)
Intergovernmental	5,104,424	5,104,424	5,787,300	682,876
Charges for services	528,425	528,425	681,340	152,915
Gifts and contributions	500	500	306	(194)
Miscellaneous	261,500	261,500	256,228	(5,272)
Total Revenues	\$ 9,329,074	\$ 9,329,074	\$ 10,133,455	\$ 804,381
Expenditures				
Current				
General government				
Veterans services	\$ 137,425	\$ 137,425	\$ 124,134	\$ 13,291
Human services				
Income maintenance	\$ 2,282,131	\$ 2,282,131	\$ 2,272,031	\$ 10,100
Social services	6,000,339	6,000,339	6,767,919	(767,580)
Total human services	\$ 8,282,470	\$ 8,282,470	\$ 9,039,950	\$ (757,480)
Health				
Public health	\$ 889,366	\$ 889,366	\$ 759,160	\$ 130,206
Total Expenditures	\$ 9,309,261	\$ 9,309,261	\$ 9,923,244	\$ (613,983)
Net Change in Fund Balance	\$ 19,813	\$ 19,813	\$ 210,211	\$ 190,398
Fund Balance - January 1	4,158,590	4,158,590	4,158,590	-
Fund Balance - December 31	\$ 4,178,403	\$ 4,178,403	\$ 4,368,801	\$ 190,398

**MILLE LACS COUNTY
MILACA, MINNESOTA**

EXHIBIT A-4

**SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS
FOR THE YEAR ENDED DECEMBER 31, 2014**

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%

**MILLE LACS COUNTY
MILACA, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2014**

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, 2014:

	Expenditures	Final Budget	Excess
General Fund			
Current			
General government	\$ 5,654,629	\$ 5,483,189	\$ 171,440
Public safety	8,028,638	7,543,598	485,040
Sanitation	82,624	80,500	2,124
Culture and recreation	40,786	3,600	37,186
Economic development	91,764	51,500	40,264
Road and Bridge Special Revenue Fund			
Intergovernmental			
Highways and streets	226,085	220,000	6,085

**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	9,039,950	8,282,470	757,480

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, 2014

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<u>Assets</u>				
Cash and pooled investments	<u>\$ 882,816</u>	<u>\$ 49,831,000</u>	<u>\$ 49,931,271</u>	<u>\$ 782,545</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 882,816</u>	<u>\$ 49,831,000</u>	<u>\$ 49,931,271</u>	<u>\$ 782,545</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, 2014**

	<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	\$ 1,367	\$ 4,300	\$ -	\$ (2,933)	\$ (2,933)	\$ 1,367
3	28,725	-	28,725	-	28,725	28,725
4	13,197	-	13,197	-	13,197	13,197
5	7,175	-	7,175	-	7,175	7,175
14	(31)	48,300	-	(48,331)	(48,331)	(31)
Judicial Ditch 3	(61)	-	-	(61)	(61)	(61)
Total	\$ 50,372	\$ 52,600	\$ 49,097	\$ (51,325)	\$ (2,228)	\$ 50,372

**MILLE LACS COUNTY
MILACA, MINNESOTA**

EXHIBIT C-2

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2014**

Shared Revenue

State

Highway users tax	\$	4,409,581
County program aid		1,483,572
PERA rate reimbursement		30,786
Disparity reduction aid		24,711
Police aid		178,976
Indian casino aid		64,399
Enhanced 911		101,936
SCORE		189,142
Aquatic invasive species aid		45,916
Market value credit		162,166

Total shared revenue **\$ 6,691,185**

Reimbursement for Services

State

Minnesota Department of Human Services	\$	1,009,822
Minnesota Department of Transportation		7,722

Total reimbursement for services **\$ 1,017,544**

Payments

Local

Payments in lieu of taxes	\$	256,693
University of Minnesota		5,000
Other		40,500

Total payments **\$ 302,193**

Grants

State

Minnesota Department/Board of		
Public Safety	\$	32,465
Commerce		115,591
Health		204,550
Natural Resources		204,084
Human Services		1,556,847
Veterans Affairs		10,000
Corrections		203,300
Transportation		6,598
Revenue		3,529
Water and Soil Resources		244,105
Peace Officer Standards and Training Board		9,332

Total state **\$ 2,590,401**

MILLE LACS COUNTY
MILACA, MINNESOTA

EXHIBIT C-2
(Continued)

SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2014

Grants (Continued)

Federal

Department of Agriculture	\$ 327,182
Transportation	1,921,883
Health and Human Services	2,660,481
Homeland Security	24,884

Total federal \$ 4,934,430

Total state and federal grants \$ 7,524,831

Build America Bonds interest subsidy \$ 15,282

Total Intergovernmental Revenue \$ 15,551,035

**MILLE LACS COUNTY
MILACA, MINNESOTA**

EXHIBIT C-3

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Passed Through Isanti-Mille Lacs Community Health Board Special Supplemental Nutrition Program for Women, Infants, and Children (Total Special Supplemental Nutrition Program for Women, Infants, and Children 10.557 \$122,301)	10.557	\$ 53,708
Passed Through Minnesota Department of Health Special Supplemental Nutrition Program for Women, Infants, and Children (Total Special Supplemental Nutrition Program for Women, Infants, and Children 10.557 \$122,301)	10.557	68,593
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	<u>196,893</u>
Total U.S. Department of Agriculture		<u>\$ 319,194</u>
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	<u>\$ 1,921,883</u>
U.S. Department of Health and Human Services		
Passed Through Isanti-Mille Lacs Community Health Board Public Health Emergency Preparedness	93.069	\$ 25,466
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	93.505	295,388
Temporary Assistance for Needy Families (Total Temporary Assistance for Needy Families 93.558 \$350,377)	93.558	9,453
Medical Assistance Program (Total Medical Assistance Program 93.778 \$823,368)	93.778	3,282
Maternal and Child Health Services Block Grant to the States (Total Maternal and Child Health Services Block Grant to the States 93.994 \$25,009)	93.994	17,745
Passed Through Minnesota Department of Health Temporary Assistance for Needy Families (Total Temporary Assistance for Needy Families 93.558 \$350,377)	93.558	32,568
Maternal and Child Health Services Block Grant to the States (Total Maternal and Child Health Services Block Grant to the States 93.994 \$25,009)	93.994	7,264

**MILLE LACS COUNTY
MILACA, MINNESOTA**

**EXHIBIT C-3
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Health and Human Services (Continued)		
Passed Through Minnesota Department of Human Services		
Promoting Safe and Stable Families	93.556	9,657
Temporary Assistance for Needy Families (Total Temporary Assistance for Needy Families 93.558 \$350,377)	93.558	308,356
Child Support Enforcement	93.563	471,664
Refugee and Entrant Assistance - State-Administered Programs	93.566	1,052
Child Care and Development Block Grant	93.575	9,691
Community-Based Child Abuse Prevention Grants	93.590	7,721
Stephanie Tubbs Jones Child Welfare Services Program	93.645	6,364
Foster Care Title IV-E	93.658	223,516
Social Services Block Grant	93.667	194,960
Chafee Foster Care Independence Program	93.674	6,004
Children's Health Insurance Program	93.767	90
Medical Assistance Program (Total Medical Assistance Program 93.778 \$823,368)	93.778	820,086
Block Grants for Community Mental Health Services	93.958	5,495
Total U.S. Department of Health and Human Services		\$ 2,455,822
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Natural Resources		
Boating Safety Financial Assistance	97.012	\$ 3,875
Passed Through Minnesota Department of Public Safety		
Emergency Management Performance Grants	97.042	21,009
Total U.S. Department of Homeland Security		\$ 24,884
Total Federal Awards		\$ 4,721,783

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**MILLE LACS COUNTY
MILACA, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

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, 2014. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of 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 the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through grant numbers were not assigned by the pass-through agencies.

**MILLE LACS COUNTY
MILACA, MINNESOTA**

4. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 4,934,430
Grants received more than 60 days after year-end, unavailable in 2014	
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
Unavailable in 2013, recognized as revenue in 2014	
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	(7,988)
Temporary Assistance for Needy Families	(68,362)
Child Support Enforcement	(18,027)
Child Care and Development Block Grant	(825)
Foster Care Title IV-E	(57,780)
Medical Assistance Program	(132,093)
Block Grants for Community Mental Health Services	(2,298)
	<hr/>
Expenditures Per Schedule of Expenditures of Federal Awards	<u>\$ 4,721,783</u>

5. Subrecipients

The County did not pass any federal money to subrecipients during the year ended December 31, 2014.

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**MILLE LACS COUNTY
MILACA, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2014**

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: **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? **No**

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

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? **No**

The major programs are:

Highway Planning and Construction	CFDA #20.205
Temporary Assistance for Needy Families	CFDA #93.558

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

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.

IV. OTHER ITEM FOR CONSIDERATION

GASB Statement No. 68, Accounting and Financial Reporting for Pensions

The Governmental Accounting Standards Board (GASB) is the independent organization that establishes standards of accounting and financial reporting for state and local governments. Effective for your calendar year 2015 financial statements, the GASB changed those standards as they apply to employers that provide pension benefits.

GASB Statement 68 significantly changes pension accounting and financial reporting for governmental employers that prepare financial statements on the accrual basis by separating pension accounting methodology from pension funding methodology. Statement 68 requires employers to include a portion of the Public Employees Retirement Association (PERA) total employers' unfunded liability, called the "net pension liability" on the face of the County's government-wide statement of financial position. The County's financial position will be immediately impacted by its unfunded share of the pension liability.

Statement 68 changes the amount employers report as pension expense and defers some allocations of expenses to future years—deferred outflows or inflows of resources. It requires pension costs to be calculated by an actuary; whereas, in the past pension costs were equal to the amount of employer contributions sent to PERA during the year. Additional footnote disclosures and required supplementary information schedules are also required by Statement 68.

The net pension liability that will be reported in Mille Lacs County's financial statements is an accounting estimate of the proportionate share of PERA's unfunded liability at a specific point in time. That number will change from year to year and is based on assumptions about the probability of the occurrence of events far into the future. Those assumptions include how long people will live, how long they will continue to work, projected salary increases, and how well pension trust investments will do. PERA has been proactive in taking steps toward implementation and will be providing most of the information needed by employers to report the net pension liability and deferred outflows/inflows of resources.



REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

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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, 2014, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated August 11, 2015.

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 Political Subdivisions*, 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 Political Subdivisions*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the County's noncompliance with the above referenced provisions.

Other Matters

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

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 Political Subdivisions* 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

August 11, 2015

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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 Each 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) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the County's major federal programs for the year ended December 31, 2014. Mille Lacs County's major federal programs are 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 the requirements of laws, regulations, contracts, and grants applicable to each of its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Mille Lacs County's major federal programs 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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 each major federal program. However, our audit does not provide a legal determination of the County's compliance with those requirements.

Opinion on Each 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 each of its major federal programs for the year ended December 31, 2014.

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 each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

August 11, 2015

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR