

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

YEAR ENDED DECEMBER 31, 2014

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

TABLE OF CONTENTS

<u>Introductory Section</u>	<u>Reference</u>	<u>Page</u>
Organization Schedule		1
<u>Financial Section</u>		
Independent Auditor’s Report		2
Management’s Discussion and Analysis		5
Basic Financial Statements		
Government-Wide Financial Statements		
Statement of Net Position	Exhibit 1	14
Statement of Activities	Exhibit 2	15
Fund Financial Statements		
Governmental Funds		
Balance Sheet	Exhibit 3	16
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position – Governmental Activities	Exhibit 4	18
Statement of Revenues, Expenditures, and Changes in Fund Balances	Exhibit 5	19
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities – Governmental Activities	Exhibit 6	21
Fiduciary Funds		
Statement of Fiduciary Net Position	Exhibit 7	22
Notes to the Financial Statements		23
Required Supplementary Information		
Budgetary Comparison Schedules		
General Fund	Schedule 1	53
Road and Bridge Special Revenue Fund	Schedule 2	56
Human Services Special Revenue Fund	Schedule 3	57
Forfeited Tax Sale Special Revenue Fund	Schedule 4	58
Nursing Service Special Revenue Fund	Schedule 5	59
Other Post-Employment Benefit Plan		
Schedule of Funding Progress	Schedule 6	60
Schedule of Employer Contributions	Schedule 7	61
Notes to the Required Supplementary Information		62

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

TABLE OF CONTENTS

<u>Financial Section</u> (Continued)	<u>Reference</u>	<u>Page</u>
Supplementary Information		
Governmental Funds		
Combining Balance Sheet – Nonmajor Governmental Funds	Statement 1	65
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance – Nonmajor Governmental Funds	Statement 2	66
Nonmajor Special Revenue Funds		
Budgetary Comparison Schedules		
Ditch Special Revenue Fund	Schedule 8	67
Energy Assistance Special Revenue Fund	Schedule 9	68
Solid Waste Management Special Revenue Fund	Schedule 10	69
Unorganized Townships Special Revenue Fund	Schedule 11	70
Fiduciary Funds		
Combining Statement of Changes in Assets and Liabilities - All Agency Funds	Statement 3	72
Other Schedules		
Balance Sheet – By Ditch – Ditch Special Revenue Fund	Schedule 12	75
Schedule of Intergovernmental Revenue	Schedule 13	77
Schedule of Expenditures of Federal Awards	Schedule 14	78
Notes to the Schedule of Expenditures of Federal Awards		80
 <u>Management and Compliance Section</u>		
Schedule of Findings and Questioned Costs	Schedule 15	81
Other Required Reports		
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Governmental Auditing Standards</i>		84
Independent Auditor’s Report on Compliance for Each Major Federal Program, and Report on Internal Control over Compliance		86

INTRODUCTORY SECTION

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

**ORGANIZATION SCHEDULE
DECEMBER 31, 2014**

<u>Office</u>	<u>Name</u>	<u>Term Expires</u>
Commissioners		
1 st District	Duane Hayes ¹	January 2015
2 nd District	Dean Newland	January 2016
3 rd District	Neal Illies	January 2019
4 th District	John Nelson	January 2016
5 th District	Daniel C. Stenseng, Chair	January 2019
Officers		
Elected:		
Attorney	Richard Mollin	January 2019
Sheriff	Darin Halvorson	January 2019
Auditor	Allen L. Paulson	January 2019
Treasurer	Charlene R. Olson	January 2019
Recorder	Brenda Knable	January 2019
Appointed:		
Assessor	Cheryl Grover	Indefinite
Highway Engineer	Dan Sauve	Indefinite
Land Commissioner	Bruce Cox	Indefinite
Veterans Service Officer	Harry Hutchens III	Indefinite
Environmental Services	Daniel Hecht	Indefinite
Human Services Board:		
Chair	Marilyn Shamp	December 2015
Secretary	Julie Sundquist	July 2015
Member	John Nelson	December 2015
Member	Dean Newland	December 2015
Member	Daniel C. Stenseng	December 2018
Member	Duane Hayes ¹	December 2014
Member	Neal Illies	December 2018
Director	Malotte Backer	Indefinite

¹ Replaced by Arlen Syverson on January 1, 2015.

FINANCIAL SECTION

Colleen Hoffman, Director
Crystelle Philipp, CPA
Marit Knutson, CPA



Hoffman, Philipp, & Knutson, PLLC

1541 Highway 59 South | Thief River Falls, MN 56701 | Phone: 218-681-4078 | choffman@mncable.net

INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Clearwater County

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Clearwater 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 Clearwater County, Minnesota, 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 the required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a 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 Clearwater 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 31, 2015, on our consideration of Clearwater 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 the County's internal control over financial reporting and compliance.

Report on the 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 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 Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.



Hoffman, Philipp, & Knutson, PLLC

August 31, 2015



CLEARWATER COUNTY COMMISSIONERS

213 Main Ave. N. Bagley, MN 56621 • Fax: (218) 694-6244

**ARLEN
SYVERSON**
District #1

**DEAN
NEWLAND**
District #2

**NEAL
ILLIES**
District #3

**JOHN
NELSON**
District #4

**DANIEL
STIENSENG**
District #5

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

The management of Clearwater County offers readers of the County's Financial Statements this narrative overview and analysis of the financial activities of Clearwater County for the fiscal year ended December 31, 2014. The Management's Discussion and Analysis provides comparisons with the previous year and is designed to focus on the current year's activities, resulting changes, and currently known facts, and should be read in conjunction with the County's basic financial statements that follow this section.

FINANCIAL HIGHLIGHTS

The total net position of governmental activities is \$54,963,051, of which \$42,681,792 is the net investment in capital assets, \$3,127,681 is restricted for specific purposes, and \$9,153,578 is unrestricted. The total net position of governmental activities increased by \$2,912,951 for the year ended December 31, 2014. This is attributed mainly to the County investments regaining their measurement value compared to the prior year, as well as an overall decrease in expenditures in 2014.

At the close of 2014, the County's governmental funds reported combined ending fund balances of \$10,866,527, an increase of \$1,608,166, from the prior year. Of the total fund balance amount, \$378,886 is non-spendable, \$1,155,892 is legally or contractually restricted, \$5,143,582 is formally committed for specific purposes, \$2,628,654 is assigned for specific purposes, and \$1,559,513 is noted as unassigned fund balance in the General Fund. Maintaining an adequate fund balance is necessary to provide County services throughout the year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to Clearwater County's basic financial statements, which are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the County's finances. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector businesses. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The *Statement of Net Position* presents information on all of the County's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position is reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes).

In the *Statement of Net Position* and the *Statement of Activities*, the County's activities general government, public safety, highways and streets, sanitation, human services, health, culture and recreation, conservation of natural resources, and economic development. Property taxes and state and federal grants finance most of these activities.

The government-wide financial statements can be found as Exhibits 1 and 2 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Clearwater County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the County can be divided into two categories: governmental funds and fiduciary funds.

Governmental Funds Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, fund-level financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's short-term financing decisions. Both the Balance Sheet – Governmental Funds and the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds provide a reconciliation to facilitate the comparison between governmental funds and governmental activities.

The County reports two governmental fund types: General and Special Revenue. Information is presented separately in the Governmental Funds Balance Sheet and in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund, the Road and Bridge Special Revenue Fund, the Human Services Special Revenue Fund, the Forfeited Tax Sale Special Revenue Fund, and the Nursing Service Special Revenue Fund, all of which are considered to be major funds. Data from the other nonmajor Special Revenue Funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor funds is provided in combining statements after the notes to the financial statements.

Clearwater County adopts annual budgets for its governmental funds. Budgetary comparison schedules have been provided for these funds to demonstrate compliance with their budgets.

Fiduciary Funds Fiduciary funds are used to account for assets held by the County as an agent for individuals, private organizations, other governments, or other funds. Clearwater County's fiduciary funds consist of nine agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. In addition, the fiduciary funds are not reflected in the government-wide financial statements because those resources are not available to support the County's programs. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All fiduciary activities are reported in Statement 3, Combining Statement of Changes in Fiduciary Net Position, All Agency Funds.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found beginning on page 23 of this report.

Other information—In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. The County also provides supplementary and other information including combining statements, budgetary comparison schedules, a ditch balance sheet and a schedule of intergovernmental revenue.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Over time, net position serves as a useful indicator of the County's financial position. The County's assets exceeded liabilities by \$54,963,051 at the close of the fiscal year. The largest portion of the County's net position (approximately 78 percent) reflects its net investment in capital assets (i.e., land, construction in progress, infrastructure, buildings and improvements, and machinery and equipment). It should be noted that this amount is not available for future spending. Approximately five percent of the County's net position is restricted and 17 percent of the County's net position is unrestricted. The unrestricted net position amount of \$9,153,578, as of December 31, 2014, may be used to meet the County's ongoing obligations to citizens.

The County's overall financial position increased from last year. Total assets increased by \$2,826,298, primarily due to the addition of infrastructure and purchase of capital assets. Total liabilities decreased by \$86,653, from the prior year, primarily due to payment of debt. This resulted in an increased net position of \$2,912,951 from the prior year.

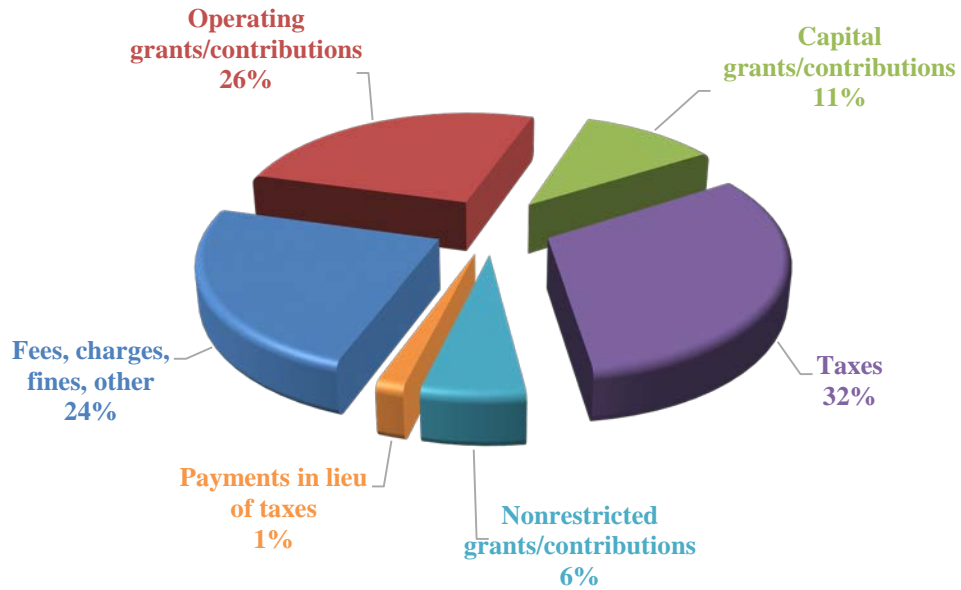
NET POSITION

	Governmental Activities	
	2014	2013
Current and other assets	\$ 14,135,448	\$ 11,828,186
Capital assets	42,681,792	42,162,756
Total assets	\$ 56,817,240	\$ 53,990,942
Other liabilities	\$ 789,380	\$ 829,405
Long-term liabilities outstanding	1,064,809	1,111,437
Total liabilities	\$ 1,854,189	\$ 1,940,842
Net position		
Net investment in capital assets	\$ 42,681,792	\$ 42,162,756
Restricted	3,127,681	1,089,098
Unrestricted	9,153,578	8,798,246
Total net position	\$ 54,963,051	\$ 52,050,100

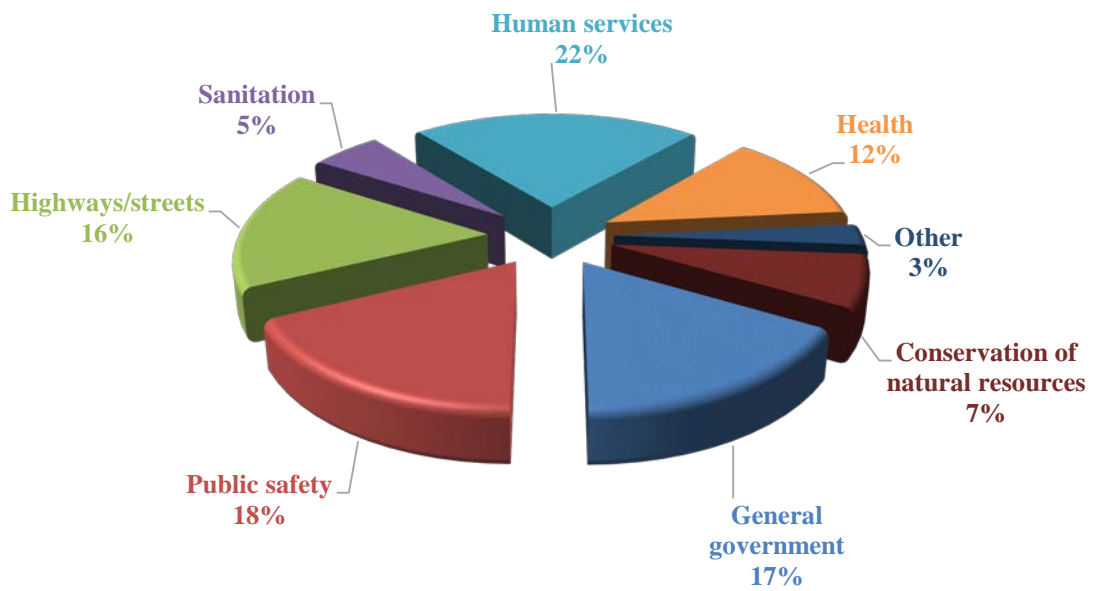
CHANGES IN NET POSITION

	Governmental Activities	
	2014	2013
Revenues		
Program Revenues		
Fees, charges, fines and other	\$ 3,825,836	\$ 4,437,325
Operating grants and contributions	4,854,281	4,915,524
Capital grants and contributions	2,047,040	1,963,656
General Revenues		
Taxes	5,989,640	5,255,099
Payments in lieu of taxes	310,992	309,683
Grants and contributions not restricted to specific programs	1,131,512	1,064,454
Investment earnings	647,395	(410,768)
Total revenues	\$ 18,806,696	\$ 17,534,973
Expenses		
General government	\$ 2,651,426	\$ 2,531,226
Public safety	2,821,768	2,805,842
Highways and streets	2,580,491	4,287,769
Sanitation	840,396	810,779
Human services	3,506,734	4,020,742
Health	1,920,760	2,276,409
Culture and recreation	437,290	361,206
Conservation of natural resources	1,126,085	1,164,037
Economic development	2,800	2,600
Interest	5,995	7,109
Total expenses	\$ 15,893,745	\$ 18,267,719
Increase (decrease) in net position	\$ 2,912,951	\$ (732,746)
Net position, January 1	52,050,100	52,782,846
Net position, December 31	\$ 54,963,051	\$ 52,050,100

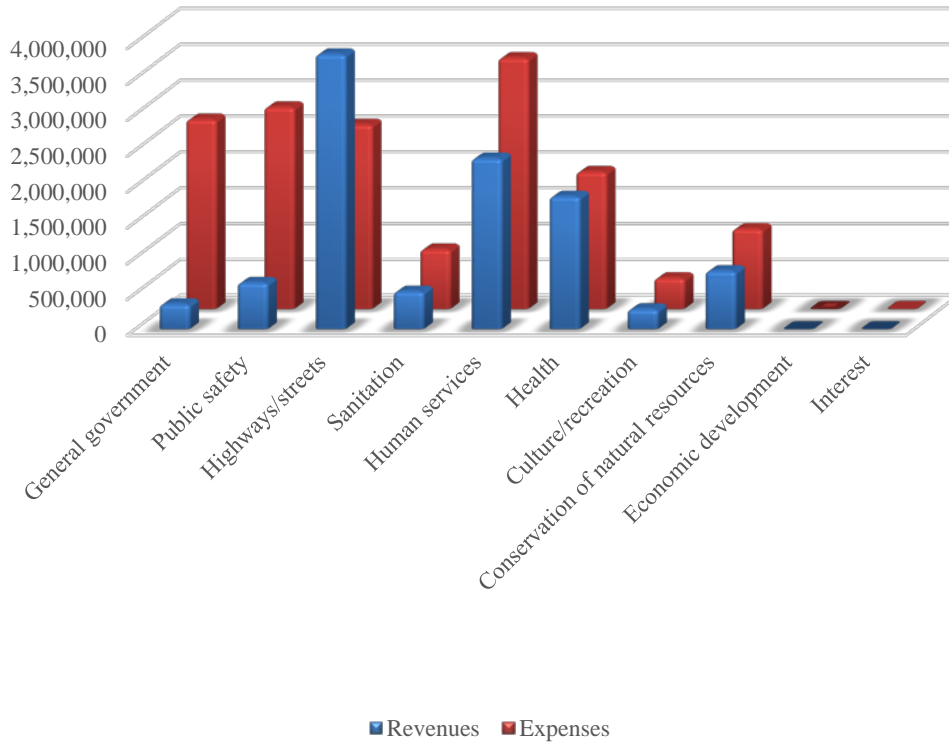
Revenues by Source



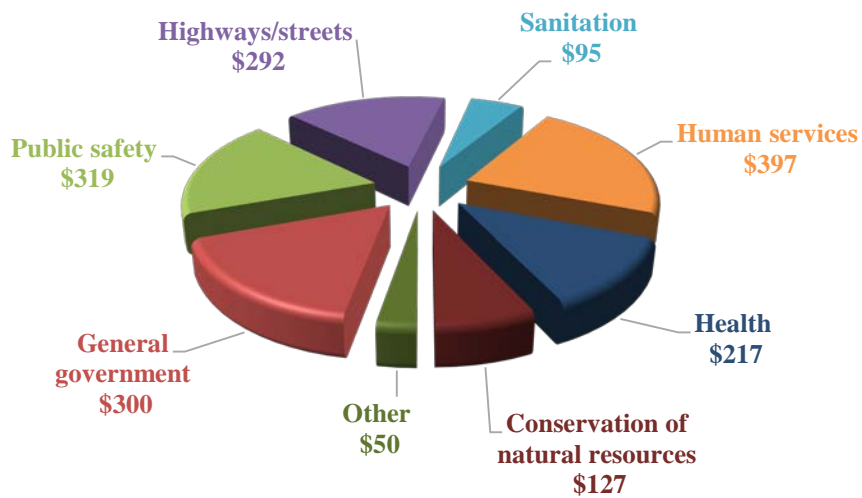
Expenses by Function



Program Revenues & Expenses



Expenditures Per Capita 8,838 Population as of July 1, 2014



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements, with a focus on short-term inflows of resources, outflows of resources, and balances of spendable resources. In particular, unrestricted fund balance may serve as a useful measure of the County's net resources available for spending at the end of the fiscal year.

Governmental Funds

At the end of 2014, the County's governmental funds reported combined ending fund balances of \$10,866,527. Of this amount, approximately four percent constitutes non-spendable fund balance, 11 percent constitutes legally or contractually restricted fund balance, 47 percent constitutes formally committed fund balance, 24 percent constitutes specifically assigned fund balance, and 14 percent constitutes unassigned fund balance.

The General Fund is the operating fund of the County. At the end of the current fiscal year, the General Fund's total fund balance was \$3,338,258. The General Fund's restricted fund balance was \$348,465, committed fund balance was \$1,430,280, and unassigned fund balance was \$1,559,513. As a measure of the General Fund's liquidity, it is useful to compare both unrestricted fund balance and total fund balance to total fund expenditures for 2014. Unrestricted fund balance represents 48 percent of total General Fund expenditures, while total fund balance represents 54 percent of that same amount.

In 2014, the fund balance amount in the General Fund increased by \$863,804. The primary reason for this was due to County investments regaining their measurement value compared to the prior year.

The fund balance of the Road and Bridge Special Revenue Fund increased \$633,275 in 2014. This was due to decreased maintenance costs.

The fund balance of the Human Services Special Revenue Fund increased \$48,330 from the prior year, as a result of decreased expenditures.

The fund balance of the Forfeited Tax Sale Special Revenue Fund increased \$197,057 in 2014, as a result of an increase in timber sales.

The fund balance of the Nursing Service Special Revenue Fund decreased \$18,424 from the prior year. This decrease was due to continuing changes in State and Federal funding for these programs.

GENERAL FUND BUDGETARY HIGHLIGHTS

The budget amendments in 2014 consisted of an overall increase in conservation of natural resources expenditures of \$24,208 for roadside spraying and chemical application.

Actual revenues were more than overall final budgeted revenues by \$188,616, with the largest variances in taxes and investment earnings. Actual expenditures were less than overall final budgeted expenditures by \$173,136, mainly as a result of decreased spending in general government and soil survey expenditures.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The County's investment in capital assets for its governmental activities as of December 31, 2014, amounted to \$42,681,792 (net of accumulated depreciation). The total increase in the County's investment in capital assets for the current fiscal year was approximately one percent. This increase was mainly due to highway construction projects added to construction in progress and various equipment purchases.

	Governmental Activities	
	2014	2013
Land	\$ 165,750	\$ 165,750
Construction in progress	963,770	64,263
Infrastructure	36,831,994	37,063,927
Buildings and improvements	2,975,900	3,298,244
Machinery and equipment	1,744,378	1,570,572
Total capital assets	<u>\$ 42,681,792</u>	<u>\$ 42,162,756</u>

Additional information on the County's capital assets can be found in the notes to the financial statements.

Long-Term Debt

At the end of the current fiscal year, the County had total debt outstanding of \$110,000 which is backed by the full faith and credit of the government and special assessments.

	Governmental Activities	
	2014	2013
General Obligation Bonds	<u>\$ 110,000</u>	<u>\$ 130,000</u>

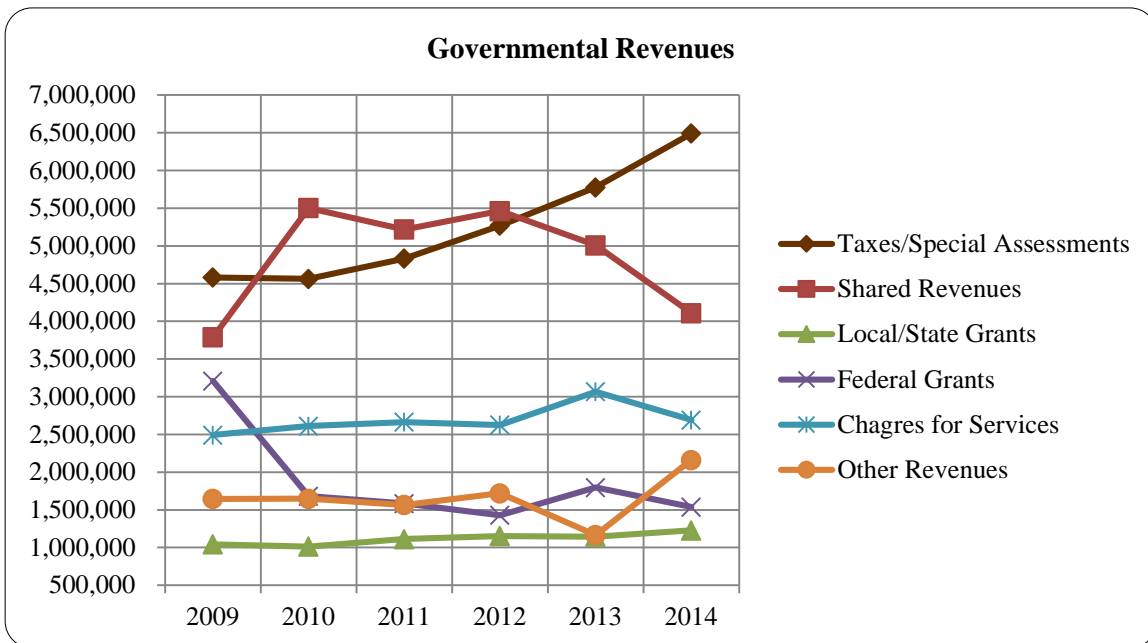
The County's net decrease in debt of \$20,000 (approximately 16 percent) during the fiscal year was attributable to the repayment of debt.

Minnesota Statutes limit the amount of debt that a County may have to three percent of its total market value, excluding revenue bonds. At the end of the fiscal year, overall debt of the County is well below the three percent debt limit.

Additional information on the County's long-term debt can be found in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

- The County depends on financial resources flowing from, or associated with, both the Federal Government and the State of Minnesota. Because of this dependency, the County is subject to changes in specific flows of intergovernmental revenues based on modifications to Federal and State laws and Federal and State appropriations. It is also subject to changes in investment earnings and asset values associated with U.S. Treasury Securities because of actions by foreign governments and other holders of publicly held U.S. Treasury Securities. The six-year analysis below focuses on the



revenues of the County’s governmental funds taken from Exhibit 5 and the Schedule of Intergovernmental Revenue.

- The unemployment rate for Clearwater County was 9.9 percent as of December 31, 2014. This is considerably higher than the statewide rate of 3.7 percent and the national average rate of 5.6 percent.
- Clearwater County’s population at July 1, 2014 was 8,791, an increase of 96 since 2010. This ranks Clearwater County 74th of 87 in the State of Minnesota.
- The economic trends in our community, as well as our population figures, have stayed relatively stable over the past years, and thus there has been little change in the economic profile of the community.
- Beginning January 1, 2015, the positions of County Auditor and County Treasurer were combined into the position of County Auditor-Treasurer. The County is in the process of evaluating internal controls and adjusting policies to allow for greater efficiencies and cost savings in providing services to residents.
- On December 2, 2014, Clearwater County set its 2015 revenue and expenditure budgets.

REQUESTS FOR INFORMATION

This annual financial report is designed to provide a general overview of Clearwater County for all those with an interest in the County’s finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Clearwater County Auditor/Treasurer, Department 202, 213 Main Avenue North, Bagley, Minnesota 56621-8304.

BASIC FINANCIAL STATEMENTS

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET POSITION
DECEMBER 31, 2014**

	Governmental Activities
<u>Assets</u>	
Cash and pooled investments	\$ 10,201,011
Investments	290,018
Taxes receivable - prior	125,831
Special assessments receivable - prior	52,185
Accounts receivable	86,321
Accrued interest receivable	39,118
Contracts receivable	319,827
Due from other governments	2,577,833
Inventories	378,886
Special assessments - noncurrent	64,418
Capital assets	
Non-depreciable	1,129,520
Depreciable - net of accumulated depreciation	41,552,272
Total Assets	\$ 56,817,240
<u>Liabilities</u>	
Accounts payable	\$ 374,693
Salaries payable	199,490
Contracts payable	53,942
Due to other governments	161,255
Long-term liabilities	
Due within one year	347,526
Due in more than one year	717,283
Total Liabilities	\$ 1,854,189
<u>Net Position</u>	
Net investment in capital assets	\$ 42,681,792
Amounts restricted for	
General government	154,627
Public safety	191,764
Highways and streets	1,928,817
Conservation of natural resources	777,912
Debt service	74,561
Unrestricted amounts	9,153,578
Total Net Position	\$ 54,963,051

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

EXHIBIT 2

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

		Program Revenues			
Expenses	Fees, Charges, Fines and Other	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position	
Functions/Programs					
Governmental activities					
General government	\$ 2,651,426	\$ 264,424	\$ 89,469	\$ -	\$ (2,297,533)
Public safety	2,821,768	491,420	161,874	-	(2,168,474)
Highways and streets	2,580,491	251,646	1,605,013	1,983,330	1,259,498
Sanitation	840,396	18,564	512,217	-	(309,615)
Human services	3,506,734	388,226	2,001,147	-	(1,117,361)
Health	1,920,760	1,569,758	288,972	-	(62,030)
Culture and recreation	437,290	185,243	97,943	-	(154,104)
Conservation of natural resources	1,126,085	656,555	97,646	63,710	(308,174)
Economic development	2,800	-	-	-	(2,800)
Interest	5,995	-	-	-	(5,995)
Total governmental activities	\$ 15,893,745	\$ 3,825,836	\$ 4,854,281	\$ 2,047,040	\$ (5,166,588)
 General revenues					
Taxes				\$ 5,989,640	
Payments in lieu of taxes				310,992	
Grants and contributions not restricted to specific programs				1,131,512	
Investment earnings				647,395	
Total general revenues				\$ 8,079,539	
Change in net position				\$ 2,912,951	
Net position - January 1				52,050,100	
Net position - December 31				\$ 54,963,051	

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

EXHIBIT 3

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

	General	Special Revenue Funds				Other Governmental Funds (Statement 1)	Total Governmental Funds
		Road and Bridge	Human Services	Forfeited Tax Sale	Nursing Service		
Assets							
Cash and pooled investments	\$ 3,159,862	\$ 2,819,872	\$ 2,741,153	\$ 1,148,010	\$ -	\$ 343,192	\$ 10,212,089
Investments	215,457	-	-	-	-	74,561	290,018
Taxes receivable - prior	73,338	22,889	24,170	-	-	5,434	125,831
Special assessments receivable - prior	-	-	-	-	-	52,185	52,185
Accounts receivable	41,328	-	17,702	-	27,291	-	86,321
Accrued interest receivable	39,118	-	-	-	-	-	39,118
Contracts receivable	-	-	-	319,827	-	-	319,827
Due from other funds	142,745	1,832	-	-	-	-	144,577
Due from other governments	75,667	1,935,316	310,234	-	256,616	-	2,577,833
Inventories	-	378,886	-	-	-	-	378,886
Special assessments - noncurrent	-	-	-	-	-	64,418	64,418
Total Assets	\$ 3,747,515	\$ 5,158,795	\$ 3,093,259	\$ 1,467,837	\$ 283,907	\$ 539,790	\$ 14,291,103
Liabilities, Deferred Inflows of Resources, and Fund Balances							
Liabilities							
Cash overdraft	\$ -	\$ -	\$ -	\$ -	\$ 11,078	\$ -	\$ 11,078
Accounts payable	141,285	37,134	107,571	826	11,614	76,263	374,693
Salaries payable	108,492	24,222	36,902	4,572	23,719	1,583	199,490
Contracts payable	-	53,942	-	-	-	-	53,942
Due to other funds	1,668	225	64	139,918	2,702	-	144,577
Due to other governments	101,631	31,207	27,596	274	-	547	161,255
Total Liabilities	\$ 353,076	\$ 146,730	\$ 172,133	\$ 145,590	\$ 49,113	\$ 78,393	\$ 945,035
Deferred Inflows of Resources							
Taxes	\$ 56,181	\$ 17,983	\$ 18,904	\$ -	\$ -	\$ 3,769	\$ 96,837
Special assessments	-	-	-	-	-	108,810	108,810
County State Aid Highway Allotment	-	1,928,817	-	-	-	-	1,928,817
Land and timber sales	-	-	-	345,077	-	-	345,077
Total Deferred Inflows of Resources	\$ 56,181	\$ 1,946,800	\$ 18,904	\$ 345,077	\$ -	\$ 112,579	\$ 2,479,541

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

**EXHIBIT 3
(Continued)**

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

	General	Special Revenue Funds				Other Governmental Funds (Statement 1)	Total Governmental Funds
		Road and Bridge	Human Services	Forfeited Tax Sale	Nursing Service		
Fund Balances							
Nonspendable							
Inventories	\$ -	\$ 378,886	\$ -	\$ -	\$ -	\$ -	\$ 378,886
Restricted for							
AIS prevention	45,046	-	-	-	-	-	45,046
Conservation of natural resources	-	-	-	-	-	18,289	18,289
Criminal justice	10,955	-	-	-	-	-	10,955
DARE program	1,331	-	-	-	-	-	1,331
Debt service	-	-	-	-	-	74,561	74,561
Enhanced 911	69,001	-	-	-	-	-	69,001
Handgun permits	24,246	-	-	-	-	-	24,246
Law library	1,683	-	-	-	-	-	1,683
Memorial forest	-	-	-	137,892	-	-	137,892
Missing heirs	25,849	-	-	-	-	-	25,849
Probation	15,392	-	-	-	-	-	15,392
Recorder's equipment	73,179	-	-	-	-	-	73,179
Sheriff's contingent fund	1,118	-	-	-	-	-	1,118
Sheriff's forfeited property	24,675	-	-	-	-	-	24,675
Snowmobile safety	2,074	-	-	-	-	-	2,074
Technology	53,916	-	-	-	-	-	53,916
Timber development	-	-	-	576,685	-	-	576,685
Committed to							
Buildings	75,717	-	-	-	-	-	75,717
Capital improvements	106,270	948,000	459,782	-	-	-	1,514,052
Construction	-	698,890	-	-	-	-	698,890
Citizens against violence	1,561	-	-	-	-	-	1,561
Compensated absences	-	-	400,000	-	-	-	400,000
County forest roads	-	-	-	28,854	-	-	28,854
County parks	597,988	-	-	-	-	-	597,988
Extension	4,602	-	-	-	-	-	4,602
Forfeited tax sales	-	-	-	180,074	-	-	180,074
Insurance	215,457	-	-	-	-	-	215,457
Landfill	-	-	-	-	-	78,270	78,270
Medical facilities management	395,043	-	-	-	-	-	395,043
Out of home placement	-	-	400,000	-	-	-	400,000
Payments in lieu of taxes	-	-	-	53,665	-	-	53,665
Public transportation	-	-	190,000	-	-	-	190,000
Recycling	-	-	-	-	-	80,875	80,875
Rural signing	25,758	-	-	-	-	-	25,758
Solid waste collection	-	-	-	-	-	65,657	65,657
Solid waste disposal	-	-	-	-	-	29,235	29,235
Tax software development	30	-	-	-	-	-	30
Technology	-	-	100,000	-	-	-	100,000
Veterans transportation	7,854	-	-	-	-	-	7,854
Assigned to							
Energy assistance	-	-	-	-	-	18	18
Highways and streets	-	1,039,489	-	-	-	-	1,039,489
Human services	-	-	1,352,440	-	-	-	1,352,440
Nursing service	-	-	-	-	234,794	-	234,794
Unorganized townships	-	-	-	-	-	1,913	1,913
Unassigned	1,559,513	-	-	-	-	-	1,559,513
Total Fund Balances	\$ 3,338,258	\$ 3,065,265	\$ 2,902,222	\$ 977,170	\$ 234,794	\$ 348,818	\$ 10,866,527
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 3,747,515	\$ 5,158,795	\$ 3,093,259	\$ 1,467,837	\$ 283,907	\$ 539,790	\$ 14,291,103

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE STATEMENT OF NET POSITION--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2014**

Fund balances - total governmental funds (Exhibit 3)	\$	10,866,527
 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.		42,681,792
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.		2,479,541
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
General obligation bonds	\$ (110,000)	
Compensated absences payable	(800,827)	
Other post-employment benefits	(153,982)	(1,064,809)
Net position of governmental activities (Exhibit 1)	\$	<u>54,963,051</u>

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

EXHIBIT 5

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

	General	Special Revenue Funds				Other Governmental Funds (Statement 2)	Total Governmental Funds
		Road and Bridge	Human Services	Forfeited Tax Sale	Nursing Service		
Revenues							
Taxes	\$ 3,563,738	\$ 1,003,629	\$ 1,076,464	\$ -	\$ -	\$ 341,841	\$ 5,985,672
Special assessments	-	-	-	-	-	505,118	505,118
Licenses and permits	21,928	-	-	1,035	-	237	23,200
Intergovernmental	1,309,892	2,905,296	2,086,158	66,363	293,145	212,578	6,873,432
Charges for services	833,306	251,227	183,547	3,032	1,402,154	18,072	2,691,338
Fines and forfeitures	6,022	-	-	-	-	-	6,022
Investment earnings	647,392	-	-	-	-	3	647,395
Land and timber sales	-	-	-	881,594	-	-	881,594
Miscellaneous	349,310	419	203,881	30,758	17,215	1,090	602,673
Total Revenues	\$ 6,731,588	\$ 4,160,571	\$ 3,550,050	\$ 982,782	\$ 1,712,514	\$ 1,078,939	\$ 18,216,444
Expenditures							
Current							
General government	\$ 2,588,432	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,588,432
Public safety	2,609,518	-	-	-	-	-	2,609,518
Highways and streets	-	3,209,767	-	-	-	813	3,210,580
Sanitation	-	-	-	-	-	831,272	831,272
Human services	-	-	3,403,270	-	-	93,747	3,497,017
Health	29,774	-	-	-	1,730,938	-	1,760,712
Culture and recreation	431,224	-	-	-	-	-	431,224
Conservation of natural resources	490,986	-	-	604,021	-	31,360	1,126,367
Economic development	2,800	-	-	-	-	-	2,800
Total Current	\$ 6,152,734	\$ 3,209,767	\$ 3,403,270	\$ 604,021	\$ 1,730,938	\$ 957,192	\$ 16,057,922
Debt service							
Principal retirement	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 20,000	\$ 20,000
Interest	-	-	-	-	-	5,995	5,995
Total Debt Service	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 25,995	\$ 25,995
Capital outlay							
General government	\$ 5,671	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,671
Public safety	75,064	-	-	-	-	-	75,064
Highways and streets	-	392,389	-	-	-	-	392,389
Sanitation	-	-	-	-	-	51,237	51,237
Total Capital Outlay	\$ 80,735	\$ 392,389	\$ -	\$ -	\$ -	\$ 51,237	\$ 524,361
Total Expenditures	\$ 6,233,469	\$ 3,602,156	\$ 3,403,270	\$ 604,021	\$ 1,730,938	\$ 1,034,424	\$ 16,608,278
Excess of Revenues Over (Under) Expenditures	\$ 498,119	\$ 558,415	\$ 146,780	\$ 378,761	\$ (18,424)	\$ 44,515	\$ 1,608,166

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

**EXHIBIT 5
(Continued)**

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

	General	Special Revenue Funds				Other Governmental Funds (Statement 2)	Total Governmental Funds
		Road and Bridge	Human Services	Forfeited Tax Sale	Nursing Service		
Other Financing Sources (Uses)							
Transfers in	\$ 365,685	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 365,685
Transfers out	-	(74,009)	(98,450)	(181,704)	-	(11,522)	(365,685)
Total Other Financing Sources (Uses)	\$ 365,685	\$ (74,009)	\$ (98,450)	\$ (181,704)	\$ -	\$ (11,522)	\$ -
Net Change in Fund Balance	\$ 863,804	\$ 484,406	\$ 48,330	\$ 197,057	\$ (18,424)	\$ 32,993	\$ 1,608,166
Fund Balance - January 1	2,474,454	2,431,990	2,853,892	780,113	253,218	315,825	9,109,492
Increase (decrease) in inventories	-	148,869	-	-	-	-	148,869
Fund Balance - December 31	\$ 3,338,258	\$ 3,065,265	\$ 2,902,222	\$ 977,170	\$ 234,794	\$ 348,818	\$ 10,866,527

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

EXHIBIT 6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2014**

Net change in fund balances - total governmental funds (Exhibit 5) \$ 1,608,166

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

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.

Expenditures for general capital assets and infrastructure	\$ 2,239,314	
Current year depreciation	(1,720,278)	519,036

Revenues in the Statement of Activities that do not provide current
financial resources are not reported as revenues in the governmental funds.

Change in deferred inflows of resources		590,252
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The repayment of the principal of long-term debt consumes the current financial
resources of governmental funds; however, the transaction has no effect on net position.

Principal repayment of general obligation bonds		20,000
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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		
Compensated absences payable	\$ 54,373	
Other post-employment benefits	(27,745)	
Inventories	148,869	175,497

Change in net position of governmental activities (Exhibit 2) \$ 2,912,951

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

EXHIBIT 7

**STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
DECEMBER 31, 2014**

	<u>Agency (Statement 3)</u>
<u>Assets</u>	
Cash and pooled investments	<u>\$ 339,720</u>
<u>Liabilities</u>	
Due to other governments	<u>\$ 339,720</u>

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

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

I. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). 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

Clearwater County was established December 20, 1902, and is an organized county having the powers, duties, and privileges granted counties by Minnesota Statutes, Chapter 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 Board Coordinator, appointed by the County Board, serves as the clerk of the Board of Commissioners but has no vote.

Joint Ventures

The County participates in joint ventures and jointly-governed organizations which are described in Notes section VI, subdivisions C and D, respectively.

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) include the financial activities of the overall County government, except for the fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities.

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

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

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

I. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

2. Fund Financial Statements

The fund financial statements provide information about the County's funds. Separate statements for each fund category—governmental 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 County reports the following major governmental funds:

The General Fund is the County's primary operating fund. It accounts for and reports all financial resources of the general government not accounted for in another fund.

The Road and Bridge Special Revenue Fund is used to account for and report financial transactions of County highway operations. Financing is provided by annual tax levy, intergovernmental revenues, and charges for services restricted, committed and assigned to various highways and streets purposes.

The Human Services Special Revenue Fund is used to account for and report financial services provided to persons receiving public assistance. Financing is provided by annual tax levy and intergovernmental revenues committed and assigned to various human services purposes.

The Forfeited Tax Sale Special Revenue Fund is used to account for and report proceeds from the sale or rental of lands forfeited to the State of Minnesota pursuant to Minnesota Statutes, Chapter 282 and various forest and timber management grants. The net proceeds, after deducting allowable expenses, are restricted and committed to various County funds and taxing districts. Titles to the tax-forfeited lands remains with the State until the lands are sold by the County.

The Nursing Service Special Revenue Fund is used to account for and report the financial transactions of the nursing service. Financing is provided by charges for services and intergovernmental revenues assigned to nursing service purposes.

Additionally, the County reports the following fund types:

Special Revenue Funds are used to account for and report the proceeds of specific revenue sources that are legally restricted or committed to expenditures for specified purposes other than debt service or capital projects.

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

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

I. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting

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

As a general rule, the effect of internal activity has been eliminated from the government-wide financial statements.

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 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 Minnesota Statute, § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Pooled investment earnings for 2014 were \$180,729; however, total investment earnings were \$647,395, as a result of an increase in market value of the County's investments in U.S. Treasury Securities.

Clearwater County invests in an external investment pool, the Minnesota Association of Governments Investing for Counties (MAGIC) Fund, which is created under a joint powers agreement pursuant to Minnesota Statute, § 471.59. The MAGIC Fund is not registered with the Securities and Exchange Commission, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Therefore, the fair value of the County's position in the pool is the same as the value of the pool shares.

2. Receivables and Payables

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

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

I. Summary of Significant Accounting Policies

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

2. Receivables and Payables (Continued)

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances from/to other funds” (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

All receivables are shown net of an allowance for uncollectible amounts, if applicable.

3. Inventories

All inventories are valued at cost using the weighted average method. Inventories in governmental funds are recorded as expenditures when purchased rather than when consumed. Inventories in proprietary funds and at the government-wide level are recorded as expenses when consumed.

Inventories, as reported in the fund financial statements, are offset by a fund balance account to indicate that they do not constitute available spendable resources.

4. Capital Assets

Capital assets, which include land, construction in progress, infrastructure (e.g., roads, bridges, and similar items), buildings and improvements, and machinery and equipment, are reported in the applicable government-wide financial statements. Capital assets have initial useful lives extending beyond two years and a dollar amount for capitalization per assets of \$5,000, except land and construction in progress which is capitalized regardless of cost. Capital assets are recorded at historical cost or estimated historical cost when purchased or constructed. Donated capital assets are recorded at estimated fair market 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 extended the life of the asset are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current period, the County did not have any capitalized interest.

Infrastructure, buildings and improvements, and machinery and equipment are depreciated using the straight-line method over the following estimated useful lives:

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

I. Summary of Significant Accounting Policies

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

4. Capital Assets (Continued)

<u>Assets</u>	<u>Years</u>
Infrastructure	30-80
Buildings and improvements	10-40
Machinery and equipment	4-30

5. 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 will not be recognized as an outflow of resources (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 represents an acquisition of net position by the County that is applicable to a future reporting period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The County's deferred inflows of resources arise only under a modified basis of accounting that qualifies for reporting in this category. Accordingly, deferred inflows of resources are reported only in the governmental funds balance sheet, and recognized as an inflow of resources in the period that the amounts become available.

6. Employee Benefits

The liability for compensated absences reported in 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.

Compensated absences are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

The County uses the actuarial method of valuation to determine its Other Post-Employment Benefit liability.

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

I. Summary of Significant Accounting Policies

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

7. Long-Term Obligations

In the government-wide fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. In the fund financial statements, governmental fund types recognize the face amount of the debt as other financing sources when issued.

8. Net Position and Fund Balance

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

In the fund financial statements, the County classifies governmental fund balances as follows:

Non-spendable – includes fund balance amounts that cannot be spent because it is either not in spendable form or legally or contractually required to be maintained intact.

Restricted – includes fund balance amounts that are constrained for specific purposes which are either externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Committed – includes fund balance amounts that are constrained for specific purposes imposed by a motion of the County Board (which is the highest level of decision making authority) and do not lapse at year-end. To remove the constraint on specified use of committed resources the County Board shall pass a motion.

Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither restricted nor committed. The County Board has delegated the authority to assign and remove assignments of fund balance amounts for specified purposes to the County Auditor/Treasurer.

Unassigned – includes positive fund balance within the General Fund, which has not been classified within the above mentioned categories, and negative fund balances in other governmental funds.

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

I. Summary of Significant Accounting Policies

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

8. Net Position and Fund Balance (Continued)

The County will maintain an unrestricted fund balance in the General Fund of an amount not less than 35 to 50 percent of next year's budgeted expenditures of the General Fund. Unrestricted fund balance can be "spent down" if there is an anticipated budget shortfall. If spending unrestricted fund balance in designated circumstances has reduced unrestricted fund balance to a point below the minimum targeted level, as noted above, the replenishment will be funded property taxes and transfers of fund balances within a four year period.

Stabilization arrangements are defined as formally setting aside amounts for use in emergency situations or when revenue shortages or budgetary imbalances arise. The County Board will set aside amounts by motion as deemed necessary that can only be expended when a natural disaster, flooding, tornado, etc., exist as the need for stabilization arises. The need for stabilization will only be utilized for situations that are not expected to occur routinely. The County did not identify an amount for stabilization as of December 31, 2014.

When both restricted and unrestricted resources are available for use, it is the County's policy to use restricted resources first, then unrestricted resources as they are needed. When committed, assigned or unassigned resources are available for use, it is the County's policy to use resources in the following order: 1) committed, 2) assigned, and 3) unassigned.

9. 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, liabilities, and deferred inflows, and disclosure of contingent amounts 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.

II. Stewardship, Compliance, and Accountability

A. Land Management

The County manages approximately 90,162 acres of state-owned tax-forfeited land. This land generates revenues primarily from recreational land leases and land and timber sales. Land management costs, including forestry costs such as site preparation, seedlings, tree planting, and logging roads, are accounted for as current operating expenditures. Revenues in excess of expenditures are distributed to the County and cities, towns, and school districts within the County according to state statute.

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

III. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Governmental funds	
Cash and pooled investments	\$ 10,201,011
Investments	290,018
Fiduciary funds	
Cash and pooled investments	<u>339,720</u>
Total cash and investments	<u><u>\$ 10,830,749</u></u>

Deposits

Minnesota Statutes, §§ 118A.02 and 118A.04 authorize the County to deposit its cash and to invest in certificates of deposit in financial institutions designated by the Board. Minnesota Statute, § 118A.03 requires that all County deposits be covered by insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit plus accrued interest 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, revenue obligations rated "AA" or better; irrevocable standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution not owned or controlled by the financial institution furnishing the collateral.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County's policy is to minimize its exposure to custodial credit risk by requiring all deposits to be insured or collateralized in accordance with Minnesota Statute § 118A.03. As of December 31, 2014, the County's deposits were not exposed to custodial credit risk.

Investments

Minnesota Statutes, §§ 118A.04 and 118A.05 generally authorize the following types of investments available to the County:

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

III. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

Investments (Continued)

- (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 Minnesota Statute, § 118A.04, subdivision 6;
- (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 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's policy is to diversify use of investment instruments to avoid incurring unreasonable risks inherent in overinvesting in specific instruments, individual financial institutions, or maturities.

Credit Risk

Generally, a 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.

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

III. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

Investments (Continued)

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The County's investment policy is to minimize custodial credit risk by limiting investments to the types of securities permitted by Minnesota Statute, Chapter 118A and by obtaining broker certification forms and documentation of perfected security interest in pledged collateral from authorized financial institutions, brokers/dealers, and intermediaries or advisors. Some brokers have excess SIPC coverage which may mitigate all or part of custodial credit risk. At December 31, 2014, the following investments held by the County's agent in the County's name may be subject to custodial credit risk:

Federal Home Loan Bank	\$ 821,316
Federal Home Loan Mortgage Corporation	261,125
Federal Farm Credit Bank	1,098,348
Federal National Mortgage Association	1,739,036
Municipal Bonds	<u>277,613</u>
	<u>\$ 4,197,438</u>

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, excluding U.S. guaranteed investments, external investment pools, and mutual funds. The County's policy is to diversify use of investment instruments to avoid incurring unreasonable risks inherent in overinvesting in specific instruments, individual financial institutions, or maturities.

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

III. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

The following table presents the County's deposits and investment balances at December 31, 2014, and information relating to potential investment risks:

Investment Type	Credit Risk		Concentration Risk Over 5 Percent of Portfolio	Interest Rate Risk Maturity Date	Carrying (Fair) Value
	Credit Rating	Rating Agency			
Federal National Mortgage Association	AA+	S & P		11/29/22	\$ 477,835
Federal National Mortgage Association	AA+	S & P		03/01/27	488,065
Federal National Mortgage Association	AA+	S & P		09/27/27	494,505
Federal National Mortgage Association	AA+	S & P		10/29/27	483,475
Federal National Mortgage Association	AA+	S & P		03/25/33	<u>2,311</u>
Total Federal National Mortgage Association			34.83%		<u>\$ 1,946,191</u>
Federal Home Loan Bank	AA+	S & P		07/18/22	99,917
Federal Home Loan Bank	AA+	S & P		08/27/27	495,385
Federal Home Loan Bank	AA+	S & P		02/14/28	142,243
Federal Home Loan Bank	AA+	S & P		08/28/37	<u>281,523</u>
Total Federal Home Loan Bank			18.24%		<u>\$ 1,019,068</u>
Federal Home Loan Mortgage Corporation	AA+	S & P	5.23%	09/13/27	<u>\$ 292,230</u>
Federal Farm Credit Bank	AA+	S & P		06/19/23	500,110
Federal Farm Credit Bank	AA+	S & P		10/24/35	<u>484,435</u>
Total Federal Farm Credit Bank			17.62%		<u>\$ 984,545</u>
Leader Bank NA CD	N/R	N/A	4.38%	10/21/19	<u>\$ 244,639</u>
Student Loan Marketing Association	N/R	N/A	4.37%	11/13/18	<u>\$ 244,037</u>
Municipal bonds	AA+	S & P	5.56%	02/01/31	<u>\$ 310,682</u>
Investment pools					
Minnesota Association of Governments Investing for Counties (Magic)	N/R	N/A	N/A	N/A	<u>\$ 546,745</u>
Total Investments					<u>\$ 5,588,137</u>
Deposits					5,228,576
Cash on hand					<u>14,036</u>
Total Cash and Investments					<u><u>\$ 10,830,749</u></u>

N/R – Not Rated
N/A – Not Applicable

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

III. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2014, for the County's governmental activities, including any applicable allowances for uncollectible accounts, are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Taxes	\$ 125,831	\$ 96,837
Special assessments	116,603	108,810
Accounts	86,321	-
Accrued interest	39,118	-
Contracts	319,827	319,827
Due from other governments	2,577,833	1,928,817
Total	\$ 3,265,533	\$ 2,454,291

All receivable amounts are scheduled for collection during the subsequent year.

Operating Lease

Sanford Health of Northern Minnesota entered into a lease agreement with Clearwater County for the use of the hospital building in Bagley, Minnesota, as well as certain equipment. The initial lease term was for three years commencing February 1, 2012, with the option to renew the lease for two additional three-year terms. Lease payments are \$11,461.75 per month and are equal to the depreciation expense on the leased assets. Payments received on this lease totaled \$137,541 for the year ended December 31, 2014.

3. Capital Assets

Capital asset activity for the governmental activities for the year ended December 31, 2014, was as follows:

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

III. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

Governmental Activities

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated				
Land	\$ 165,750	\$ -	\$ -	\$ 165,750
Construction in progress	64,263	899,507	-	963,770
Total capital assets not depreciated	\$ 230,013	\$ 899,507	\$ -	\$ 1,129,520
Capital assets being depreciated				
Infrastructure	\$ 51,907,616	\$ 826,051	\$ -	\$ 52,733,667
Buildings and improvements	9,109,767	-	-	9,109,767
Machinery and equipment	6,532,655	513,756	470,929	6,575,482
Total capital assets being depreciated	\$ 67,550,038	\$ 1,339,807	\$ 470,929	\$ 68,418,916
Less: accumulated depreciation for				
Infrastructure	\$ 14,843,689	\$ 1,057,984	\$ -	\$ 15,901,673
Buildings and improvements	5,811,523	322,344	-	6,133,867
Machinery and equipment	4,962,083	339,950	470,929	4,831,104
Total accumulated depreciation	\$ 25,617,295	\$ 1,720,278	\$ 470,929	\$ 26,866,644
Total capital assets, depreciated, net	\$ 41,932,743	\$ (380,471)	\$ -	\$ 41,552,272
Governmental Activities				
Capital Assets, Net	\$ 42,162,756	\$ 519,036	\$ -	\$ 42,681,792

Depreciation Expense

Depreciation expense was charged to functions of the County as follows:

Governmental Activities	
General government	\$ 48,174
Public safety	214,346
Highways and streets, including depreciation of infrastructure assets	1,271,978
Sanitation	8,625
Human services	22,770
Health	144,934
Culture and recreation	6,066
Conservation of natural resources	3,385
Total Depreciation Expense - Governmental Activities	\$ 1,720,278

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

III. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

Construction Contracts

The County has no active construction contracts as of December 31, 2014.

B. Interfund Receivables, Payables, and Transfers

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

Due To/From Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	
General Fund	Road and Bridge SRF	\$ 225	Reimbursements
	Human Services SRF	64	Charges for services
	Forfeited Tax Sale SRF	139,918	Forfeited tax sale settlement
	Nursing Service SRF	<u>2,538</u>	Reimbursements
Total Due to General Fund		<u>\$ 142,745</u>	
Road and Bridge Special Revenue Fund	General Fund	\$ 1,668	Reimbursements
	Nursing Service SRF	<u>164</u>	Reimbursements
Total Due to Road and Bridge Special Revenue Fund		<u>\$ 1,832</u>	
Total Due To/From Other Funds		<u><u>\$ 144,577</u></u>	

Interfund Transfers

Interfund transfers for the year ended December 31, 2014 consisted of the following operating transfers:

Transfer to General Fund from			
Road and Bridge Special Revenue Fund	\$ 74,009	Cost allocation	
Human Services Special Revenue Fund	98,450	Cost allocation	
Forfeited Tax Sale Special Revenue Fund	181,704	Forfeited tax sale proceeds and cost allocation	
Other Governmental	<u>11,522</u>	Cost allocation	
Total transfers to General Fund	<u><u>\$ 365,685</u></u>		

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

III. Detailed Notes on All Funds (Continued)

C. Liabilities

Compensated Absences

Under the County's personnel policies and union contracts, employees are granted vacation in varying amounts based on their length of service. Vacation leave accrual varies from 12 to 24 days per year. Sick leave accrual is 12 days per year. Leave may be accumulated to a maximum of 48 days vacation and 90 days sick leave under the County's employment policy. For the governmental activities, compensated absences are generally liquidated by the General Fund, the Road and Bridge Special Revenue Fund, the Human Services Special Revenue Fund, the Forfeited Tax Sale Special Revenue Fund, the Nursing Service Special Revenue Fund, and the Solid Waste Management Special Revenue Fund.

Unused compensatory time, accumulated vacation and vested sick leave are paid to employees upon termination. Unvested sick leave, approximately \$783,782 at December 31, 2014, is available to employees in the event of illness-related absences and is not paid to them at termination.

Long-Term Debt

Clearwater County General Obligation Watershed Bonds, Series 1999, represent debt incurred for construction in the Red Lake Watershed District. These bonds have an original issue amount of \$445,000. They carry a net interest rate of 5.052 percent and are due in semi-annual installments through February, 2019. The balance due on these bonds is \$110,000 as of December 31, 2014.

Debt Service Requirements

Debt service requirements for governmental activities at December 31, 2014, are as follows:

Year Ending December 31	General Obligation Watershed Bonds, Series 1999	
	Principal	Interest
2015	25,000	4,875
2016	20,000	3,750
2017	25,000	2,625
2018	20,000	1,500
2019	20,000	500
Total	\$ 110,000	\$ 13,250

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

III. Detailed Notes on All Funds

C. Liabilities

Long-Term Debt (Continued)

Changes in Long-Term Liabilities

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
G.O. Watershed Bonds, Series 1999	\$ 130,000	\$ -	\$ 20,000	\$ 110,000	\$ 25,000
Net OPEB Payable	126,237	55,223	27,478	153,982	-
Compensated Absences	<u>855,200</u>	<u>543,360</u>	<u>597,733</u>	<u>800,827</u>	<u>322,526</u>
Governmental Activities Long-Term Liabilities	<u>\$ 1,111,437</u>	<u>\$ 598,583</u>	<u>\$ 645,211</u>	<u>\$ 1,064,809</u>	<u>\$ 347,526</u>

IV. Pension Plans and Other Post-Employment Benefits

Defined Benefit Plan

Plan Description

All full-time and certain part-time employees of the County are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). The PERA administers the Public Employees Retirement Fund, the Public Employee's Police and Fire Fund, and the Public Employees Correctional Fund, which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356.

Public Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All new members must participate in the Coordinated Plan. All police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Fund. Members who are employed in a county correctional institution and have direct contact with inmates, are covered by the Public Employees Correctional Fund.

The PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits are established by state statute and vest after three years of credited service. The 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.

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

IV. Pension Plans and Other Post-Employment Benefits

Defined Benefit Plan

Plan Description (Continued)

Two methods are used to compute benefits for Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each year thereafter. For a Coordinated Plan member, the annuity accrual rate is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each successive year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For Public Employees Police and 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 all Public Employees Retirement Fund members 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. 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.

The PERA issues a publicly available financial report that includes financial statements and required supplementary information for the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund. That report may be obtained on the Internet at www.mnpera.org; 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. Minnesota Statutes, Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the State Legislature. The County makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members 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 9.60 percent of their annual covered salary in 2014. The contribution rate in the Public Employees Police and Fire Fund increased in 2014 to 10.20 percent. Public Employees Correctional Fund members were required to contribute 5.83 percent of their annual covered salary in 2014.

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

IV. Pension Plans and Other Post-Employment Benefits

Defined Benefit Plan

Funding Policy (Continued)

The County is required to contribute the following percentages of annual covered payroll in 2014 and 2014:

	<u>2014</u>	<u>2015</u>
Public Employees Retirement Fund		
Basic Plan Members	9.10%	11.78%
Coordinated Plan Members	7.25%	7.50%
Public Employees Police and Fire Fund	15.30%	16.20%
Public Employees Correctional Fund	8.75%	8.75%

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

	<u>Public Employees Retirement Fund</u>	<u>Public Employees Police and Fire Fund</u>	<u>Public Employees Correctional Fund</u>
2014	\$ 349,366	\$ 71,326	\$ 61,805
2013	\$ 359,096	\$ 69,990	\$ 59,479
2012	\$ 362,580	\$ 67,372	\$ 58,925

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

Defined Contribution Plan

Two employees of Clearwater County are covered by the Public Employees Defined Contribution Plan, a multiple-employer, deferred compensation plan administered by PERA in accordance with Minnesota Statute, Chapter 353D. The plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. Minnesota Statute, § 353D.03 specifies the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes five percent of salary, which is matched by the employer. Employees may elect to make member contributions in an amount not to exceed the employer share. Employee and employer contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2.00 percent of employer contributions and 0.25 percent of the assets in each member account annually.

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

IV. Pension Plans and Other Post-Employment Benefits

Defined Contribution Plan (Continued)

Total contributions by dollar amount and percentage of covered payroll made by the County during the year ended December 31, 2014, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 2,151	\$ 2,151
Percentage of covered payroll	5%	5%

Required contribution rates were 5.00 percent.

Other Post-Employment Benefits – (OPEB)

Plan Description

Clearwater County provides a single-employer defined benefit healthcare plan to eligible retirees and their spouses. The plan offers medical insurance benefits. The County provides for retirees by Minnesota Statute § 471.61, subdivision 2b. The retiree healthcare plan does not issue a publicly available financial report.

Funding Policy

The contribution requirements of the plan members and the County are established and may be amended by the Clearwater County Board of Commissioners. Retirees are required to pay 100 percent of the total premium cost. Since the premium is determined on the entire active and retiree population, the retirees are receiving an implicit rate subsidy. This post-employment benefit is funded on a pay-as-you-go basis usually paying retiree benefits out of the General Fund. As of the January 1, 2014 actuarial valuation, there were approximately 103 participants in the plan, including 4 retirees.

Annual OPEB Cost and Net OPEB Obligation

The County's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial 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.

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

IV. Pension Plans and Other Post-Employment Benefits

Other Post-Employment Benefits – (OPEB)

Annual OPEB Cost and Net OPEB Obligation (Continued)

Annual Required Contribution	\$	57,464
Interest on net OPEB obligation		5,681
Adjustments to Annual Required Contribution		<u>(7,922)</u>
Annual OPEB cost (expense)	\$	55,223
Contributions made		<u>(27,478)</u>
Increase in net OPEB obligation	\$	27,745
Net OPEB Obligation - January 1, 2014		<u>126,237</u>
Net OPEB Obligation - December 31, 2014	\$	<u><u>153,982</u></u>

The annual OPEB cost at December 31, 2014 was \$55,223. The percentage of annual OPEB cost contributed to the plan was 49.8 percent, and the net OPEB obligation for 2014 was \$153,982. Currently, only three years actuarial data is available. For trend information, refer to the Required Supplementary Information beginning on page 61 of this report.

Fund Status and Funding Progress

As of January 1, 2014, the most recent actuarial valuation date, the plan was zero percent funded. The actuarial liability for benefits was \$490,151, and the actuarial value of assets was zero, resulting in an unfunded actuarial liability (UAAL) of \$477,159. The covered payroll (annual payroll of active employees covered by the plan) was \$4,310,595, and the ratio of the UAAL to the covered payroll was 10.8 percent.

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

Actuarial Methods and Assumptions

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

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

IV. Pension Plans and Other Post-Employment Benefits

Other Post-Employment Benefits – (OPEB)

Actuarial Methods and Assumptions (Continued)

In the January 1, 2014 actuarial valuation, the Projected Unit Credit Actuarial Cost Method was used. The actuarial assumptions include a 4.5 percent investment rate of return (net of investment expenses), which is the County's implicit rate of return on the General Fund. The annual healthcare cost trend was 7.5 percent initially reduced to an ultimate rate of 5.0 percent over 10 years. The UAAL is being amortized over 30 years on a closed basis. The remaining amortization period at December 31, 2014, was 24 years.

V. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

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

The County, in connection with the normal conduct of its affairs, may be involved in various claims, judgments, and litigation. The County Attorney estimates that the potential claims against the County not covered by insurance resulting from such litigation would not materially affect the financial statements of the County.

B. Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. The County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Insurance Trust (MCIT) to cover workers' compensation and property and casualty liabilities. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for each of the past three fiscal years.

The Worker's 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.

The Property and Casualty Division of MCIT is self-sustaining and the County pays an annual premium to cover current and future losses. The 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.

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

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

C. Joint Ventures

Clearwater Economic Development Organization

The Clearwater Economic Development Organization was formed in 1998 under the authority of the Joint Powers Act, pursuant to Minnesota Statute, § 471.59, and includes Clearwater County; the Cities of Bagley, Clearbrook, Gonvick, Leonard, and Shevlin; the townships of Copley and Pine Lake; and Independent School District Numbers 162 and 2311. The purpose of the Clearwater Economic Development Organization is to foster environmentally sound economic development and perpetuate a stable and progressive business climate within Clearwater County.

Control of the Development Organization is vested in the Clearwater Economic Development Organization Board of Directors which is composed of two Directors appointed by the County and one Director appointed from each of the other members. In the event of dissolution, the net assets of the Development Organization shall be distributed to the respective members in proportion to the contribution of each.

The Clearwater Economic Development Organization has no long-term debt. Financing is provided by appropriations from the members. Clearwater County did not contribute to the Development Organization for the year ended December 31, 2014. Clearwater County, in an agent capacity, reports the cash transactions of the Development Organization as an agency fund on its financial statements. Complete financial information can be obtained from the Clearwater County Auditor/Treasurer, 213 North Main Avenue, Bagley, Minnesota 56621.

Homeland Security Emergency Management (HSEM) Region 3 Emergency Managers Joint Powers Board

The HSEM Region 3 Emergency Managers Joint Powers Board was formed in 2007 under the authority of the Joint Powers Act, pursuant to Minnesota Statutes, § 471.59 and Minnesota Statutes, Chapter 12. Members include Becker, Beltrami, Clay, Clearwater, Hubbard, Kittson, Lake of the Woods, Mahnomon, Marshall, Norman, Pennington, Polk, Red Lake, and Roseau counties.

The purpose of the HSEM Region 3 Emergency Managers Joint Powers Board is to engage in planning, training, and/or the purchase of equipment in order to better respond to emergencies and natural and other disasters within HSEM Region 3; specifically within the jurisdictional boundaries of the member counties.

Control is vested in the HSEM Region 3 Emergency Managers Joint Powers Board, which is composed of one representative from each member county, appointed by their respective governing bodies as provided in the HSEM Region 3 Emergency Managers Board's Joint Powers Agreement.

The HSEM Region 3 Emergency Managers Joint Powers Board has no long-term debt. Financing will be provided by a Homeland Security Grant Program and other grant programs and awards. Complete financial information can be obtained from the Clay County Sheriff's Office, 915 9th Avenue North, Moorhead, Minnesota 56560.

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

V. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

Joint County Natural Resources Board

The Joint County Natural Resources Board was formed in 1985 under the authority of the Joint Powers Act, pursuant to Minnesota Statute, § 471.59, and includes Aitkin, Beltrami, Clearwater, Koochiching, Lake of the Woods, Mahnomen, Marshall, and Roseau Counties. The purpose of the Natural Resources Board is to gather information on and formulate policies for the development, utilization, and protection of natural resources in Northern Minnesota and to ensure that there is an interrelated plan for the use and protection of both public and private resources.

Control of the Natural Resources Board is vested in the Joint County Natural Resources Board which is composed of at least one resident of each county appointed by their respective county board, as provided in the Natural Resources Board's bylaws. In the event of dissolution, the net assets at the time shall be distributed to the respective member counties in proportion to the contribution of each.

The Joint County Natural Resources Board has no long-term debt. Financing is provided by appropriations from member counties. Clearwater County did not contribute to the Natural Resources Board for the year ended December 31, 2014. Complete financial information can be obtained from the Natural Resources Board's Treasurer, Josh Stromlund, Box 808, Baudette, Minnesota 56623.

Mississippi Headwaters Board

The Mississippi Headwaters Board was established on February 22, 1980, under the authority of the Joint Powers Act, pursuant to Minnesota Statute, § 471.59, and includes Aitkin, Beltrami, Cass, Clearwater, Crow Wing, Hubbard, Itasca, and Morrison Counties. The purpose of the Board is to prepare, adopt, and implement a comprehensive land use plan designed to protect and enhance the Mississippi River and related shoreland areas within the counties. The Board consists of eight members, one appointed from each participating county.

Financing is provided by federal, state, and local grants, and appropriations from member counties. Clearwater County contributed \$1,500 to the Mississippi Headwater Board for the year ended December 31, 2014. Cass County maintains the accounting records of the Board.

Complete financial information can be obtained from the Mississippi Headwaters Board, Cass County Courthouse, 4th Street and Minnesota Avenue, Walker, Minnesota 56484.

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

V. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

North Country Community Health Service

The North Country Community Health Service was formed in 1979 under the authority of the Joint Powers Act, pursuant to Minnesota Statute, § 471.59, and includes Beltrami, Clearwater, Hubbard, and Lake of the Woods Counties. The purpose of the Health Service is to develop and implement policies and procedures to promote efficiency and economy in the delivery of community health services.

Control of the Health Service is vested in the North Country Health Service Board which is composed of three members appointed by Beltrami County and two members appointed by each of the other member counties, as provided in the Health Service's bylaws. In the event of dissolution of the North Country Health Service Board, the net assets of the Health Service at that time shall be divided among the member counties in the same proportion as their allocated share of subsidy funds as determined by the Minnesota Department of Health.

The North Country Community Health Service has no long-term debt. Financing is provided by state and federal grants and appropriations from member counties. Clearwater County did not contribute to the Health Service for the year ended December 31, 2014. Clearwater County, in an agent capacity, reports the cash transactions of the Health Service as an agency fund on its financial statements. Complete financial information can be obtained from the Clearwater County Auditor/Treasurer's Office or the Health Service's office located at 212 Main Avenue North, Bagley, Minnesota 56621.

Northern Counties Land Use Coordinating Board

The Northern Counties Land Use Coordinating Board was established September 22, 1993, and amended May 4, 1995, under the authority of the Joint Powers Act, pursuant to Minnesota Statute, § 471.59, and includes Beltrami, Clearwater, Cook, Itasca, Koochiching, Lake, Lake of the Woods, Marshall, Pennington, and St. Louis Counties. The purpose of the Land Use Coordinating Board is to formulate land use plans or general policies needed for the protection, sustainable use, and development of lands and natural resources in Northern Minnesota.

The Northern Counties Land Use Coordinating Board is composed of two elected county commissioners from each member county except St. Louis County, which has three members, as provided in the Land Use Coordinating Board's bylaws. In the event of dissolution of the Northern Counties Land Use Coordinating Board, the net assets shall be distributed to the respective member counties in proportion to the contribution of each.

The Land Use Coordinating Board has no long-term debt. Financing is provided by appropriations from member counties. Clearwater County did not contribute to the Land Use Coordinating Board for the year ended December 31, 2014. St. Louis County, in an agent capacity, reports the cash transactions as an agency fund on its financial statements. Complete financial information can be obtained from the St. Louis County Auditor, 100 North Fifth Avenue West, Duluth, Minnesota 55802.

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

V. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

Northwest Minnesota Regional Radio Board

The Northwest Minnesota Regional Radio Board was formed in 2007 under the authority of the Joint Powers Act, pursuant to Minnesota Statutes, §§ 403.39 and 471.59. Members include Becker, Beltrami, Clearwater, Clay, Hubbard, Kittson, Lake of the Woods, Mahnomen, Marshall, Norman, Pennington, Polk, Red Lake, and Roseau counties and the City of Moorhead. The purpose of the Northwest Minnesota Regional Radio Board is to provide regional administration for the installation, operation, and maintenance of local and regional enhancements to the Statewide Public Safety Radio and Communication System (ARMER).

Control is vested in the Northwest Minnesota Regional Radio Board, which is composed of one county commissioner from each member county and one city council member from the member city, appointed by their respective governing bodies as provided in the Northwest Minnesota Regional Radio Board's Joint Powers Agreement.

The Northwest Minnesota Regional Radio Board has no long-term debt. Financing is provided by annual contributions from members, reflective of the extent of participation and use of services. Clearwater County contributed \$3,000 to the Northwest Regional Radio Board for the year ended December 31, 2014. Complete financial information can be obtained from Headwaters Regional Development Commission, P.O. Box 906, Bemidji, Minnesota 56619.

Northwest Minnesota Six County Joint Powers Board

The Northwest Minnesota Six County Joint Powers Board was formed in 1994 under the authority of the Joint Powers Act, pursuant to Minnesota Statute, § 471.59, and includes Beltrami, Clearwater, Marshall, Pennington, Polk, and Red Lake Counties. The purpose of the Board is to receive and expend funds for beaver damage control.

The Northwest Minnesota Six County Joint Powers Board is composed of one representative appointed by each county board from the six counties. Each county also has one alternate appointed to the Board, and the Board may choose to have non-voting advisory members on the Board. In the event of dissolution, the net assets shall be distributed to the respective member counties in proportion to the contribution of each.

Financing is provided by grants from the State of Minnesota or contributions. Complete financial information can be obtained from the Red Lake Watershed District, P.O. Box 803, Thief River Falls, Minnesota 56701.

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

V. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

Northwest Service Cooperative

The Northwest Service Cooperative (NWSC) was established in February, 1977, pursuant to Minnesota Statutes, §§ 471.59 and 123.582. The NWSC is located in State Development Regions One and Two which includes 12 counties covering a total of 14,853 miles. These are the most sparsely populated regions of the state with only 11 persons per square mile. The regions are known as “Pine to Prairie.” The NWSC provides service to all school districts, and many cities, counties, and other governmental agencies in the northwest region. The Northwest Service Cooperative’s purpose is to meet or exceed the needs of participating members by developing and delivering high quality, cost-effective services and programs that will support the activities of its members. The NWSC charges sufficient rates so that the participating members experience no financial benefit or burden.

The NWSC is governed by a Board of Directors consisting of school board members elected at large by their peers, one city representative, with a maximum of three at-large appointees and three ex-officio superintendents.

Complete financial information can be obtained from the Northwest Service Cooperative, 114 First Street West, Thief River Falls, Minnesota 56701.

Northwestern Counties Data Processing Security Association

The Northwestern Counties Data Processing Security Association was formed in 1994 under the authority of the Joint Powers Act, pursuant to Minnesota Statute, § 471.59, and includes Becker, Beltrami, Clay, Clearwater, Hubbard, Kittson, Lake of the Woods, Marshall, Pennington, Polk, Roseau, and Wadena Counties. The purpose of the Association is to provide a mechanism whereby the counties may cooperatively provide for a data processing disaster recovery plan and back-up system.

Control of the Association is vested in the Northwestern Counties Data Processing Security Association Joint Powers Board, which is composed of one county commissioner appointed by each member county board. In the event of dissolution, the net assets of the Association at that time shall be distributed to the respective member counties in proportion to the contribution of each.

The Northwestern Counties Data Processing Security Association has no long-term debt. Financing is provided by state grants and appropriations from member counties when needed. Clearwater County did not contribute to the Association for the year ended December 31, 2014.

The Northwestern Counties Data Processing Security Association has no long-term debt. Financing is provided by state grants and appropriations from member counties when needed. Clearwater County, in an agent capacity, reports the cash transactions of the Association as an agency fund on its financial statements. Clearwater County Auditor/Treasurer’s Office or the Health Service’s office located at 212 Main Avenue North, Bagley, Minnesota 56621.

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

V. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

Northwestern Minnesota Household Hazardous Waste Management Group

The Northwestern Minnesota Household Hazardous Waste Management Group was formed in 1992 under the authority of the Joint Powers Act, pursuant to Minnesota Statute, § 471.59, and includes Beltrami, Clearwater, Kittson, Lake of the Woods, Marshall, Pennington, Polk, Red Lake, and Roseau Counties. The purpose of the Waste Management Group is to cooperatively manage, handle, and transport household hazardous waste, provide public education on safe waste management, and provide for the disposition of non-recyclable household hazardous waste materials.

Control of the Waste Management Group is vested in the Northwestern Minnesota Household Hazardous Waste Management Group Joint Powers Board, which is composed of one county commissioner from each of the member counties, as provided in the Waste Management Group's bylaws.

Responsibility for budgeted expenditures is shared with the first 50 percent divided equally among the member counties, and the remaining 50 percent divided on a population-ratio basis. In the event of dissolution, the net assets shall be divided among the member counties in the same proportion as their respective financial responsibilities.

The Waste Management Group has no long-term debt. Financing is provided by appropriations from the member counties when needed. Clearwater County contributed \$5,345 to the Waste Management Group for the year ended December 31, 2014. Clearwater County, in an agent capacity, reports the cash transactions as an agency fund on its financial statements. Complete financial information can be obtained from the Clearwater County Auditor/Treasurer's Office or the Waste Management Group's Office, P.O. Box 186, Bagley, Minnesota 56621.

Northwestern Minnesota Juvenile Center

The Northwestern Minnesota Juvenile Center was formed under the authority of the Joint Powers Act, pursuant to Minnesota Statute, § 471.59, effective August 1971, and includes Beltrami, Cass, Clearwater, Hubbard, Kittson, Lake of the Woods, Pennington, and Roseau Counties. The purpose of the Center is to provide rehabilitation and other services to juveniles under the jurisdiction of the court system. The offices of the Center are located in Bemidji, with satellite homes at various locations.

Control of the Center is vested in the Northwestern Minnesota Juvenile Center Joint Powers Board, which is composed of at least one member appointed by each participating county, as provided in the Center's bylaws. At present, there are 13 directors: Beltrami, Cass, Hubbard, Pennington, and Roseau Counties have two directors each; the other member counties have one director each. In the event of dissolution, the net assets of the Center shall be divided among the member counties in the same proportion as their respective financial responsibilities.

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

V. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Northwestern Minnesota Juvenile Center (Continued)

Financing is provided by state and federal grants, charges for services, and appropriations from member counties. Clearwater County did not contribute to the Northwestern Minnesota Juvenile Center for the year ended December 31, 2014. Beltrami County, in an agent capacity, reports the cash transactions of the Northwestern Minnesota Juvenile Center as an agency fund on its financial statements. Complete financial information can be obtained from the Beltrami County Auditor/Treasurer's Office or at the Center's office, P.O. Box 247, Bemidji, Minnesota 56619.

Paul Bunyan Task Force

The Paul Bunyan Task Force was established July 16, 1992, under the authority of the Joint Powers Act, pursuant to Minnesota Statute, § 471.59, and includes Beltrami, Clearwater, Hubbard, Lake of the Woods, Mahnomon, and Roseau Counties, the City of Bemidji, and the White Earth Reservation. The purpose of the Paul Bunyan Task Force is to assist member organizations in the investigation and prosecution of persons in violation of Minnesota statutes.

Control of the Paul Bunyan Task Force is established by a majority vote represented with one vote from each member organization. In the event of dissolution of the Task Force, the net assets shall be liquidated to the member organizations based on their percentage of population of all member counties and cities.

The Paul Bunyan Task Force has no long-term debt. Financing is provided by the profits from forfeitures and seizures pursuant to Minnesota Statute, § 609.531. The City of Bemidji, in an agent capacity, reports the cash transactions of the Task Force on its financial statements. Complete financial information can be obtained from the City of Bemidji, Administrative Offices - City Hall, 317 - 4th Street N.W., Bemidji, Minnesota 56601.

PrimeWest County-Based Purchasing Initiative

PrimeWest County-Based Purchasing Initiative Joint Powers Board was established in December 1998 by a joint powers agreement among 13 counties, including Beltrami, Big Stone, Clearwater, Douglas, Grant, Hubbard, McLeod, Meeker, Pipestone, Pope, Renville, Stevens, and Traverse, under the authority of Minnesota Statute, § 471.59. The purpose of this agreement is to plan and administer a multi-county, county-based purchasing program for medical assistance and general assistance medical care services and other health care programs as authorized by Minnesota Statute, § 256B.692.

Control of PrimeWest County-Based Purchasing Initiative is vested in a Joint Powers Board, composed of two Commissioners from each member county (one active and one alternate). Each member of the Joint Powers Board is appointed by the County Commissioners of the county he or she represents.

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

V. Summary of Significant Contingencies and Other Items

C. Joint Ventures

PrimeWest County-Based Purchasing Initiative (Continued)

In the event of termination of the joint powers agreement, all assets owned pursuant to this agreement shall be sold, and the proceeds, together with monies on hand, will be distributed to the current members based on their proportional share of each member's county-based purchasing eligible population.

Financing is provided by medical assistance and general assistance medical care payments from the Minnesota Department of Human Services. Complete financial information can be obtained from its administrative office at PrimeWest County-Based Purchasing Initiative, 2209 Jefferson Street, Suite 101, Alexandria, Minnesota 56308.

D. Jointly-Governed Organizations

Giziibii Resource Conservation and Development (RC&D) Council

The Giziibii RC&D Council was incorporated in June 1974 and serves the residents of Beltrami, Clearwater, Hubbard, Lake of the Woods, and Mahnomen Counties. Clearwater County did not contribute to the Giziibii RC&D Council for the year ended December 31, 2014.

Lake Agassiz Regional Library

The Lake Agassiz Regional Library, a consolidated public library system serving over 134,228 residents, was formed in 1961 pursuant to Minnesota Statutes, §§ 134.20 and 471.59, and includes the counties of Becker, Clay, Clearwater, Mahnomen, Norman, Polk, and Wilkin, as well as the cities of Breckenridge, Crookston, Detroit Lakes, Mahnomen, and Moorhead. Control of the Library is vested in the Lake Agassiz Regional Library Board of trustees which is composed of 23 individuals who represent 12 signatory entities. Clearwater County appropriated \$78,941 to the Lake Agassiz Regional Library for the year ended December 31, 2014.

Minnesota Rural Counties Caucus

The Minnesota Rural Counties Caucus was established in 1997 and includes Becker, Beltrami, Clay, Clearwater, Itasca, Kittson, Lake, Lake of the Woods, Mahnomen, Marshall, McLeod, Morrison, Norman, Pennington, Polk, Red Lake, and Roseau Counties. Control of the Caucus is vested in the Minnesota Rural Counties Caucus Executive Committee which is composed of ten directors, each with an alternate, who are appointed annually by each respective county board. The County did not contribute to the Caucus for the year ended December 31, 2014.

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

V. Summary of Significant Contingencies and Other Items

D. Jointly-Governed Organizations (Continued)

Red Lake Watershed District

The Red Lake Watershed District was formed pursuant to Minnesota Statute, § 103D.201, effective January 25, 1969, and includes land within Beltrami, Clearwater, Itasca, Koochiching, Mahnomen, Marshall, Pennington, Red Lake, and Roseau Counties. The purpose of the District is to conserve the natural resources of the state by land use planning, flood control, and other conservation projects by using sound scientific principles for the protection of the public health and welfare and the provident use of natural resources.

Control of the District is vested in the Red Lake Watershed District Board of Managers which is composed of seven members having staggered terms of three years each, with two appointed by the Polk County Board and one each appointed by the County Boards of Beltrami, Clearwater, Marshall, Pennington, and Red Lake. Clearwater County's responsibility does not extend beyond making this appointment.

Wild Rice Watershed District

The Wild Rice Watershed District was established in 1969 pursuant to Minnesota Statutes, Chapter 103D, and includes Becker, Clay, Clearwater, Mahnomen, Norman, and Polk Counties. The purpose of the Wild Rice Watershed District is to oversee watershed projects, conduct studies for future project planning, administer legal drainage systems, issue applications and permits, educate the public on conservation issues, and provide dispute resolution. Control of the Wild Rice Watershed District is vested in a Board of Managers which is composed of seven members appointed by the county commissioners of Becker, Clay, Mahnomen, and Norman Counties. Norman County appoints three members, Clay County appoints two members, and the remaining counties each appoint one member.

REQUIRED SUPPLEMENTARY INFORMATION

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

Schedule 1

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 3,879,163	\$ 3,879,163	\$ 3,563,738	\$ (315,425)
Licenses and permits	18,120	18,120	21,928	3,808
Intergovernmental	1,206,014	1,206,014	1,309,892	103,878
Charges for services	730,065	730,065	833,306	103,241
Fines and forfeitures	5,600	5,600	6,022	422
Investment earnings	100,575	100,575	647,392	546,817
Miscellaneous	603,435	603,435	349,310	(254,125)
Total Revenues	\$ 6,542,972	\$ 6,542,972	\$ 6,731,588	\$ 188,616
Expenditures				
Current				
General government				
Commissioners	\$ 235,173	\$ 235,173	\$ 219,759	\$ 15,414
District court	40,000	40,000	36,393	3,607
Law library	-	-	298	(298)
County auditor	322,926	322,926	314,954	7,972
County treasurer	210,868	210,868	210,514	354
County assessor	238,582	238,582	237,114	1,468
Elections	50,800	50,800	46,854	3,946
Accounting and auditing services	27,000	27,000	23,626	3,374
Management information systems	421,746	421,746	396,383	25,363
Personnel	17,120	17,120	16,728	392
Attorney	282,852	282,852	292,282	(9,430)
Safety control coordinator	1,500	1,500	854	646
Recorder	282,974	282,974	265,200	17,774
Motor pool	29,000	29,000	22,061	6,939
Buildings and grounds	21,500	21,500	58,024	(36,524)
Building maintenance	269,925	269,925	270,523	(598)
Veterans service officer	71,572	71,572	77,237	(5,665)
Insurance	154,400	154,400	76,147	78,253
Other general government	22,210	22,210	23,481	(1,271)
Total general government	\$ 2,700,148	\$ 2,700,148	\$ 2,588,432	\$ 111,716
Public safety				
Sheriff	\$ 1,395,500	\$ 1,395,500	\$ 1,361,011	\$ 34,489
Boat and water safety	3,579	3,579	2,569	1,010
Handgun permits	9,358	9,358	8,854	504
Coroner	26,300	26,300	34,621	(8,321)
Enhanced 911	117,975	117,975	92,277	25,698

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

***Schedule 1
(Continued)***

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures				
Current				
Public safety (Continued)				
DARE program	1,800	1,800	-	1,800
Electronic monitoring	14,000	14,000	-	14,000
Emergency services	31,904	31,904	21,511	10,393
Rural signing	8,020	8,020	11,079	(3,059)
Law enforcement center	822,455	822,455	828,107	(5,652)
Probation and parole	101,600	101,600	150,079	(48,479)
Radio jail project	28,000	28,000	5,885	22,115
Sentence to serve	61,482	61,482	61,105	377
Law enforcement center canteen	25,000	25,000	21,306	3,694
Other public safety	12,985	12,985	11,114	1,871
Total public safety	\$ 2,659,958	\$ 2,659,958	\$ 2,609,518	\$ 50,440
Health				
Hospice	\$ 20,000	\$ 20,000	\$ 20,000	\$ -
Medical facilities management	25,000	25,000	9,774	15,226
Total health	\$ 45,000	\$ 45,000	\$ 29,774	\$ 15,226
Culture and recreation				
Historical society	\$ 15,000	\$ 15,000	\$ 15,000	\$ -
Parks	243,555	243,555	229,304	14,251
Regional library	78,941	78,941	91,245	(12,304)
Snowmobile and ski trails	58,000	58,000	95,675	(37,675)
Total culture and recreation	\$ 395,496	\$ 395,496	\$ 431,224	\$ (35,728)
Conservation of natural resources				
Agricultural society	\$ 35,000	\$ 35,000	\$ 35,000	\$ -
County extension	111,652	111,652	115,343	(3,691)
Environmental services	73,295	77,504	87,507	(10,003)
Predator and weed control	40,150	55,150	45,122	10,028
Soil and water conservation	69,360	69,360	69,360	-
Soil survey	75,000	75,000	12,276	62,724
Water planning	41,774	41,774	41,774	-
Wetlands administration	78,764	83,263	84,446	(1,183)
Other conservation of natural resources	500	500	158	342
Total conservation of natural resources	\$ 525,495	\$ 549,203	\$ 490,986	\$ 58,217

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

***Schedule 1
(Continued)***

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures				
Current (Continued)				
Economic development				
Emerging Leader Program	\$ -	\$ 500	\$ 500	\$ -
Mississippi Headwaters Board	1,500	1,500	1,500	-
Red River Valley Development	800	800	800	-
Total economic development	\$ 2,300	\$ 2,800	\$ 2,800	\$ -
Total Current Expenditures	\$ 6,328,397	\$ 6,352,605	\$ 6,152,734	\$ 199,871
Capital outlay				
General government	-	-	5,671	(5,671)
Public safety	54,000	54,000	75,064	(21,064)
Total capital outlay	\$ 54,000	\$ 54,000	\$ 80,735	\$ (26,735)
Total Expenditures	\$ 6,382,397	\$ 6,406,605	\$ 6,233,469	\$ 173,136
Excess of Revenues Over (Under) Expenditures	\$ 160,575	\$ 136,367	\$ 498,119	\$ 361,752
Other Financing Sources (Uses)				
Transfers in	331,754	331,754	365,685	33,931
Net Change in Fund Balance	\$ 492,329	\$ 468,121	\$ 863,804	\$ 395,683
Fund Balance - January 1	2,474,454	2,474,454	2,474,454	-
Fund Balance - December 31	\$ 2,966,783	\$ 2,942,575	\$ 3,338,258	\$ 395,683

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

Schedule 2

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 1,250,000	\$ 1,250,000	\$ 1,003,629	\$ (246,371)
Intergovernmental	3,184,998	3,184,998	2,905,296	(279,702)
Charges for services	300,000	300,000	251,227	(48,773)
Miscellaneous	-	-	419	419
Total Revenues	\$ 4,734,998	\$ 4,734,998	\$ 4,160,571	\$ (574,427)
Expenditures				
Current				
Highways and Streets				
Administration	\$ 154,000	\$ 154,000	\$ 410,815	\$ (256,815)
Maintenance	1,941,640	1,941,640	1,020,742	920,898
Construction	850,000	850,000	915,401	(65,401)
Equipment maintenance and shop	370,000	370,000	414,924	(44,924)
Materials for resale	-	-	178,489	(178,489)
Township roads	-	-	203,175	(203,175)
Other highways and streets	90,000	90,000	66,221	23,779
Capital outlay				
Highways and streets	\$ 255,000	\$ 255,000	\$ 392,389	\$ (137,389)
Total Expenditures	\$ 3,660,640	\$ 3,660,640	\$ 3,602,156	\$ 58,484
Excess of Revenues Over (Under) Expenditures	\$ 1,074,358	\$ 1,074,358	\$ 558,415	\$ (515,943)
Other Financing Sources (Uses)				
Transfers out	-	-	(74,009)	(74,009)
Net Change in Fund Balance	\$ 1,074,358	\$ 1,074,358	\$ 484,406	\$ (589,952)
Fund Balance - January 1	2,431,990	2,431,990	2,431,990	-
Increase (decrease) in inventories	-	-	148,869	148,869
Fund Balance - December 31	\$ 3,506,348	\$ 3,506,348	\$ 3,065,265	\$ (441,083)

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

Schedule 3

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 1,269,349	\$ 1,269,349	\$ 1,076,464	\$ (192,885)
Intergovernmental	2,218,679	2,218,679	2,086,158	(132,521)
Charges for services	238,200	238,200	183,547	(54,653)
Miscellaneous	238,250	238,250	203,881	(34,369)
Total Revenues	\$ 3,964,478	\$ 3,964,478	\$ 3,550,050	\$ (414,428)
Expenditures				
Current				
Human Services				
Income maintenance	\$ 1,448,427	\$ 1,448,427	\$ 1,263,936	\$ 184,491
Social services	2,915,045	2,915,045	2,139,334	775,711
Total Expenditures	\$ 4,363,472	\$ 4,363,472	\$ 3,403,270	\$ 960,202
Excess of Revenues Over (Under) Expenditures	\$ (398,994)	\$ (398,994)	\$ 146,780	\$ 545,774
Other Financing Sources (Uses)				
Transfers out	-	-	(98,450)	(98,450)
Net Change in Fund Balance	\$ (398,994)	\$ (398,994)	\$ 48,330	\$ 447,324
Fund Balance - January 1	2,853,892	2,853,892	2,853,892	-
Fund Balance - December 31	\$ 2,454,898	\$ 2,454,898	\$ 2,902,222	\$ 447,324

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

Schedule 4

**BUDGETARY COMPARISON SCHEDULE
FORFEITED TAX SALE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2014**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Licenses and permits	\$ 600	\$ 600	\$ 1,035	\$ 435
Intergovernmental	67,612	67,612	66,363	(1,249)
Charges for services	1,200	1,200	3,032	1,832
Land and timber sales	344,100	344,100	881,594	537,494
Miscellaneous	17,150	17,150	30,758	13,608
Total Revenues	\$ 430,662	\$ 430,662	\$ 982,782	\$ 552,120
Expenditures				
Current				
Conservation of natural resources				
Forfeited land	\$ 283,950	\$ 283,950	\$ 457,195	\$ (173,245)
Forest access road	14,300	14,300	12,424	1,876
Timber development	138,494	138,494	81,395	57,099
Payments in lieu of taxes	54,312	54,312	53,007	1,305
Total Expenditures	\$ 491,056	\$ 491,056	\$ 604,021	\$ (112,965)
Excess of Revenues Over (Under) Expenditures	\$ (60,394)	\$ (60,394)	\$ 378,761	\$ 439,155
Other Financing Sources (Uses)				
Transfers out	(35,000)	(35,000)	(181,704)	(146,704)
Net Change in Fund Balance	\$ (95,394)	\$ (95,394)	\$ 197,057	\$ 292,451
Fund Balance - January 1	780,113	780,113	780,113	-
Fund Balance - December 31	\$ 684,719	\$ 684,719	\$ 977,170	\$ 292,451

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

Schedule 5

**BUDGETARY COMPARISON SCHEDULE
NURSING SERVICE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2014**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Intergovernmental	\$ 192,051	\$ 192,051	\$ 293,145	\$ 101,094
Charges for services	1,575,568	1,575,568	1,402,154	(173,414)
Miscellaneous	7,930	7,930	17,215	9,285
Total Revenues	\$ 1,775,549	\$ 1,775,549	\$ 1,712,514	\$ (63,035)
Expenditures				
Current				
Health				
Nursing service	1,766,712	1,766,712	1,730,938	35,774
Excess of Revenues Over (Under) Expenditures	\$ 8,837	\$ 8,837	\$ (18,424)	\$ (27,261)
Fund Balance - January 1	253,218	253,218	253,218	-
Fund Balance - December 31	\$ 262,055	\$ 262,055	\$ 234,794	\$ (27,261)

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

Schedule 6

**SCHEDULE OF FUNDING PROGRESS
OTHER POST-EMPLOYMENT BENEFIT PLAN
FOR THE YEAR ENDED DECEMBER 31, 2014**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
January 1, 2008	\$ -	\$ 362,050	\$ 362,050	\$ -	\$ 4,571,574	7.9%
January 1, 2011	\$ -	\$ 490,151	\$ 490,151	\$ -	\$ 4,954,261	9.9%
January 1, 2014	\$ -	\$ 447,159	\$ 447,159	\$ -	\$ 4,310,595	10.4%

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

Schedule 7

**SCHEDULE OF EMPLOYER CONTRIBUTIONS
OTHER POST-EMPLOYMENT BENEFIT PLAN
FOR THE YEAR ENDED DECEMBER 31, 2014**

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2012	\$ 59,396	\$ 31,154	52.5%	\$ 112,825
December 31, 2013	\$ 58,880	\$ 45,468	77.2%	\$ 126,237
December 31, 2014	\$ 55,223	\$ 27,478	49.8%	\$ 153,982

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2014

I. Budgetary Information

A. Budget Policy

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds. All annual appropriations lapse at fiscal year-end.

From mid-June to July of each year, all departments and agencies submit requests for appropriations to the County Auditor so that a budget can be prepared. On or before September 15, the proposed budget and levies are adopted by the County Board. 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 head 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 (i.e., the level at which expenditures may not legally exceed appropriations) is the departmental level.

B. Excess of Expenditures Over Budget

The following departments had expenditures in excess of budget for the year ended December 31, 2014:

	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
General Fund			
General government			
Law library	\$ 298	\$ -	\$ (298)
Safety control coordinator	292,282	282,852	(9,430)
Buildings and grounds	58,024	21,500	(36,524)
Building maintenance	270,523	269,925	(598)
Veterans service officer	77,237	71,572	(5,665)
Other general government	23,481	22,210	(1,271)
Public safety			
Coroner	34,621	26,300	(8,321)
Rural signing	11,079	8,020	(3,059)
Law enforcement center	828,107	822,455	(5,652)
Probation and parole	150,079	101,600	(48,479)
Culture and recreation			
Regional library	91,245	78,941	(12,304)
Snowmobile and ski trails	95,675	58,000	(37,675)

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

I. Budgetary Information

B. Excess of Expenditures Over Budget (Continued)

	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
Conservation of natural resources			
County extension	\$ 115,343	\$ 111,652	\$ (3,691)
Environmental services	87,507	77,504	(10,003)
Wetlands administration	84,446	83,263	(1,183)
Capital outlay			
General government	5,671	-	(5,671)
Public Safety	75,064	54,000	(21,064)
Road and Bridge Special Revenue Fund			
Highways and streets			
Administration	410,815	154,000	(256,815)
Construction	915,401	850,000	(65,401)
Equipment maintenance and shop	414,924	370,000	(44,924)
Materials for resale	178,489	-	(178,489)
Township roads	203,175	-	(203,175)
Other highways and streets	392,389	255,000	(137,389)
Forfeited Tax Sale Special Revenue Fund			
Conservation of natural resources			
Forfeited land	457,195	283,950	(173,245)

II. Other Post-Employment Benefits (OPEB)

Since the last actuarial valuation as of January 1, 2014, the health care trend rates were changed to better anticipate short-term and long-term medical increases. Also, there have been no changes in plan provisions since the last actuarial valuation. Currently, three years actuarial data is available. Trend analysis has been provided for the three actuarial valuations requirement. For more information, refer to Schedules 6 and 7 of this section and the Notes to the Financial Statements Section V., Other Post-Employment Benefits.

SUPPLEMENTARY INFORMATION

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

The Ditch Special Revenue Fund is used to account for and report the financing of public improvements or services to ditches. Financing is provided by special assessments levied against benefited properties restricted for conservation of natural resources and debt service.

The Energy Assistance Special Revenue Fund is used to account for and report the funds received from the state and assigned to the Energy Assistance Program.

The Solid Waste Management Special Revenue Fund is used to account for and report solid waste management operations including landfill, incinerator, recycling, and disposal sites and enforcement of regulations as required by the Minnesota Pollution Control Agency. Financing is provided by special assessments and intergovernmental revenues committed to various solid waste purposes.

The Unorganized Townships Special Revenue Fund is used to account for and report road maintenance and financial activities assigned to the unorganized townships of the County.

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

Statement 1

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

	Special Revenue Funds				Total Nonmajor Governmental Funds (Exhibit 3)
	Ditch	Energy Assistance	Solid Waste Management	Unorganized Townships	
Assets					
Assets					
Cash and pooled investments	\$ 18,289	\$ 3,290	\$ 319,700	\$ 1,913	\$ 343,192
Investments	74,561	-	-	-	74,561
Taxes receivable - prior	-	-	5,434	-	5,434
Special assessments receivable - prior	347	-	51,838	-	52,185
Special assessments - noncurrent	64,418	-	-	-	64,418
Total Assets	\$ 157,615	\$ 3,290	\$ 376,972	\$ 1,913	\$ 539,790
Liabilities, Deferred Inflows of Resources and Fund Balances					
Liabilities					
Accounts payable	-	3,272	72,991	-	76,263
Salaries payable	-	-	1,583	-	1,583
Due to other governments	-	-	547	-	547
Total Liabilities	\$ -	\$ 3,272	\$ 75,121	\$ -	\$ 78,393
Deferred Inflows of Resources					
Taxes	\$ -	\$ -	\$ 3,769	\$ -	\$ 3,769
Special assessments	64,765	-	44,045	-	108,810
Total Deferred Inflows of Resources	\$ 64,765	\$ -	\$ 47,814	\$ -	\$ 112,579
Fund Balances					
Restricted for					
Conservation of natural resources	\$ 18,289	\$ -	\$ -	\$ -	\$ 18,289
Debt service	74,561	-	-	-	74,561
Committed to					
Landfill	-	-	78,270	-	78,270
Recycling	-	-	80,875	-	80,875
Solid waste collection	-	-	65,657	-	65,657
Solid waste disposal	-	-	29,235	-	29,235
Assigned to					
Energy assistance	-	18	-	-	18
Unorganized townships	-	-	-	1,913	1,913
Total Fund Balances	\$ 92,850	\$ 18	\$ 254,037	\$ 1,913	\$ 348,818
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 157,615	\$ 3,290	\$ 376,972	\$ 1,913	\$ 539,790

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

Statement 2

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

	Special Revenue Funds				Total Nonmajor Governmental Funds (Exhibit 5)
	Ditch	Energy Assistance	Solid Waste Management	Unorganized Townships	
Revenues					
Taxes	\$ -	\$ -	\$ 341,841	\$ -	\$ 341,841
Special assessments	56,270	-	448,848	-	505,118
Licenses and permits	-	-	200	37	237
Intergovernmental	-	91,240	120,232	1,106	212,578
Charges for services	-	-	18,072	-	18,072
Investment earnings	-	3	-	-	3
Miscellaneous	-	798	292	-	1,090
Total Revenues	\$ 56,270	\$ 92,041	\$ 929,485	\$ 1,143	\$ 1,078,939
Expenditures					
Current					
Highways and streets	\$ -	\$ -	\$ -	\$ 813	\$ 813
Sanitation	-	-	831,272	-	831,272
Human services	-	93,747	-	-	93,747
Conservation of natural resources	31,360	-	-	-	31,360
Capital outlay	-	-	51,237	-	51,237
Debt service					
Principal retirement	20,000	-	-	-	20,000
Interest	5,995	-	-	-	5,995
Total Expenditures	\$ 57,355	\$ 93,747	\$ 882,509	\$ 813	\$ 1,034,424
Excess of Revenues Over (Under) Expenditures	\$ (1,085)	\$ (1,706)	\$ 46,976	\$ 330	\$ 44,515
Other Financing Sources (Uses)					
Transfers out	-	(1,550)	(9,972)	-	(11,522)
Net Change in Fund Balance	\$ (1,085)	\$ (3,256)	\$ 37,004	\$ 330	\$ 32,993
Fund Balance - January 1	93,935	3,274	217,033	1,583	315,825
Fund Balance - December 31	\$ 92,850	\$ 18	\$ 254,037	\$ 1,913	\$ 348,818

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

Schedule 8

**BUDGETARY COMPARISON SCHEDULE
DITCH SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2014**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Special assessments	\$ 55,119	\$ 55,119	\$ 56,270	\$ 1,151
Expenditures				
Current				
Conservation of natural resources				
Administration	\$ 380	\$ 380	\$ 400	\$ (20)
Ditch maintenance and repair	34,671	34,671	30,960	3,711
Total current	\$ 35,051	\$ 35,051	\$ 31,360	\$ 3,691
Debt service				
Principal retirement	\$ 20,000	\$ 20,000	\$ 20,000	\$ -
Interest	5,995	5,995	5,995	-
Total debt service	\$ 25,995	\$ 25,995	\$ 25,995	\$ -
Total Expenditures	\$ 61,046	\$ 61,046	\$ 57,355	\$ 3,691
Excess of Revenues Over (Under) Expenditures	\$ (5,927)	\$ (5,927)	\$ (1,085)	\$ 4,842
Fund Balance - January 1	93,935	93,935	93,935	-
Fund Balance - December 31	\$ 88,008	\$ 88,008	\$ 92,850	\$ 4,842

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

Schedule 9

**BUDGETARY COMPARISON SCHEDULE
ENERGY ASSISTANCE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2014**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Intergovernmental	\$ 101,798	\$ 101,798	\$ 91,240	\$ (10,558)
Investment earnings	-	-	3	3
Miscellaneous	-	-	798	798
Total Revenues	\$ 101,798	\$ 101,798	\$ 92,041	\$ (9,757)
Expenditures				
Current				
Human services				
Administration	\$ 50,271	\$ 50,271	\$ 61,005	\$ (10,734)
Energy assistance	51,527	51,527	32,742	18,785
Total Expenditures	\$ 101,798	\$ 101,798	\$ 93,747	\$ 8,051
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ (1,706)	\$ (1,706)
Other Financing Sources (Uses)				
Transfers out	-	-	(1,550)	(1,550)
Net Change in Fund Balance	\$ -	\$ -	\$ (3,256)	\$ (3,256)
Fund Balance - January 1	3,274	3,274	3,274	-
Fund Balance - December 31	\$ 3,274	\$ 3,274	\$ 18	\$ (3,256)

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

Schedule 10

**BUDGETARY COMPARISON SCHEDULE
SOLID WASTE MANAGEMENT SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2014**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 356,593	\$ 356,593	\$ 341,841	\$ (14,752)
Special assessments	423,000	423,000	448,848	25,848
License and permits	300	300	200	(100)
Intergovernmental	98,407	98,407	120,232	21,825
Charges for services	15,000	15,000	18,072	3,072
Miscellaneous	600	600	292	(308)
Total Revenues	\$ 893,900	\$ 893,900	\$ 929,485	\$ 35,585
Expenditures				
Current				
Sanitation				
Demolition landfill	\$ 104,090	\$ 104,090	\$ 110,070	\$ (5,980)
Household hazardous waste	7,000	7,000	8,832	(1,832)
Recycling	77,750	77,750	62,956	14,794
Solid waste collection	304,050	304,050	306,460	(2,410)
Solid waste disposal	346,656	346,656	342,954	3,702
Capital Outlay				
Sanitation	2,000	2,000	51,237	(49,237)
Total Expenditures	\$ 841,546	\$ 841,546	\$ 882,509	\$ (40,963)
Excess of Revenues Over (Under) Expenditures	\$ 52,354	\$ 52,354	\$ 46,976	\$ (5,378)
Other Financing Sources (Uses)				
Transfers out	(9,500)	(9,500)	(9,972)	(472)
Net Change in Fund Balance	\$ 42,854	\$ 42,854	\$ 37,004	\$ (5,850)
Fund Balance - January 1	217,033	217,033	217,033	-
Fund Balance - December 31	\$ 259,887	\$ 259,887	\$ 254,037	\$ (5,850)

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

Schedule 11

**BUDGETARY COMPARISON SCHEDULE
UNORGANIZED TOWNSHIPS SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2014**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
License and permits	\$ -	\$ -	\$ 37	\$ 37
Intergovernmental	878	878	1,106	228
Total Revenues	\$ 878	\$ 878	\$ 1,143	\$ 265
Expenditures				
Current				
Highways and streets				
Township roads	1,400	1,400	813	587
Excess of Revenues Over (Under) Expenditures	\$ (522)	\$ (522)	\$ 330	\$ 852
Fund Balance - January 1	1,583	1,583	1,583	-
Fund Balance - December 31	\$ 1,061	\$ 1,061	\$ 1,913	\$ 852

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

FIDUCIARY FUNDS

Agency Funds

The Clearwater Collaborative Agency Fund is used to account for financial transactions of the collaborative.

The County-Wide Economic Development Agency Fund is used to account for financial transactions of a joint venture to foster environmentally-sound economic development and perpetuate a stable and progressive business climate within the County.

The North Country Community Health Service Agency Fund is used to account for financial transactions of a joint venture to provide health services.

The Northwest Counties Data Processing Security Association Agency Fund is used to account for financial transactions of a joint venture to provide written computer disaster recovery plan and back-up site.

The Northwestern Minnesota Household Hazardous Waste Management Group Agency Fund is used to account for financial transactions of a joint venture that provides household hazardous waste management services.

The School Districts Agency Fund is used to account for the collection and payment of funds due to the school districts.

The State Agency Fund is used to account for the payment to the State of Minnesota for tax-forfeited state deeds and the distribution of the State's share of delinquent and severed mineral interest tax collections.

The Taxes and Penalties Agency Fund is used to account for the collection of taxes and penalties, special assessments, and mortgage registry taxes and their payment to the various County funds and taxing districts.

The Towns and Cities Agency Fund is used to account for the collection and payment of funds due towns and cities.

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

Statement 3

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

	Balance January 1	Additions	Deductions	Balance December 31
<u>CLEARWATER COLLABORATIVE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 40,146	\$ 69,962	\$ 71,688	\$ 38,420
<u>Liabilities</u>				
Due to other governments	\$ 40,146	\$ 69,962	\$ 71,688	\$ 38,420
 <u>COUNTY-WIDE ECONOMIC DEVELOPMENT</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 1,387	\$ -	\$ -	\$ 1,387
<u>Liabilities</u>				
Due to other governments	\$ 1,387	\$ -	\$ -	\$ 1,387
 <u>NORTH COUNTRY COMMUNITY HEALTH SERVICE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 85,559	\$ 2,192,015	\$ 2,171,263	\$ 106,311
<u>Liabilities</u>				
Due to other governments	\$ 85,559	\$ 2,192,015	\$ 2,171,263	\$ 106,311
 <u>NORTHWEST COUNTIES DATA PROCESSING SECURITY ASSOCIATION</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 25,335	\$ 514	\$ 2,040	\$ 23,809
<u>Liabilities</u>				
Due to other governments	\$ 25,335	\$ 514	\$ 2,040	\$ 23,809

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

*Statement 3
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

	Balance January 1	Additions	Deductions	Balance December 31
<u>NORTHWESTERN MINNESOTA HOUSEHOLD HAZARDOUS WASTE MANAGEMENT GROUP</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 28,383	\$ 198,473	\$ 193,608	\$ 33,248
<u>Liabilities</u>				
Due to other governments	\$ 28,383	\$ 198,473	\$ 193,608	\$ 33,248
 <u>SCHOOL DISTRICTS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 2,351,954	\$ 2,351,954	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 2,351,954	\$ 2,351,954	\$ -
 <u>STATE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 2,657	\$ 3,375,035	\$ 3,375,381	\$ 2,311
<u>Liabilities</u>				
Due to other governments	\$ 2,657	\$ 3,375,035	\$ 3,375,381	\$ 2,311

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

*Statement 3
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

	Balance January 1	Additions	Deductions	Balance December 31
<u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 112,084	\$ 15,894,580	\$ 15,861,558	\$ 145,106
<u>Liabilities</u>				
Due to other governments	\$ 112,084	\$ 15,894,580	\$ 15,861,558	\$ 145,106
 <u>TOWNS AND CITIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 1,501	\$ 2,785,991	\$ 2,798,364	\$ (10,872)
<u>Liabilities</u>				
Due to other governments	\$ 1,501	\$ 2,785,991	\$ 2,798,364	\$ (10,872)
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 297,052	\$ 26,868,524	\$ 26,825,856	\$ 339,720
<u>Liabilities</u>				
Due to other governments	\$ 297,052	\$ 26,868,524	\$ 26,825,856	\$ 339,720

OTHER SCHEDULES

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

**BALANCE SHEET - BY DITCH
DITCH SPECIAL REVENUE FUND
DECEMBER 31, 2014**

	Assets			Total Assets
	Cash and Investments	Special Assessments Receivable - Prior	Special Assessments Receivable - Noncurrent	
County Ditches				
2	\$ 10,645	\$ 347	\$ -	\$ 10,992
Project 113	74,793	-	64,418	139,211
Red Lake Watershed Ditches				
County Ditches				
1	274	-	-	274
5	91	-	-	91
72	865	-	-	865
Judicial Ditches				
2 Branch A	459	-	-	459
2 Branch B	676	-	-	676
4	190	-	-	190
Ditch #2 Costs	10	-	-	10
Lost River Improvements	81	-	-	81
Lost River Project 4	3,975	-	-	3,975
Lost River Project 51	(72)	-	-	(72)
Pine Lake Dam	539	-	-	539
Wild Rice Allocation	324	-	-	324
Total	\$ 92,850	\$ 347	\$ 64,418	\$ 157,615

Schedule 12

Deferred Inflows of Resources	Fund Balance Restricted	Total Deferred Inflows and Fund Balance
\$ 347	\$ 10,645	\$ 10,992
64,418	74,793	139,211
-	274	274
-	91	91
-	865	865
-	459	459
-	676	676
-	190	190
-	10	10
-	81	81
-	3,975	3,975
-	(72)	(72)
-	539	539
-	324	324
\$ 64,765	\$ 92,850	\$ 157,615

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

Schedule 13

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

Shared Revenue

State

Aquatic ISP Aid	\$	45,046
County program aid		746,883
Disparity reduction aid		48,617
Enhanced 911		79,520
Highway users tax		2,643,505
Market value credit		151,243
PERA rate reimbursement		21,917
Police state aid		60,928
		60,928

Total Shared Revenue **\$ 3,797,659**

Payments

Payments in lieu of taxes	\$	310,992
		310,992

Grants

Local

Mental Health Collaborative	\$	27,570
Northwest Minnesota Foundation		20,407
Other		6,152
		6,152

Total Local **\$ 54,129**

State

Minnesota Department/Board of

Corrections	\$	12,317
Health		54,041
Human Services		740,450
Natural Resources		90,639
Peace Officer Standards and Training		4,505
Pollution Control Agency		63,803
Public Safety		102,306
Veteran Affairs		7,500
Water and Soil Resources		97,943
		97,943

Total State **\$ 1,173,504**

Federal

Department of

Agriculture	\$	133,541
Health and Human Services		1,384,604
Homeland Security		18,710
Transportation		293
		293

Total Federal **\$ 1,537,148**

Total Grants **\$ 2,764,781**

Total Intergovernmental Revenue **\$ 6,873,432**

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

Schedule 14

**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 Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	\$ 133,541
U.S. Department of Transportation		
Passed Through Minnesota Department of Public Safety State and Community Highway Safety	20.600	\$ 293
U.S. Department of Health and Human Services		
Passed Through Minnesota Board on Aging/Northwest Area Agency on Aging Special Programs for the Aging - Title III B	93.044	\$ 2,640
Passed Through North Country Community Health Services Public Health Emergency Preparedness	93.069	25,148
Immunization Cooperative Agreements	93.268	1,171
Affordable Care Act Maternal, Infant, and Early Childhood Home Visiting Program	93.505	61,393
PPHF 2012: Community Transformation Grants and National Dissemination and Support for Community Transformation Grants - financed solely by Prevention and Public Health Funds	93.531	41
Passed Through Minnesota Department of Human Services Promoting Safe and Stable Families	93.556	8,163
Temporary Assistance for Needy Families Cluster Temporary Assistance for Needy Families	93.558	\$ 172,592
Passed Through North Country Community Health Services Temporary Assistance for Needy Families	93.558	<u>27,876</u>
Total Temporary Assistance for Needy Families Cluster		200,468
Passed Through Minnesota Department of Human Services Child Support Enforcement	93.563	247,663
Refugee and Entrant Assistance	93.566	717
Passed Through Minnesota Department of Commerce Low-Income Home Energy Assistance	93.568	91,240

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

Schedule 14
(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 Child Care and Development Block Grant	93.575	\$ 3,490
Stephanie Tubbs Jones Child Welfare Services Program	93.645	5,380
Foster Care Title IV-E	93.658	129,566
Social Services Block Grant	93.667	96,287
Chafee Foster Care Independence Program	93.674	1,000
Children's Health Insurance Program	93.767	66
Medical Assistance Program	93.778	\$ 474,975
Passed Through North Country Community Health Services Medical Assistance Program	93.778	16,210
Maternal and Child Health Services Block Grant to the States	93.994	18,986
Total U.S. Department of Health and Human Services		\$ 1,384,604
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Natural Resources Boating Safety Financial Assistance	97.012	\$ 7,235
Direct Emergency Food and Shelter National Board Program	97.024	5,170
Passed Through Minnesota Department of Public Safety Emergency Management Performance Grants	97.042	6,305
Total U.S. Department of Homeland Security		\$ 18,710
Total Federal Awards		\$ 1,537,148

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

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

I. Reporting Entity

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

II. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Clearwater 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 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 Clearwater County, it is not intended to and does not present the financial position, changes in net position, or cash flows of Clearwater County.

III. 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.

IV. Subrecipients

During 2014, the County did not pass any federal money to subrecipients.

V. American Recovery and Reinvestment Act

The American Recovery and Reinvestment Act of 2009 (ARRA) requires recipients to clearly distinguish ARRA funds from non-ARRA funding. In 2014, the County had no funds designated as ARRA funds.

MANAGEMENT AND COMPLIANCE SECTION

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

Schedule 15

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

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses an unmodified opinion on the financial statements of Clearwater County.
- B. Significant deficiencies in internal control were disclosed by the audit of financial statements of Clearwater County and are reported in the "Independent Auditor's 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*." The significant deficiencies were not material weaknesses.
- C. No instances of noncompliance material to the financial statements of Clearwater County were disclosed during the audit.
- D. No matters involving internal control over compliance relating to the audit of the major federal award programs were reported in the "Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance"
- E. The Auditor's Report on Compliance for the major federal award programs for Clearwater County expresses an unmodified opinion.
- F. No findings were disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- G. The major programs were:

Child Support Enforcement	CFDA #93.563
Foster Care Title IV-E	CFDA #93.658
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. Clearwater County was determined to be a low-risk auditee.

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

Schedule 15
(Continued)

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

1996-005 Segregation of Duties

Due to the limited number of personnel within several County offices, segregation of accounting duties necessary to ensure adequate internal accounting control is not possible. This is not unusual in operations the size of Clearwater 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 control point of view.

A deficiency in internal control 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.

We recommend that Clearwater County's management be aware of the absence of segregation of duties within the accounting and data processing functions and, if possible, implement oversight procedures to ensure that internal control policies and procedures are being implemented by staff.

County's Response:

The Clearwater County Board and department heads are aware of the internal control weakness present with a limited number of employees. Department heads are, therefore, alert to the activity in their offices and exercise personal oversight on all financial functions.

2007-001 Internal Controls

The financial statements are the responsibility of the County's management. Internal control over financial reporting is a process designed to provide reasonable assurance about the achievement of the County's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

Internal control over the safeguarding of assets against unauthorized acquisition, use, or disposition may include controls related to financial reporting and operations objectives. Generally, controls that are relevant to an audit of financial statements are those that pertain to the County's objective of reliable financial reporting. In this section, the term financial reporting relates to the preparation of reliable financial statements that are fairly presented in conformity with GAAP.

Management must implement internal controls over financial reporting and safeguarding of assets, and continue to be aware of their responsibility and to maintain suitable skills, knowledge, and expertise to sufficiently review, understand, and approve the County's financial statements, including notes.

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

Schedule 15
(Continued)

County's Response:

The Clearwater County Board and Department heads are aware of their responsibility for internal control over financial reporting, operations and compliance. They are working on implementing new policies and procedures relevant to internal control and safeguarding of assets.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RESPONSES

MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

2010-001 Deficit Cash Balances

At December 31, 2014, 2013, 2012, 2011 and 2010, the Nursing Service Special Revenue Fund had negative cash balances of \$11,078, \$75,331, \$16,972, \$176,064 and \$102,998, respectively. For financial reporting purposes, these deficits are shown as cash overdrafts in the liabilities.

Minnesota Statute, § 385.31 permits payment of expenditures provided that there is money in the fund for that purpose. It also provides that warrants are to be registered if there are insufficient funds in a specific fund to pay for expenditures incurred against it. Minnesota Statute, § 385.32 allows for loans from funds with sufficient balances to funds which temporarily have insufficient balances. If such loans are made, the fund borrowing the cash must pay it back within six months.

We recommend the County eliminate the cash balance deficits with loans from funds with sufficient balances to be paid back within six months, as provided by Minnesota Statute, § 385.32.

County's Response:

The Nursing Service Director is working on methods to reduce costs and collect outstanding accounts receivable.

PREVIOUSLY REPORTED ITEM RESOLVED

2014-001 Deficit Cash Balance

The Energy Assistance Special Revenue Fund had a negative cash balance of \$5,477 at December 31, 2013. For financial reporting purposes, this deficit was shown as a cash overdraft in the liabilities.

Resolution:

The Energy Assistance Special Revenue Fund now makes more frequent cash requests to the Minnesota Department of Commerce before expenditures are paid to always carry forward a small balance.

Colleen Hoffman, Director
Crystelle Philipp, CPA
Marit Knutson, CPA



Hoffman, Philipp, & Knutson, PLLC

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

Board of County Commissioners
Clearwater County

We have audited, in accordance with the 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 Clearwater County 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 31, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Clearwater County’s internal control over financial reporting (internal control) 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. Accordingly, we do not express an opinion on the effectiveness of the County’s internal control.

A deficiency in internal control 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 a combination of deficiencies, in internal control 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 a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control 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 that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as items 1996-005 and 2007-001, that we consider to be significant deficiencies.

Compliance and Other Matters

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

Minnesota Legal Compliance

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minnesota Statute, § 6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories.

In connection with our audit, nothing came to our attention that caused us to believe that the County failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, except as described in the Schedule of Findings and Questioned Costs as item 2010-001. 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.

Clearwater County's Responses to Findings

The County's responses to the findings identified in our audit have been included in the accompanying Schedule of Findings and Questioned Costs. The County's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control, 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 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 and compliance. Accordingly, this communication is not suitable for any other purpose.



Hoffman, Philipp, & Knutson, PLLC

August 31, 2015

Colleen Hoffman, Director
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INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM, AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Board of County Commissioners
Clearwater County

Report on Compliance for Each Major Federal Program

We have audited Clearwater County’s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the County’s major federal programs for the year ended December 31, 2014. The 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 its federal programs.

Auditor’s Responsibility

Our responsibility is to express an opinion on compliance for each of the 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 Clearwater 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 of the major federal programs. However, our audit does not provide a legal determination of the County’s compliance.

Opinion on the Major Federal Program

In our opinion, Clearwater County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended December 31, 2014.

Report on Internal Control Over Compliance

Management of Clearwater 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 a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of the 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.

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.



Hoffman, Philipp, & Knutson, PLLC

August 31, 2014