

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

YEAR ENDED DECEMBER 31, 2016



Hoffman, Philipp, & Knutson, PLLC

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

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BAGLEY, MINNESOTA**

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INTRODUCTORY SECTION

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

**ORGANIZATION SCHEDULE
DECEMBER 31, 2016**

<u>Office</u>	<u>Name</u>	<u>Term Expires</u>
Commissioners		
1 st District	Arlen Syverson	January 2019
2 nd District	Dean Newland	January 2021
3 rd District	Neal Illies, Chair	January 2019
4 th District	John Nelson	January 2021
5 th District	Daniel C. Stenseng	January 2019
Officers		
Elected:		
Attorney	Richard Mollin ¹	January 2019
Sheriff	Darin Halvorson	January 2019
Auditor-Treasurer	Allen L. Paulson	January 2019
Recorder	Brenda Knable	January 2019
Appointed:		
Assessor	Jamie Freeman	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 2016
Secretary	Julie Sundquist	July 2017
Member	John Nelson	December 2020
Member	Dean Newland	December 2020
Member	Daniel C. Stenseng	December 2018
Member	Arlen Syverson	December 2018
Member	Neal Illies	December 2018
Director	Jamie Halverson	Indefinite

¹ Replaced by Alan Rogalla 1/16/18.

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, 2016, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control over financial reporting 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 over financial reporting 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 over financial reporting. 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 the Clearwater County, Minnesota, as of December 31, 2016, and the respective changes in financial position 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 supplementary 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, 2018, 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 the Uniform Guidance

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (SEFA) as required by Title 2 U.S. *Code of Federal Regulations* Part 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes of

additional analysis is not a required part of the basic financial statements. The SEFA is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the SEFA is fairly stated in all material respects in relation to the basic financial statements as a whole.

A handwritten signature in blue ink that reads "Hoffman, Philipp, & Knutson". The signature is written in a cursive style and is contained within a thin blue rectangular border.

Hoffman, Philipp, & Knutson, PLLC

August 31, 2018



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
STENSENG**
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, 2016. 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

During the current year, Clearwater County adopted the accounting principles discussed in further detail in the Notes to the Financial Statements. Such accounting principles have been adopted prospectively, and therefore, comparative information in this section has not been restated to reflect the effect of the adoption of these accounting principles.

The total net position of governmental activities is \$54,454,530, of which \$45,071,652 is the net investment in capital assets, \$4,370,073 is restricted for specific purposes, and \$4,853,933 is unrestricted. The total net position of governmental activities increased by \$1,503,932 for the year ended December 31, 2016. This is attributed mainly to road and bridge construction financed by State Aid Highway Allotments.

At the close of 2016, the County's governmental funds reported combined ending fund balances of \$12,399,292, an increase of \$239,107 from the prior year. Of the total fund balance amount, \$351,062 is non-spendable, \$991,904 is legally or contractually restricted, \$4,466,646 is formally committed for specific purposes, \$4,095,649 is assigned for specific purposes, and \$2,494,031 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, and the Human Services 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 22 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 \$54,454,530 at the close of the fiscal year. The largest portion of the County's net position (approximately 83 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 8 percent of the County's net position is restricted and 9 percent of the County's net position is unrestricted. The unrestricted net position amount of \$4,853,933, as of December 31, 2016, 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 \$2,581,023, primarily due to road and bridge construction projects financed by State Aid Highway Allotments. Total liabilities increased by \$4,911,104, from the prior year, primarily due an increase in net pension liability. This resulted in an increased net position of \$1,503,932 from the prior year.

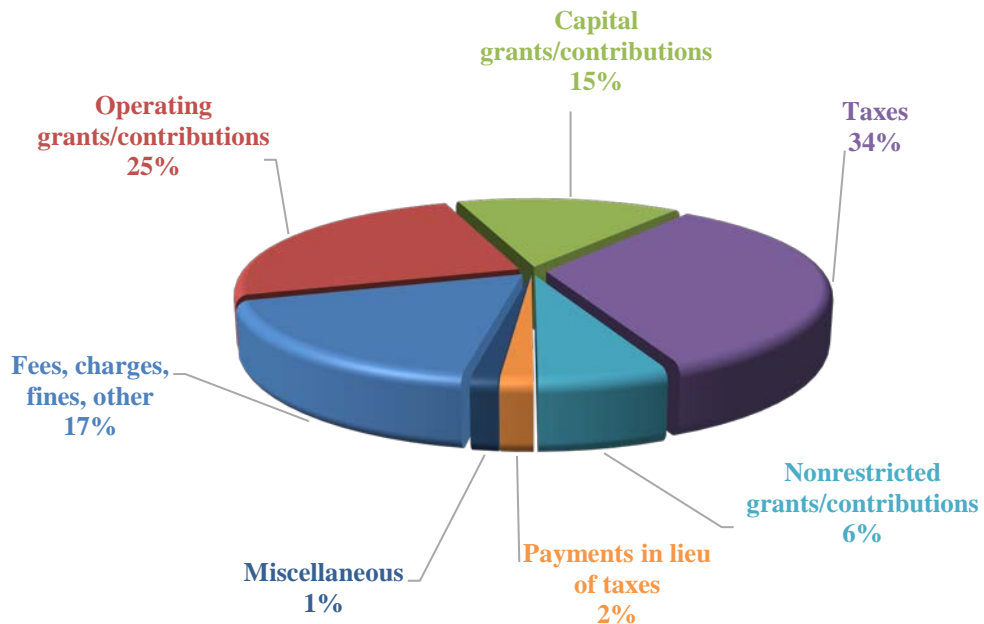
NET POSITION

	Governmental Activities	
	2016	2015
Current and other assets	\$ 16,838,453	\$ 15,965,807
Capital assets	45,071,652	43,363,275
Total assets	\$ 61,910,105	\$ 59,329,082
Deferred outflows - pensions	\$ 5,016,742	\$ 785,476
Other liabilities	\$ 665,517	\$ 497,705
Long-term liabilities outstanding	10,577,818	5,834,526
Total liabilities	\$ 11,243,335	\$ 6,332,231
Deferred inflows - pensions	\$ 1,228,982	\$ 831,729
Net position		
Net investment in capital assets	\$ 45,071,652	\$ 43,363,275
Restricted	4,528,945	5,232,097
Unrestricted	4,853,933	4,355,226
Total net position	\$ 54,454,530	\$ 52,950,598

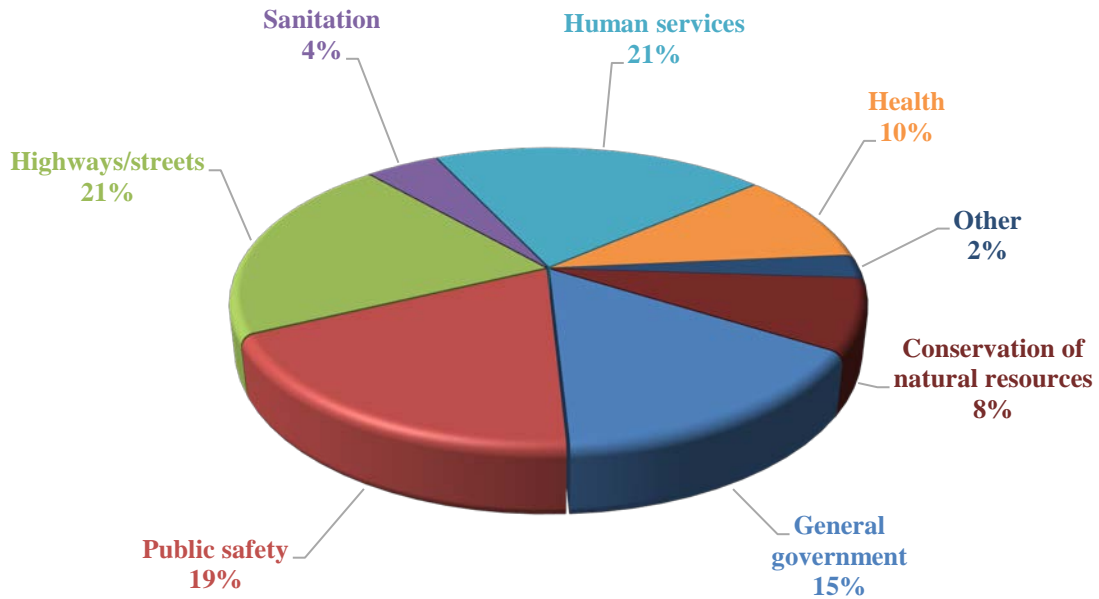
CHANGES IN NET POSITION

	Governmental Activities	
	2016	2015
Revenues		
Program Revenues		
Fees, charges, fines and other	\$ 3,404,645	\$ 3,355,242
Operating grants and contributions	4,820,980	7,552,969
Capital grants and contributions	3,025,424	2,224,331
General Revenues		
Taxes	6,563,459	6,199,867
Payments in lieu of taxes	311,061	311,061
Grants and contributions not restricted to specific programs	1,224,817	1,214,689
Investment earnings	167,215	163,655
Miscellaneous	88,167	-
Total revenues	\$ 19,605,768	\$ 21,021,814
Expenses		
General government	\$ 2,762,060	\$ 2,524,327
Public safety	3,391,092	2,577,227
Highways and streets	3,735,082	5,355,969
Sanitation	803,858	826,232
Human services	3,740,106	3,602,244
Health	1,791,148	1,732,721
Culture and recreation	453,862	485,884
Conservation of natural resources	1,418,078	1,176,750
Economic development	2,800	2,300
Interest	3,750	4,875
Total expenses	\$ 18,101,836	\$ 18,288,529
Increase (decrease)	\$ 1,503,932	\$ 2,733,285
Net assets, January 1, as previously reported	\$ 52,950,598	\$ 54,963,051
Prior period adjustment	-	(4,745,738)
Net position, January 1	52,950,598	50,217,313
Net position, December 31	\$ 54,454,530	\$ 52,950,598

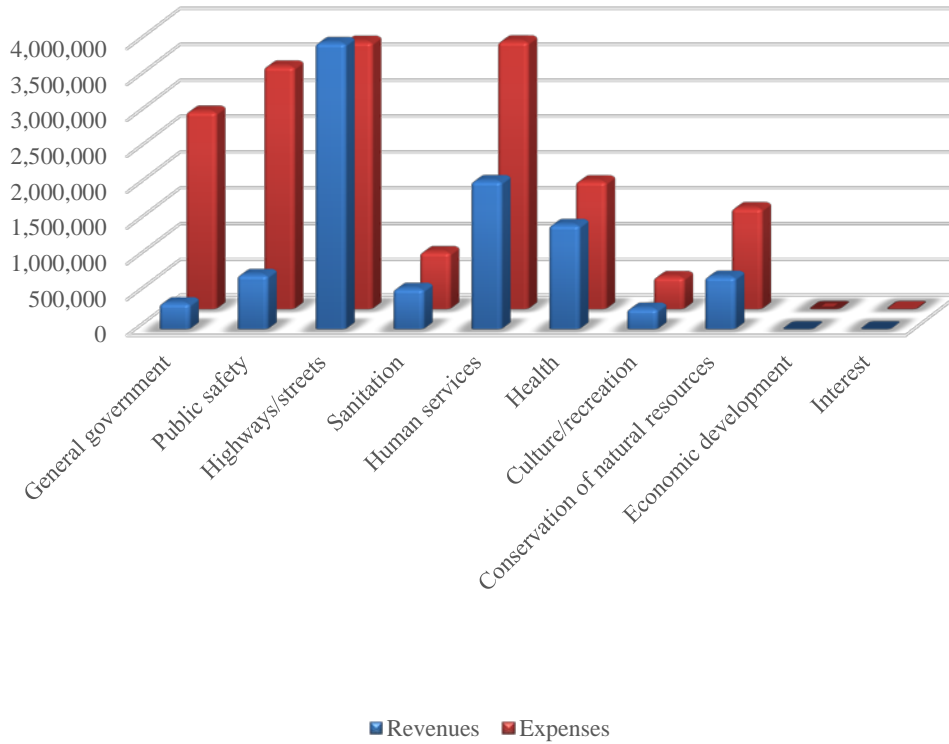
Revenues by Source



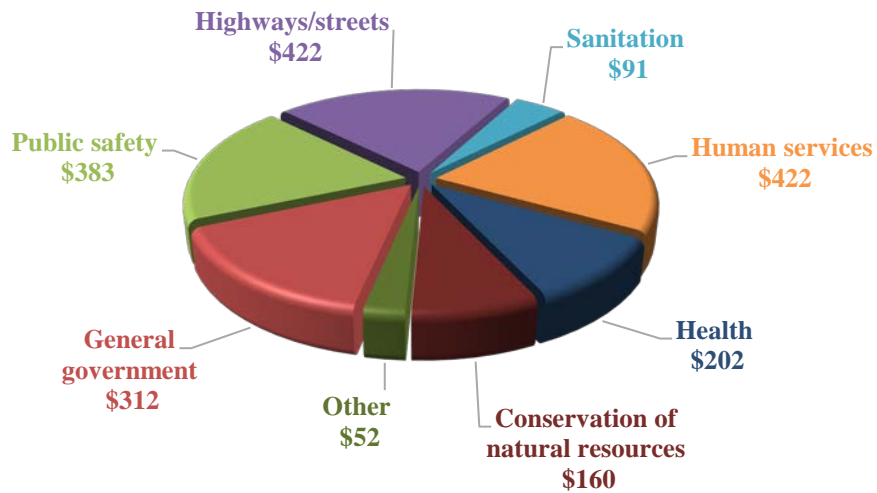
Expenses by Function



Program Revenues & Expenses



Expenditures Per Capita 8,861 Population as of December 31, 2016



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 2016, the County's governmental funds reported combined ending fund balances of \$12,399,292. Of this amount, approximately 3 percent constitutes non-spendable fund balance, 8 percent constitutes legally or contractually restricted fund balance, 36 percent constitutes formally committed fund balance, 33 percent constitutes specifically assigned fund balance, and 20 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 \$4,592,898. The General Fund's restricted fund balance was \$355,350, committed fund balance was \$1,223,634, assigned fund balance was \$519,811, and unassigned fund balance was \$2,494,103. 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 2016. Unrestricted fund balance represents 64 percent of total General Fund expenditures, while total fund balance represents 69 percent of that same amount.

In 2016, the fund balance amount in the General Fund increased by \$588,311. The primary reason for this was due to favorable revenue and expenditure budget performance.

The fund balance of the Road and Bridge Special Revenue Fund increased \$112,658 in 2016. This was due to lower than anticipated maintenance costs.

The fund balance of the Human Services Special Revenue Fund decreased \$377,717 from the prior year, as a result of lower than anticipated State and Federal dollars received.

GENERAL FUND BUDGETARY HIGHLIGHTS

There were no amendments to the original budgeted revenues and expenditures as approved for 2016.

Actual revenues were more than overall final budgeted revenues by \$13,308, with the largest variance in taxes. Actual expenditures were less than overall final budgeted expenditures by \$401,903, mainly as a result of decreased spending in general government and public safety.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The County's investment in capital assets for its governmental activities as of December 31, 2016, amounted to \$45,071,652 (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	
	2016	2015
Land	\$ 165,750	\$ 165,750
Construction in progress	589,903	47,844
Infrastructure	39,777,562	38,656,491
Buildings and improvements	2,482,574	2,713,063
Machinery and equipment	2,055,863	1,780,127
Total capital assets	<u>\$ 45,071,652</u>	<u>\$ 43,363,275</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 \$65,000 which is backed by the full faith and credit of the government and special assessments.

	Governmental Activities	
	2016	2015
General Obligation Bonds	<u>\$ 65,000</u>	<u>\$ 85,000</u>

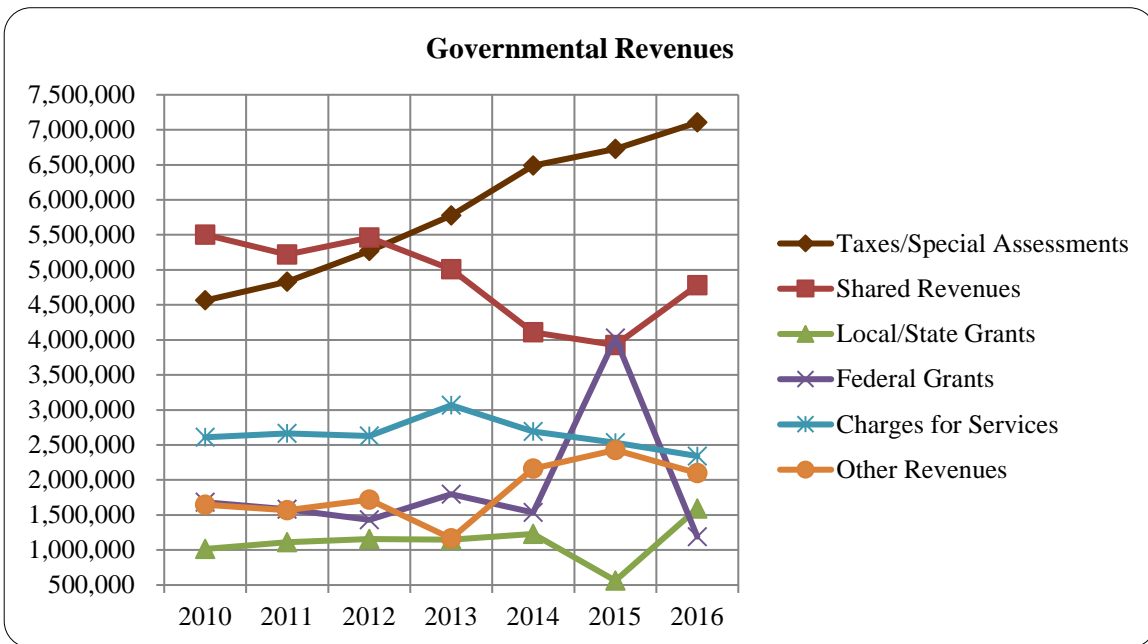
The County's net decrease in debt of \$20,000 (approximately 24 percent) during the fiscal year was attributable to the repayment of debt.

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 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 10.6 percent as of December 31, 2016. This is considerably higher than the statewide rate of 4.0 percent and the national average rate of 4.5 percent.
- Clearwater County’s population at December 31, 2016 was 8,861, an increase of 166 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.
- On December 13, 2016, Clearwater County set its 2017 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, 2016**

	<u>Governmental Activities</u>
<u>Assets</u>	
Cash and pooled investments	\$ 11,686,080
Investments	378,286
Taxes receivable - prior	117,303
Special assessments receivable - prior	50,811
Accounts receivable	56,033
Accrued interest receivable	42,139
Contracts receivable	261,124
Due from other governments	3,862,192
Inventories	351,062
Special assessments - noncurrent	33,423
Capital assets	
Non-depreciable	755,653
Depreciable - net of accumulated depreciation	<u>44,315,999</u>
Total Assets	<u>\$ 61,910,105</u>
<u>Deferred Outflows of Resources</u>	
Related to pensions	<u>\$ 5,016,742</u>
<u>Liabilities</u>	
Accounts payable	\$ 289,801
Salaries payable	264,916
Contracts payable	17,816
Due to other governments	92,984
Long-term liabilities	
Due within one year	360,639
Due in more than one year	<u>10,217,179</u>
Total Liabilities	<u>\$ 11,243,335</u>
<u>Deferred Inflows of Resources</u>	
Related to pensions	<u>\$ 1,228,982</u>
<u>Net Position</u>	
Net investment in capital assets	\$ 45,071,652
Amounts restricted for	
General government	158,872
Public safety	189,705
Highways and streets	3,429,736
Conservation of natural resources	686,613
Debt service	64,019
Unrestricted amounts	<u>4,853,933</u>
Total Net Position	<u>\$ 54,454,530</u>

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

EXHIBIT 2

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

	Program Revenues			Net (Expense)	
Expenses	Fees, Charges, Fines and Other	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Position	
<u>Functions/Programs</u>					
Governmental activities					
General government	\$ 2,762,060	\$ 238,509	\$ 131,000	\$ -	\$ (2,392,551)
Public safety	3,391,092	543,206	222,763	-	(2,625,123)
Highways and streets	3,735,082	232,348	1,797,952	2,938,054	1,233,272
Sanitation	803,858	25,534	546,055	-	(232,269)
Human services	3,740,106	341,443	1,734,969	-	(1,663,694)
Health	1,791,148	1,220,434	245,356	-	(325,358)
Culture and recreation	453,862	230,302	62,709	-	(160,851)
Conservation of natural resources	1,418,078	572,869	80,176	87,370	(677,663)
Economic development	2,800	-	-	-	(2,800)
Interest	3,750	-	-	-	(3,750)
Total governmental activities	\$ 18,101,836	\$ 3,404,645	\$ 4,820,980	\$ 3,025,424	\$ (6,850,787)
 General revenues					
Taxes					\$ 6,563,459
Payments in lieu of taxes					311,061
Grants and contributions not restricted to specific programs					1,224,817
Investment earnings					167,215
Miscellaneous					88,167
Total general revenues					\$ 8,354,719
Change in net position					\$ 1,503,932
Net position - January 1					52,950,598
Net position - December 31					\$ 54,454,530

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

EXHIBIT 3

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

	General	Special Revenue Funds		Other Governmental Funds (Statement 1)	Total Governmental Funds
		Road and Bridge	Human Services		
<u>Assets</u>					
Cash and pooled investments	\$ 4,247,416	\$ 3,345,599	\$ 2,518,217	\$ 1,574,848	\$ 11,686,080
Investments	314,267	-	-	64,019	378,286
Taxes receivable - prior	70,501	19,232	21,377	6,193	117,303
Special assessments receivable - prior	-	-	-	50,811	50,811
Accounts receivable	17,423	100	13,091	25,419	56,033
Accrued interest receivable	42,139	-	-	-	42,139
Contracts receivable	-	-	-	261,124	261,124
Due from other funds	128,733	449	-	-	129,182
Due from other governments	69,441	3,443,764	204,873	144,114	3,862,192
Inventories	-	351,062	-	-	351,062
Special assessments - noncurrent	-	-	-	33,423	33,423
Total Assets	\$ 4,889,920	\$ 7,160,206	\$ 2,757,558	\$ 2,159,951	\$ 16,967,635
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>					
Liabilities					
Accounts payable	\$ 104,958	\$ 42,997	\$ 118,047	\$ 23,799	\$ 289,801
Salaries payable	109,387	39,440	53,121	62,968	264,916
Contracts payable	-	17,816	-	-	17,816
Due to other funds	449	-	4,265	124,468	129,182
Due to other governments	29,226	67	33,583	30,108	92,984
Total Liabilities	\$ 244,020	\$ 100,320	\$ 209,016	\$ 241,343	\$ 794,699
Deferred Inflows of Resources					
Taxes	\$ 53,002	\$ 14,698	\$ 16,250	\$ 4,554	\$ 88,504
Special assessments	-	-	-	77,054	77,054
County State Aid Highway Allotment	-	3,429,736	-	-	3,429,736
Land and timber sales	-	-	-	178,350	178,350
Total Deferred Inflows of Resources	\$ 53,002	\$ 3,444,434	\$ 16,250	\$ 259,958	\$ 3,773,644
Fund Balances					
Nonspendable	\$ -	\$ 351,062	\$ -	\$ -	\$ 351,062
Restricted	355,350	-	-	636,554	991,904
Committed	1,223,634	990,461	1,388,044	864,507	4,466,646
Assigned	519,811	2,273,929	1,144,248	157,661	4,095,649
Unassigned	2,494,103	-	-	(72)	2,494,031
Total Fund Balances	\$ 4,592,898	\$ 3,615,452	\$ 2,532,292	\$ 1,658,650	\$ 12,399,292
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 4,889,920	\$ 7,160,206	\$ 2,757,558	\$ 2,159,951	\$ 16,967,635

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE STATEMENT OF NET POSITION--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2016**

Fund balances - total governmental funds (Exhibit 3)	\$	12,399,292
<p>Amounts reported for governmental activities in the Statement of Net Position are different because:</p>		
<p>Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.</p>		45,071,652
<p>Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.</p>		3,773,644
<p>Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.</p>		
<p>General obligation bonds</p>	\$ (65,000)	
<p>Compensated absences payable</p>	(840,617)	
<p>Other post-employment benefits</p>	(190,653)	(1,096,270)
<p>Net pension liability and related outflows/inflows of resources represent the allocation of the pension obligations of the statewide plans to the County. Such balances are not reported in the governmental funds:</p>		
<p>Deferred outflows of resources related to pensions</p>	\$ 5,016,742	
<p>Deferred inflows of resources related to pensions</p>	(1,228,982)	
<p>Net pension liability</p>	(9,481,548)	(5,693,788)
Net position of governmental activities (Exhibit 1)	\$	<u>54,454,530</u>

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

EXHIBIT 5

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

	General	Special Revenue Funds		Other	Total
		Road and Bridge	Human Services	Governmental Funds (Statement 2)	Governmental Funds
Revenues					
Taxes	\$ 4,041,423	\$ 1,012,611	\$ 1,166,285	\$ 346,640	\$ 6,566,959
Special assessments	-	-	-	537,177	537,177
Licenses and permits	30,883	-	-	972	31,855
Intergovernmental	1,466,887	4,398,899	1,832,498	527,793	8,226,077
Charges for services	866,576	217,783	139,044	1,118,540	2,341,943
Fines and forfeitures	5,463	-	-	-	5,463
Investment earnings	167,213	-	-	2	167,215
Land and timber sales	-	-	-	565,947	565,947
Miscellaneous	373,893	14,565	202,399	70,102	660,959
Total Revenues	\$ 6,952,338	\$ 5,643,858	\$ 3,340,226	\$ 3,167,173	\$ 19,103,595
Expenditures					
Current					
General government	\$ 2,598,393	\$ -	\$ -	\$ -	\$ 2,598,393
Public safety	2,573,449	-	-	-	2,573,449
Highways and streets	-	5,093,918	-	1,057	5,094,975
Sanitation	-	-	-	772,954	772,954
Human services	-	-	3,556,205	84,382	3,640,587
Health	169,176	-	-	1,535,410	1,704,586
Culture and recreation	449,914	-	-	-	449,914
Conservation of natural resources	659,419	-	-	742,669	1,402,088
Economic development	2,800	-	-	-	2,800
Total Current	\$ 6,453,151	\$ 5,093,918	\$ 3,556,205	\$ 3,136,472	\$ 18,239,746
Debt service					
Principal retirement	\$ -	\$ -	\$ -	\$ 20,000	\$ 20,000
Interest	-	-	-	3,750	3,750
Total Debt Service	\$ -	\$ -	\$ -	\$ 23,750	\$ 23,750

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

**EXHIBIT 5
(Continued)**

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

	General	Special Revenue Funds		Other	Total
		Road and Bridge	Human Services	Governmental Funds (Statement 2)	
Expenditures (Continued)					
Capital outlay					
General government	\$ 64,556	\$ -	\$ -	\$ -	\$ 64,556
Public safety	140,531	-	-	-	140,531
Highways and streets	-	370,917	-	-	370,917
Conservation	-	-	-	24,988	24,988
Sanitation	-	-	-	-	-
Total Capital Outlay	\$ 205,087	\$ 370,917	\$ -	\$ 24,988	\$ 600,992
Total Expenditures	\$ 6,658,238	\$ 5,464,835	\$ 3,556,205	\$ 3,185,210	\$ 18,864,488
Excess of Revenues Over (Under) Expenditures	\$ 294,100	\$ 179,023	\$ (215,979)	\$ (18,037)	\$ 239,107
Other Financing Sources (Uses)					
Transfers in	\$ 294,211	\$ -	\$ -	\$ -	\$ 294,211
Transfers out	-	(58,712)	(161,738)	(73,761)	(294,211)
Total Other Financing Sources (Uses)	\$ 294,211	\$ (58,712)	\$ (161,738)	\$ (73,761)	\$ -
Net Change in Fund Balance	\$ 588,311	\$ 120,311	\$ (377,717)	\$ (91,798)	\$ 239,107
Fund Balance - January 1	4,004,587	3,502,794	2,910,009	1,750,448	12,167,838
Increase (decrease) in inventories	-	(7,653)	-	-	(7,653)
Fund Balance - December 31	\$ 4,592,898	\$ 3,615,452	\$ 2,532,292	\$ 1,658,650	\$ 12,399,292

**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, 2016**

Net change in fund balances - total governmental funds (Exhibit 5) \$ 239,107

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	\$ 3,406,485	
Current year depreciation	(1,698,109)	1,708,376

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		473,380
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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	\$ (23,069)	
Other post-employment benefits	(15,012)	
Inventories	(7,652)	(45,733)

Net pension liability does not represent the impending use of current resources.
Therefore, the change in the liability and the related deferral of resources are not
reported in the governmental funds.

(891,198)

Change in net position of governmental activities (Exhibit 2) \$ 1,503,932

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

EXHIBIT 7

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

	<u>Agency (Statement 3)</u>
<u>Assets</u>	
Cash and pooled investments	<u>\$ 492,916</u>
<u>Liabilities</u>	
Due to other governments	<u>\$ 492,916</u>

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

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

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.

B. Joint Ventures

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

C. 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

C. 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.

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.

D. 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.

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

I. Summary of Significant Accounting Policies

D. Measurement Focus and Basis of Accounting (Continued)

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 tax revenues to be available if they are collected within 60 days after the end of the current period. Property and other taxes, charges for services, 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.

During the year ended December 31, 2016, the County adopted GASB Statement No. 72, *Fair Value Measurement and Application*. This statement addresses accounting and financial reporting issues related to fair value measurements. It provides guidance for determining a fair value measurement for financial reporting purposes and for applying fair value to certain investments and disclosures related to all fair value measurement. No restatement is required as a result of implementing this statement.

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

E. 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, 2016, 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 2016 were \$144,295; and total investment earnings were \$167,215.

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.

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

I. Summary of Significant Accounting Policies

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

2. Receivables and Payables

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

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

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.

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, sidewalks, 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.

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

I. Summary of Significant Accounting Policies

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

4. Capital Assets (Continued)

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:

<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 Net Position reports a separate section for deferred outflows of resources. This element represents a consumption of net position that applies to future periods, and therefore, will not be recognized as an outflow of resources (expense) until that time. The County reports deferred outflows of resources in the government-wide Statement of Net Position in relation to the activity of the pension funds in which County employees participate.

In addition to liabilities, the Statement of Net Position and Balance Sheet report a separate section for deferred inflows of resources. This element represents an acquisition of net position or fund balance that applies to future periods, and therefore, will not be recognized as an inflow of resources (revenue) until that time. The County reports property taxes, special assessments, County State Aid Highway Allotments, and land and timber sales, as inflows of resources in the governmental fund financial statements. In addition, the County reports deferred inflows of resources in the government-wide Statement of Net Position in relation to the activity of the pension funds in which County employees participate. Accordingly, such amounts are deferred and recognized as inflows of resources in the period that they become available.

6. 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 and business-type activities. Bond premiums and discounts, if material, are deferred and amortized over the life of the bonds using the effective interest method.

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

I. Summary of Significant Accounting Policies

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

6. Long-Term Obligations (Continued)

Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are immediately expensed.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources when issued. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

7. Compensated Absences

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, and are charged to the department from which the employee resigned or retired.

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

8. Pension Plan

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

9. 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. The net investment in capital assets represents capital assets, net of accumulated depreciation.

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

I. Summary of Significant Accounting Policies

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

9. Net Position and Fund Balance (Continued)

Net position in the government-wide statement of net position is classified in the following categories:

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

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

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

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

9. 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, 2016.

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.

10. Use of Estimates

The preparation of financial statements in conformity with deferred outflows/inflows of resources 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 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.

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

II. Stewardship, Compliance, and Accountability

A. Individual Ditch Fund Deficit

One of the 14 drainage systems have incurred expenditures in excess of revenues and available resources in the amount of \$72. This deficit will be eliminated with future special assessment levies against benefited properties.

B. Land Management

The County manages approximately 92,440 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.

III. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments

The County's total cash and investments are reported as follows:

Governmental funds	
Cash and pooled investments	\$ 11,686,080
Investments	378,286
Fiduciary funds	
Cash and pooled investments	492,916
Total cash and investments	\$ 12,557,282
Cash on hand	\$ 14,036
Checking accounts	4,085,950
Certificates of deposit	3,459,546
Investments	4,997,750
Total deposits and investments	\$ 12,557,282

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.

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

III. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments

Deposits (Continued)

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, 2016, the amount of \$102,211, of the County’s deposits were exposed to custodial credit risk.

Investments

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

- (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.

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

III. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments (Continued)

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. The County invests in both short-term and long-term investments so that a portion of the portfolio matures evenly over time as necessary to provide the cash flow and liquidity needed for operations.

At December 31, 2016, the County had the following investments and maturities:

	Fair Value	Less Than 1 Year	1-5 Years	5+ Years
MAGIC Fund	\$ 154,885	\$ 154,885	\$ -	\$ -
Wells Fargo Negotiable Certificates of Deposit	346,798	100,010	246,788	-
Federal Home Loan Bank	492,380	-	-	492,380
Municipal Bonds	3,264,502	-	2,013,393	1,251,109
Certificates of Deposit	250,826	-	250,826	-
Federal National Mortgage Association	114	-	-	114
Federal Home Loan Mortgage Corporation	488,245	-	-	488,245
Total Investments	<u>\$ 4,997,750</u>	<u>\$ 254,895</u>	<u>\$ 2,511,007</u>	<u>\$ 2,231,848</u>
	100%	5%	50%	45%

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.

The County's exposure to credit risk as of December 31, 2016, is as follows:

	S & P Rating	Fair Value
Federal Home Loan Bank	AA+	\$ 492,380
Federal National Mortgage Association	N/R	114
Wells Fargo Negotiable Certificates of Deposit	N/R	346,798
Federal Home Loan Mortgage Association	AA+	488,245
Municipal Bonds	AA+	1,409,969
Municipal Bonds	AA-	484,135
Municipal Bonds	AA	907,404
Municipal Bonds	AAA	462,994
Certificates of Deposit	N/R	250,826
MAGIC Cash Management Funds	N/A	154,885
		<u>\$ 4,997,750</u>

N/A – not applicable
N/R – not rated

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

III. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Deposits and 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, 2016, the following investments held by the County's agent in the County's name may be subject to custodial credit risk:

Federal Home Loan Mortgage Corporation	\$ 433,948
Federal National Mortgage Association	101
Federal Home Loan Bank	437,623
Certificate of Deposits	222,932
Municipal Bonds	<u>2,901,462</u>
Total Custodial Credit Risk	<u><u>\$ 3,996,066</u></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. Investments subject to concentration of credit risk that represent 5 percent or more of the County's portfolio include one certificate of deposit at 5.02 percent of the total investments.

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

III. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments (Continued)

Fair Value Measurement

The County measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy, as follows:

- Level 1: Quoted prices for identical investments in active markets;
- Level 2: Observable inputs other than quoted market prices; and;
- Level 3: Unobservable inputs.

At December 31, 2016, the County had the following recurring fair value measurements:

	December 31, 2016	Fair Value Measurements Using	
		Quotes Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Investments by fair value level			
Negotiable Certificates of Deposit	\$ 346,798	\$ -	\$ 346,798
Municipal Bonds	3,264,502	-	3,264,502
United States Agencies	980,739	-	980,739
Certificate of Deposit	250,826	250,826	-
Total Investments by fair value level	<u>\$ 4,842,865</u>	<u>\$ 250,826</u>	<u>\$ 4,592,039</u>
Investments measured at the net asset value - MAGIC	<u>\$ 154,885</u>		

All Level 2 debt securities are valued using a market approach based on the securities' relationship to benchmark quoted prices.

MAGIC is a local government investment pool which is quoted at a net asset value (NAV). The County invests in this pool for the purpose of the joint investment of the County's money with those of other counties to enhance the investment earnings accruing to each member.

MAGIC Portfolio is valued using amortized cost. Shares of the MAGIC Portfolio are available to be redeemed upon proper notice without restrictions under normal operating conditions. There are no limits to the number of redemptions that can be made as long as the County has a sufficient number of shares to meet their redemption request. The MAGIC Fund's Board of Trustees can suspend the right of withdrawal or postpone the date of payment if the Trustees determine that there is an emergency that makes the sale of a Portfolio's securities or determination of its net asset value not reasonably practical.

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

III. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources (Continued)

2. Receivables

Receivables as of December 31, 2016, 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	\$ 117,303	\$ -
Special assessments	84,234	33,423
Accounts	56,033	-
Accrued interest	42,139	-
Contracts	261,124	187,177
Due from other governments	3,862,192	-
Total	\$ 4,423,025	\$ 220,600

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 \$6,833.33 per month and are equal to the depreciation expense on the leased assets. Payments received on this lease totaled \$82,000 for the year ended December 31, 2016.

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

III. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources (Continued)

3. Capital Assets

Capital asset activity for the governmental activities for the year ended December 31, 2016, was as follows:

Governmental Activities

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated				
Land	\$ 165,750	\$ -	\$ -	\$ 165,750
Construction in progress	47,844	2,771,485	2,229,426	589,903
Total capital assets not depreciated	<u>\$ 213,594</u>	<u>\$ 2,771,485</u>	<u>\$ 2,229,426</u>	<u>\$ 755,653</u>
Capital assets being depreciated				
Infrastructure	\$ 55,599,987	\$ 2,262,719	\$ -	\$ 57,862,706
Buildings and improvements	9,165,871		-	9,165,871
Machinery and equipment	6,553,200	601,002	309,654	6,844,548
Total capital assets being depreciated	<u>\$ 71,319,058</u>	<u>\$ 2,863,721</u>	<u>\$ 309,654</u>	<u>\$ 73,873,125</u>
Less: accumulated depreciation for				
Infrastructure	\$ 16,943,496	\$ 1,141,648	\$ -	\$ 18,085,144
Buildings and improvements	6,452,808	230,489	-	6,683,297
Machinery and equipment	4,773,073	325,972	310,360	4,788,685
Total accumulated depreciation	<u>\$ 28,169,377</u>	<u>\$ 1,698,109</u>	<u>\$ 310,360</u>	<u>\$ 29,557,126</u>
Total capital assets, depreciated, net	<u>\$ 43,149,681</u>	<u>\$ 1,165,612</u>	<u>\$ (706)</u>	<u>\$ 44,315,999</u>
Governmental Activities Capital Assets, Net	<u><u>\$ 43,363,275</u></u>	<u><u>\$ 3,937,097</u></u>	<u><u>\$ 2,228,720</u></u>	<u><u>\$ 45,071,652</u></u>

Construction in progress consists of the amount uncompleted on road and bridge projects.

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

Governmental Activities	
General government	\$ 43,536
Public safety	213,356
Highways and streets, including depreciation of infrastructure assets	1,378,171
Sanitation	25,963
Human services	22,772
Health	7,393
Culture and recreation	3,948
Conservation of natural resources	2,970
Total Depreciation Expense - Governmental Activities	<u><u>\$ 1,698,109</u></u>

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

III. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

3. Capital Assets (Continued)

Construction Contracts

The County has 2 active road and bridge construction contracts as of December 31, 2016. The contracts total \$564,962 with a remaining uncompleted balance of \$36,635.

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2016, is as follows:

1. Due To/From Other Funds

Receivable Fund	Payable Fund	Amount	
General Fund	Human Services Special Revenue Fund	\$ 4,265	Reimbursements
	Forfeited Tax Sale Special Revenue Fund	2	Reimbursements
	Forfeited Tax Sale Special Revenue Fund	124,460	Forfeited tax sale settlement
	Solid Waste Special Revenue Fund	6	Reimbursements
Total Due to General Fund		\$ 128,733	
Road and Bridge Special Revenue Fund	General Fund	\$ 449	Reimbursements
Total Due To/From Other Funds		\$ 129,182	

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

2. Interfund Transfers

Interfund transfers for the year ended December 31, 2016 consisted of the following operating transfers:

Transfer to General Fund from			
Road and Bridge Special Revenue Fund	\$ 58,712	Cost allocation	
Human Services Special Revenue Fund	161,738	Cost allocation	
Other Governmental	73,761	Cost allocation	
Total transfers to General Fund	\$ 294,211		

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

III. Detailed Notes on All Funds (Continued)

C. Liabilities and Deferred Inflows of Resources

1. Payables

Payables at December 31, 2016 were as follows:

Accounts	\$ 289,801
Salaries	264,916
Contracts	17,816
Due to other governments	<u>92,984</u>
Total Payables	<u>\$ 665,517</u>

All payable amounts are scheduled for payment during the subsequent year.

2. 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 \$972,281 at December 31, 2016, is available to employees in the event of illness-related absences and is not paid to them at termination.

3. Long-Term Debt

Bonds Payable

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 paid from the Ditch Special Revenue Fund through February, 2019. The balance due on these bonds is \$65,000 as of December 31, 2016.

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

III. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources (Continued)

4. Debt Service Requirements

Debt service requirements for governmental activities at December 31, 2016, are as follows:

Year Ending December 31	General Obligation Watershed Bonds, Series 1999	
	Principal	Interest
2017	\$ 25,000	\$ 2,625
2018	20,000	1,500
2019	20,000	500
Total	\$ 65,000	\$ 4,625

5. Changes in Long-Term Liabilities

Long-term liability activity for the governmental activities for the year ended December 31, 2016, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
G.O. Watershed Bonds, Series 1999	\$ 85,000	\$ -	\$ 20,000	\$ 65,000	\$ 25,000
Net OPEB Payable	175,641	15,012	-	190,653	-
Compensated Absences	817,548	554,639	531,570	840,617	554,639
Net Pension Liability	4,756,337	4,725,211	-	9,481,548	-
Governmental Activities Long-Term Liabilities	\$ 1,078,189	\$ 5,294,862	\$ 551,570	\$ 5,821,481	\$ 579,639

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

III. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources (Continued)

6. Deferred Inflows of Resources

Deferred inflows of resources consist of taxes, special assessments, land and timber sales, and County State Aid Highway Allotments (CSAH), not collected soon enough after year-end to pay liabilities of the current period, and other receivables received but not yet earned. Deferred inflows of resources at December 31, 2016, are summarized below by fund:

	<u>Taxes</u>	<u>Special Assessments</u>	<u>Land & Timber Sales</u>	<u>CSAH</u>	<u>Total</u>
Major governmental funds					
General	\$ 53,002	\$ -	\$ -	\$ -	\$ 53,002
Road and Bridge	14,698	-	-	3,429,736	3,444,434
Human Services	16,250	-	-	-	16,250
Forfeited Land	-	-	178,350	-	178,350
Solid Waste	4,554	43,624	-	-	48,178
Ditch	-	33,430	-	-	33,430
	<u>-</u>	<u>33,430</u>	<u>-</u>	<u>-</u>	<u>33,430</u>
Total	<u>\$ 88,504</u>	<u>\$ 77,054</u>	<u>\$ 178,350</u>	<u>\$ 3,429,736</u>	<u>\$ 3,773,644</u>

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

III. Detailed Notes on All Funds (Continued)

D. Fund Balances

	General	Road and Bridge	Human Services	Other Governmental Funds	Total Governmental Funds
Fund Balances					
Nonspendable					
Inventories	\$ -	\$ 351,062	\$ -	\$ -	\$ 351,062
Restricted for					
AIS prevention	\$ 114,078	\$ -	\$ -	\$ -	\$ 114,078
Boat and water safety	6,773	-	-	-	6,773
Conservation of natural resources	-	-	-	8,000	8,000
DARE program	1,821	-	-	-	1,821
Debt service	-	-	-	64,019	64,019
Handgun permits	27,499	-	-	-	27,499
Help America Vote Act	50,000	-	-	-	50,000
Law library	16,014	-	-	-	16,014
Memorial forest	-	-	-	137,892	137,892
Missing heirs	25,979	-	-	-	25,979
Probation	22,826	-	-	-	22,826
Recorder's equipment	56,410	-	-	-	56,410
Sheriff's contingent fund	2,068	-	-	-	2,068
Sheriff's forfeited property	21,413	-	-	-	21,413
Technology	10,469	-	-	-	10,469
Timber development	-	-	-	426,643	426,643
Total restricted	\$ 355,350	\$ -	\$ -	\$ 636,554	\$ 991,904
Committed to					
Buildings	\$ 95,216	\$ -	\$ -	\$ -	\$ 95,216
Capital improvements	132,517	975,000	353,067	-	1,460,584
Construction	-	15,461	-	-	15,461
Citizens against violence	3,151	-	-	-	3,151
Criminal investigation	10,000	-	-	-	10,000
Compensated absences	-	-	400,000	-	400,000
County forest roads	-	-	-	27,273	27,273
County parks	564,165	-	-	-	564,165
Extension	3,697	-	-	-	3,697
Forfeited tax sales	-	-	-	263,042	263,042
Insurance	314,267	-	-	-	314,267
Landfill	-	-	-	113,604	113,604
Out of home placement	-	-	400,000	-	400,000
Payments in lieu of taxes	-	-	-	62,266	62,266
Public transportation	-	-	134,977	-	134,977
Recycling	-	-	-	66,847	66,847
Rural signing	48,855	-	-	-	48,855
Solid waste collection	-	-	-	172,438	172,438
Solid waste disposal	-	-	-	159,037	159,037
Tax software development	45,332	-	-	-	45,332
Technology	-	-	100,000	-	100,000
Veterans transportation	6,434	-	-	-	6,434
Total committed	\$ 1,223,634	\$ 990,461	\$ 1,388,044	\$ 864,507	\$ 4,466,646
Assigned to					
Energy assistance	\$ -	\$ -	\$ -	\$ 46	\$ 46
Highways and streets	-	2,273,929	-	-	2,273,929
Health	519,811	-	-	-	519,811
Human services	-	-	1,144,248	-	1,144,248
Nursing service	-	-	-	156,114	156,114
Unorganized townships	-	-	-	1,501	1,501
Total assigned	\$ 519,811	\$ 2,273,929	\$ 1,144,248	\$ 157,661	\$ 4,095,649
Unassigned	\$ 2,494,103	\$ -	\$ -	\$ (72)	\$ 2,494,031
Total Fund Balances	\$ 4,592,898	\$ 3,615,452	\$ 2,532,292	\$ 1,658,650	\$ 12,399,292

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

IV. Other Post-Employment Benefits (OPEB)

A. 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 as required by Minnesota Statute § 471.61, subdivision 2b. The retiree healthcare plan does not issue a publicly available financial report.

B. Funding Policy

The contribution requirements of the plan and the County are established and may be amended by Clearwater County Board of Commissioners. The required contribution is based on projected pay-as-you-go financing requirements. 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. For 2016, there were approximately 99 participants in the plan, with 4 retirees.

C. 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 thirty 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 retiree health plan.

Annual Required Contribution	\$	57,464
Interest on net OPEB obligation		7,904
Adjustments to Annual Required Contribution		(11,217)
Annual OPEB cost (expense)	\$	54,151
Contributions made		(39,139)
Increase in net OPEB obligation	\$	15,012
Net OPEB Obligation - January 1, 2016		175,641
Net OPEB Obligation - December 31, 2016	\$	190,653

The County's annual OPEB cost for December 31, 2016, was \$54,141. The percentage of annual OPEB cost contributed to the plan was 72.3 percent, and the net OPEB obligation for 2016 was \$190,653. For the required three-year trend information, refer to the Required Supplementary Information.

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

IV. Other Post-Employment Benefits (OPEB) (Continued)

D. 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 \$447,159, and the actuarial value of assets was zero, resulting in an unfunded actuarial liability (UAAL) of \$447,159. 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 10.37 percent.

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

E. 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 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.

The following simplifying assumptions were made:

Retirement age for active employees – Based on the historical average retirement age for the covered group, active plan members were assumed to retire at age 62 or at the first subsequent year in which the member would qualify for benefits.

Marital status – Marital status of members at the calculation date was assumed to continue throughout retirement.

Mortality – Life expectancies were based on mortality tables from the National Center for Health Statistics. The 2004 United States Life Tables for Males and for Females were used.

Turnover – Non-group-specific age-based turnover data from GASB Statement 45 were used as the basis for assigning active members a probability of remaining employed until the assumed retirement age and for developing an expected future working lifetime assumption for purposes of allocating to periods the represent value of total benefits to be paid.

Healthcare cost trend rate – The expected rate of increase in healthcare insurance premiums was based on projections of the Office of the Actuary at the Centers for Medicare and Medicaid Services. A rate of 5.4 percent initially, increased to a rate of 7.2 percent after six years, was used.

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

IV. Other Post-Employment Benefits (OPEB)

E. Methods and Assumptions (Continued)

Health insurance premiums – 2016 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits paid.

Inflation rate – The actuarial assumptions include a 2.01 percent investment rate of return (net of investment expense), which is Clearwater County’s implicit rate of return on the General Fund.

Payroll growth rate – The expected long-term payroll growth rate was based on the County’s projected payroll growth rate.

Based on the historical and expected returns of the County’s short-term investment portfolio, a discount rate of 2.01 percent was used. In addition, a simplified version of the entry age actuarial cost method was used. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2016, was twenty-two years.

V. Defined Benefit Pension Plans

A. Plan Description

Clearwater County participates in the following cost-sharing multiple-employer defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA’s defined benefit pension plans are established and administered in accordance with *Minnesota Statutes*, Chapters 353 and 356. PERA’s defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

1. General Employees Retirement Plan (General Employees Plan (accounted for in the General Employees Fund))

All full-time and certain part-time employees of Clearwater County are covered by the General Employees Plan. General Employees Plan members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

2. Public Employees Police and Fire Plan (Police and Fire Plan (accounted for in the Police and Fire Fund))

The Police and Fire Plan, originally established for police officers and firefighters not covered by a local relief association, now covers all police officers and firefighters hired since 1980. Effective July 1, 1999, the Police and Fire Plan also covers police officers and firefighters belonging to local relief associations that elected to merge with and transfer assets and administration to PERA.

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

V. Defined Benefit Pension Plans

A. Plan Description (Continued)

3. Local Government Correctional Plan (Correctional Plan (accounted for in the Correctional Fund))

The Local Government Correctional Fund, referred to as the Public Employees Correctional Fund (PECF), was established for correctional officers serving in county and regional corrections facilities. Eligible participants must be responsible for the security, custody, and control of the facilities and their inmates.

B. Benefits Provided

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90% funded for two consecutive years are given 2.5% increases. Members in plans that have not exceeded 90% funded, or have fallen below 80%, are given 1% increases.

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

1. General Employees Retirement Plan Benefits

General Employees Plan benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

V. Defined Benefit Pension Plans

B. Benefits Provided (Continued)

2. Public Employees Police and Fire Plan Benefits

Benefits for Police and fire Plan members first hired after June 30, 2010 but before July 1, 2014 vest a prorated basis from 50 percent after five years up to 100 percent after ten years of credited service. Benefits for Police and Fire Plan members first hired after June 30, 2014 vest on a prorated basis from 50 percent after ten years up to 100 percent after twenty years of credited service. The annuity accrual rate is 3 percent of average salary for each year of service. For Police and Fire Plan members who were first hired prior to July 1, 1989 a full annuity is available when age plus years of service equal at least 90.

3. Local Government Correctional Fund Benefits

Benefits for Correctional Plan members first hired after June 30, 2010 vest on a prorated basis from 50 percent after five years up to 100 percent after ten years of credited service. The annuity accrual rate is 1.9 percent of average salary for each year of service in that plan. For Correctional Plan members who were first hired prior to July 1, 1989 a full annuity is available when age plus years of service equal at least 90.

C. Contributions

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature.

1. General Employees Retirement Fund Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.1 percent and 6.50 percent, respectively, of their annual covered salary in calendar year 2016. Clearwater County was required to contribute 11.78 percent of pay for Basic Plan members and 7.50 percent for Coordinated Plan members in calendar year 2016. Clearwater County's contributions to the General Employees Fund for the year ended December 31, 2016, were \$351,713. Clearwater County's contributions were equal to the required contributions as set by state statute.

2. Public Employees Police and Fire Fund Contributions

Plan members were required to contribute 10.8 percent of their annual covered salary in calendar year 2016. Clearwater County was required to contribute 16.20 percent of pay for members in calendar year 2016. Clearwater County's contributions to the Police and Fire Fund for the year ended December 31, 2016, were \$81,374. Clearwater County's contributions were equal to the required contributions as set by state statute.

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

V. Defined Benefit Pension Plans

B. Contributions (Continued)

3. Local Government Correctional Fund Contributions

In calendar year 2016 plan members were required to contribute 5.83 percent of their annual covered salary. Clearwater County was required to contribute 8.75 percent of pay for plan members in calendar year 2016. The County's contributions to the Correctional Fund for the year ended December 31, 2016 were \$56,933. The County's contributions were equal to the required contributions as set by state statute.

C. Pension Costs

1. General Employees Retirement Fund Pension Costs

At December 31, 2016, Clearwater County reported a liability of \$6,159,830 for its proportionate share of the General Employees Fund's net pension liability. Clearwater County's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$6 million to the fund in 2016. The State of Minnesota considered a non-employer contributing entity and the State's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with Clearwater County totaled \$79,104. The net pension liability was measured as of June 30, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of the date. Clearwater County's proportion share was .0746 percent which was a decrease of .0033 percent from its proportion measured as of June 30, 2015.

There were no provision changes during the measurement period.

For the year ended December 31, 2016, Clearwater County recognized pension expense of \$796,520 for its proportionate share of the General Employees Plan's pension expense. In addition, Clearwater County recognized an additional \$23,586 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$6 million to the General Employees Fund.

At December 31, 2016, Clearwater County reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

V. Defined Benefit Pension Plans

C. Pension Costs

1. General Employee Retirement Fund Pension Costs (Continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 506,710
Changes in actuarial assumptions	1,192,569	-
Difference between projected and actual investment earnings	1,168,312	-
Changes in proportion	-	431,905
Contributions paid to PERA subsequent to the measurement date	179,239	-
Total	<u>\$ 2,540,120</u>	<u>\$ 938,615</u>

\$179,239 reported as deferred outflows of resources related to pensions resulting from Clearwater County's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ended December 31:</u>	<u>Pension Expense Amount</u>
2017	\$ 330,413
2018	330,411
2019	545,986
2020	218,779
2021	-

2. Public Employee Police and Fire Fund Pension Costs

At December 31, 2016, Clearwater County reported a liability of \$2,006,587 for its proportionate share of the Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. Clearwater County's proportion of the net pension liability was based on Clearwater County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all PERA's participating employers. At June 30, 2016, Clearwater County's proportion was .050 percent which was an increase of .001 percent from its proportion measured as of June 30, 2015.

There were no provision changes during the measurement period.

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

V. Defined Benefit Pension Plans

C. Pension Costs

2. Public Employee Police and Fire Fund Pension Costs (Continued)

For the year ended December 31, 2016, Clearwater County recognized pension expense of \$343,093 for its proportionate share of the Police and fire Plan's pension expense. Clearwater County also recognized \$4,500 for the year ended December 31, 2016 as pension expense (and an offsetting reduction of net pension liability) for its proportionate share of the State of Minnesota's on-behalf contributions to the Police and fire Fund. Legislation passed in 2013 required the State of Minnesota begin contribution \$9 million to the Police and Fire Fund each year, starting in fiscal year 2014.

As of December 31, 2016, Clearwater County reported its proportionate share of the Police and Fire Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 228,720
Changes in actuarial assumptions	1,104,313	-
Difference between projected and actual investment earnings	304,735	-
Changes in proportion	9,469	43,202
Contributions paid to PERA subsequent to the measurement date	41,777	-
Total	<u>\$ 1,460,294</u>	<u>\$ 271,922</u>

\$41,777 reported as deferred outflows of resources related to pensions resulting from Clearwater County's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	Pension Expense Amount
2017	\$ 244,847
2018	244,847
2019	244,848
2020	220,593
2021	191,460

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

V. Defined Benefit Pension Plans

C. Pension Costs (Continued)

3. Local Government Correctional Plan Pension Costs

At December 31, 2016, the County reported a liability of \$1,315,130 for its proportionate share of the Correctional Plan's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the County's proportion was .360% which was a decrease of .020% from its proportion measured as of June 30, 2015.

There were no provision changes during the measurement period.

For the year ended December 31, 2016 the County recognized pension expense of \$366,175 for its proportionate share of the Correctional Plan's pension expense.

At December 31, 2016, the County reported its proportionate share of the Correctional Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 1,030	\$ 14,995
Changes in actuarial assumptions	837,896	-
Difference between projected and actual investment earnings	149,692	-
Changes in proportion	-	3,450
Contributions paid to PERA subsequent to the measurement date	27,709	-
Total	<u>\$ 1,016,327</u>	<u>\$ 18,445</u>

\$27,709 reported as deferred outflows of resources related to pensions resulting from the County contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

V. Defined Benefit Pension Plans

C. Pension Costs

3. Local Government Correctional Plan Pension Costs (Continued)

<u>Year ended December 31:</u>	<u>Pension Expense Amount</u>
2017	\$ 311,290
2018	311,290
2019	319,352
2020	28,241
2021	-

D. Actuarial Assumptions

The total pension liability in the June 30, 2016, actuarial valuation determined using the following actuarial assumptions:

Inflation	2.50% per year
Active Member Payroll Growth	3.25% per year
Investment Rate of Return	7.50%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2014 tables for the General Employees Plan and RP-2000 tables for the Police and Fire Plan for males and females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be: 1 percent per year for all future years for the General Employees Plan and Police and Fire Plan, and 2.5 percent for all years for the Correctional Plan

Actuarial assumptions used in the June 30, 2016 valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2015. The experience study for Police and fire Plan was for the period July 1, 2004 through June 30, 2009. Experience studies have not been prepared for the Correctional Plan, but assumptions are reviewed annually.

The following changes in actuarial assumptions occurred in 2016:

1. General Employees Retirement Fund

- a. The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all future years.
- b. The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%.
- c. Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.5% for inflation.

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

V. Defined Benefit Pension Plans

D. Actuarial Assumptions (Continued)

2. Public Employees Police and Fire Fund

- a. The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2037 and 2.5% thereafter to 1.0% per year for all future years.
- b. The assumed investment return was changed from 7.9% to 7.5%. The single discount rate changed from 7.9% to 5.6%.
- c. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

3. Local Government Correctional Fund

- a. The assumed investment return was changed from 7.9% to 7.5%. The single discount rate changed from 7.9% to 5.31%.
- b. The assumed future salary increases payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

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

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

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

V. Defined Benefit Pension Plans

E. Discount Rate

The discount rate used to measure the total pension liability in 2016 was 7.50%, a reduction from the 7.9% used in 2015. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments of current pan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

In the Police and Fire Fund and the Correctional Fund, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members through June 30, 2056 and June 30, 2058 respectively. Beginning in fiscal years ended June 30, 2057 for the Police and Fire Fund and June 30, 2059 for the Correctional Fund, when projected benefit payments exceed the funds projected fiduciary net position, benefit payments were discounted at the municipal bond rate of 2.85% based on an index of 20-year general obligation bonds with an average AA credit rating at the measurement date. An equivalent single discount rate of 5.60% for the Police and Fire Fund and 5.31% for the Correctional Fund was determined that produced approximately the same present value of projected benefits when applied to all years of projected benefits as the present value of projected benefits using 7.50% applied to all years of projected benefits through the point of asset depletion and 2.85% thereafter.

F. Pension Liability Sensitivity

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

Sensitivity of Net Pension Liability at Current Single Discount Rate General Employees Fund			
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County of Clearwater	1% Decrease in Discount Rate (6.50%)	Discount Rate (7.50%)	1% Increase in Discount Rate (8.50%)
Proportionate share of Net Pension Liability	\$ 8,822,058	\$ 6,211,421	\$ 4,060,966

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

V. Defined Benefit Pension Plans

F. Pension Liability Sensitivity (Continued)

Sensitivity of Net Pension Liability at Current Single Discount Rate Police and Fire Fund
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County of Clearwater	1% Decrease in Discount Rate (4.60%)	Discount Rate (5.60%)	1% Increase in Discount Rate (6.60%)
Proportionate share of Net Pension Liability	\$ 2,808,956	\$ 2,006,587	\$ 1,350,991

Sensitivity of Net Pension Liability at Current Single Discount Rate Correctional Fund

County of Clearwater	1% Decrease in Discount Rate (4.31%)	Discount Rate (5.31%)	1% Increase in Discount Rate (6.31%)
Proportionate share of Net Pension Liability	\$ 1,980,180	\$ 1,315,130	\$ 7,985,931

G. Pension Plan Fiduciary Net Position

Detailed information about each pension plan’s fiduciary net position is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the internet at www.mnpera.org.

VI. Public Employees Defined Contribution Plan

Two employees are covered by the Public Employees Defined Contribution Plan (PEDCP), a multiple-employer deferred compensation plan administered by PERA. The PEDCP 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 Statutes, Chapter 353D.03, specifies plan provisions, including the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes 5% of salary which is matched by the elected official’s employer. Employees who are paid for their services may elect to make member contributions in an amount no to exceed the employer share. Employer and employee 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% of employer contributions and twenty-five hundredths of 1% (.0025) of the assets in each member’s account annually.

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

VI. Public Employees Defined Contribution Plan (Continued)

Total contributions made by Clearwater County during fiscal year 2016 were:

Contribution Amount		Percentage of Cover Payroll		Required
Employee	Employer	Employee	Employer	Rate
\$ 1,260	\$ 1,260	5%	5%	5%

VII. 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 \$500,000 per claim in 2016 and 2017. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

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

C. Joint Ventures

1. 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, 2016. 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 Clearwater County Auditor/Treasurer, 213 North Main Avenue, Bagley, Minnesota 56621.

2. 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, Mahnommen, 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.

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

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

C. Joint Ventures

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

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.

3. 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, Mahnomon, 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 contributed \$500 to the Natural Resources Board for the year ended December 31, 2016. Complete financial information can be obtained from the Natural Resources Board's Treasurer, Josh Stromlund, Box 808, Baudette, Minnesota 56623.

4. 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 shore-land 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, 2016. 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**

VII. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

5. 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, 2016. 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 Clearwater County Auditor/Treasurer's Office or the Health Service's office located at 212 Main Avenue North, Bagley, Minnesota 56621.

6. 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 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.

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

VII. Summary of Significant Contingencies and Other Items

C. Joint Ventures

6. Northern Counties Land Use Coordinating Board (Continued)

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, 2016. 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.

7. Northwest Emergency Communications Board

The Northwest Emergency Communications 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, Mahnomon, Marshall, Norman, Pennington, Polk, Red Lake, and Roseau counties and the County of Moorhead. The purpose of the Northwest Emergency Communications 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 Emergency Communications Board, which is composed of one county commissioner from each member county and one County council member from the member County, appointed by their respective governing bodies as provided in the Northwest Emergency Communications Board's Joint Powers Agreement.

The Northwest Emergency Communications 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 \$2,500 to the Northwest Regional Radio Board for the year ended December 31, 2016. Complete financial information can be obtained from Itasca County, 123 NE 4th Street, Grand Rapids, MN 55744.

8. 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.

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

VII. Summary of Significant Contingencies and Other Items

C. Joint Ventures

8. Northwest Minnesota Six County Joint Powers Board (Continued)

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.

9. 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 County 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.

10. 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, 2016.

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

VII. Summary of Significant Contingencies and Other Items

C. Joint Ventures

11. Northwestern Counties Data Processing Security Association (Continued)

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.

12. 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 \$5,880 to the Waste Management Group for the year ended December 31, 2016. 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 Clearwater County Auditor/Treasurer's Office or the Waste Management Group's Office, P.O. Box 186, Bagley, Minnesota 56621.

13. 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.

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

VII. Summary of Significant Contingencies and Other Items

C. Joint Ventures

13. Northwestern Minnesota Juvenile Center (Continued)

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.

Financing is provided by state and federal grants, charges for services, and appropriations from member counties. Clearwater County contributed \$157,688 to the Northwestern Minnesota Juvenile Center for the year ended December 31, 2016. 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.

14. 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, Cass, Clearwater, Hubbard, and Mahnomon 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 - County Hall, 317 - 4th Street N.W., Bemidji, Minnesota 56601.

15. 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, Meeke, 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

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

VII. Summary of Significant Contingencies and Other Items

C. Joint Ventures

15. PrimeWest County-Based Purchasing Initiative (Continued)

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.

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

1. Giziibii Resource Conservation and Development (RC&D) Council

The Giziibii RC&D Council was incorporated in June 1974 to help people protect and develop their economic, natural, and social resources in ways that improve their area's economy, environment, and quality of life. It serves the residents of Beltrami, Clearwater, Hubbard, Lake of the Woods, and Mahnomen Counties, and three reservations which include, Red Lake, Leach Lake, and White Earth. Clearwater County did not contribute to the Giziibii RC&D Council for the year ended December 31, 2016.

2. 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 \$95,725 to the Lake Agassiz Regional Library for the year ended December 31, 2016.

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

VII. Summary of Significant Contingencies and Other Items

D. Jointly-Governed Organizations (Continued)

3. Minnesota Association of Governments Investing for Counties

The Minnesota Association of Governments Investing for Counties (“MAGIC”) is a joint powers entity in the form of a common law trust organized and existing under the laws of the State of Minnesota in accordance with the provisions of the Minnesota Joint Powers Act. The Fund was established in the fall of 1990 for the purpose of allowing Minnesota Counties and instrumentalities of Counties to pool their investment funds to seek the highest possible investment yield, while maintaining liquidity and preserving capital. For more information, please contact a representative at 1-800-731-7150.

4. Minnesota Rural Counties Caucus

The Minnesota Rural Counties Caucus was established in 1997 and includes Becker, Beltrami, Clay, Clearwater, Itasca, Kittson, Koochiching, 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, 2016.

5. 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.

6. 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

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

VII. Summary of Significant Contingencies and Other Items

D. Jointly-Governed Organizations

6. Wild Rice Watershed District (Continued)

Becker, Clay, Mahnommen, 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, 2016**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 3,911,100	\$ 3,911,100	\$ 4,041,423	\$ 130,323
Licenses and permits	20,125	20,125	30,883	10,758
Intergovernmental	1,650,540	1,650,540	1,466,887	(183,653)
Charges for services	743,900	743,900	866,576	122,676
Fines and forfeitures	5,600	5,600	5,463	(137)
Investment earnings	175,300	175,300	167,213	(8,087)
Miscellaneous	432,465	432,465	373,893	(58,572)
Total Revenues	\$ 6,939,030	\$ 6,939,030	\$ 6,952,338	\$ 13,308
Expenditures				
Current				
General government				
Commissioners	\$ 228,292	\$ 228,292	\$ 217,801	\$ 10,491
District court	40,000	40,000	17,018	22,982
County auditor	472,162	472,162	472,680	(518)
County assessor	261,558	261,558	271,733	(10,175)
Elections	116,500	116,500	46,541	69,959
Software development	-	-	7,349	(7,349)
Accounting and auditing services	27,000	27,000	21,770	5,230
Management information systems	391,011	391,011	356,521	34,490
Personnel	3,650	3,650	480	3,170
Attorney	283,341	283,341	299,125	(15,784)
Safety control coordinator	1,500	1,500	641	859
Recorder	360,692	360,692	349,435	11,257
Motor pool	55,000	55,000	15,132	39,868
Buildings and grounds	13,000	13,000	14,264	(1,264)
Building maintenance	283,890	283,890	277,744	6,146
Veterans service officer	81,061	81,061	84,235	(3,174)
Insurance	174,429	174,429	116,333	58,096
Other general government	25,300	25,300	29,591	(4,291)
Total general government	\$ 2,818,386	\$ 2,818,386	\$ 2,598,393	\$ 219,993
Public safety				
Sheriff	\$ 1,351,472	\$ 1,351,472	\$ 1,360,209	\$ (8,737)
Boat and water safety	7,452	7,452	17,594	(10,142)
Handgun permits	9,794	9,794	19,027	(9,233)
Coroner	28,500	28,500	25,852	2,648
Enhanced 911	255,000	255,000	82,391	172,609
Snowmobile safety	3,636	3,636	3,236	400
DARE program	1,700	1,700	946	754

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

***Schedule 1
(Continued)***

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures				
Current				
Public safety (Continued)				
Emergency services	24,860	24,860	35,147	(10,287)
Rural signing	25,020	25,020	5,891	19,129
Law enforcement center	860,523	860,523	836,122	24,401
Probation and parole	108,765	108,765	109,916	(1,151)
Radio jail project	29,900	29,900	6,487	23,413
Sentence to serve	64,425	64,425	53,277	11,148
Law enforcement center canteen	25,000	25,000	13,312	11,688
Other public safety	9,934	9,934	4,042	5,892
Total public safety	\$ 2,805,981	\$ 2,805,981	\$ 2,573,449	\$ 232,532
Health				
Hospice	\$ 20,000	\$ 20,000	\$ 20,000	\$ -
Medical facilities management	10,000	10,000	149,176	(139,176)
Total health	\$ 30,000	\$ 30,000	\$ 169,176	\$ (139,176)
Culture and recreation				
Historical society	\$ 15,000	\$ 15,000	\$ 15,000	\$ -
Parks	305,923	305,923	277,943	27,980
Regional library	95,725	95,725	95,725	-
Snowmobile and ski trails	58,000	58,000	61,246	(3,246)
Total culture and recreation	\$ 474,648	\$ 474,648	\$ 449,914	\$ 24,734
Conservation of natural resources				
Agricultural society	\$ 35,000	\$ 35,000	\$ 35,000	\$ -
Aquatic invasive species	100,000	100,000	63,252	36,748
County extension	114,146	114,146	112,650	1,496
Environmental services	117,662	117,662	109,000	8,662
Predator and weed control	81,550	81,550	60,317	21,233
Soil and water conservation	69,360	69,360	69,360	-
Soil survey	75,000	75,000	76,850	(1,850)
Water planning	41,774	41,774	41,774	-
Wetlands administration	88,079	88,079	90,548	(2,469)
Other conservation of natural resources	668	668	668	-
Total conservation of natural resources	\$ 723,239	\$ 723,239	\$ 659,419	\$ 63,820

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

***Schedule 1
(Continued)***

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures				
Current (Continued)				
Economic development				
Emerging Leader Program	\$ 500	\$ 500	\$ 500	\$ -
Mississippi Headwaters Board	1,500	1,500	1,500	-
Red River Valley Development	800	800	800	-
Total economic development	\$ 2,800	\$ 2,800	\$ 2,800	\$ -
Total Current Expenditures	\$ 6,855,054	\$ 6,855,054	\$ 6,453,151	\$ 401,903
Capital outlay				
General government	-	-	64,556	(64,556)
Public safety	25,000	25,000	140,531	(115,531)
Total capital outlay	\$ 25,000	\$ 25,000	\$ 205,087	\$ (180,087)
Total Expenditures	\$ 6,880,054	\$ 6,880,054	\$ 6,658,238	\$ 221,816
Excess of Revenues Over (Under) Expenditures	\$ 58,976	\$ 58,976	\$ 294,100	\$ 235,124
Other Financing Sources (Uses)				
Transfers in	539,000	539,000	294,211	(244,789)
Net Change in Fund Balance	\$ 597,976	\$ 597,976	\$ 588,311	\$ (9,665)
Fund Balance - January 1	4,004,587	4,004,587	4,004,587	-
Fund Balance - December 31	\$ 4,602,563	\$ 4,602,563	\$ 4,592,898	\$ (9,665)

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

Schedule 2

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 1,160,000	\$ 1,160,000	\$ 1,012,611	\$ (147,389)
Intergovernmental	4,441,000	4,441,000	4,398,899	(42,101)
Charges for services	250,000	250,000	217,783	(32,217)
Miscellaneous	-	-	14,565	14,565
Total Revenues	\$ 5,851,000	\$ 5,851,000	\$ 5,643,858	\$ (207,142)
Expenditures				
Current				
Highways and Streets				
Administration	\$ 154,000	\$ 154,000	\$ 450,092	\$ (296,092)
Maintenance	2,251,766	2,251,766	1,126,539	1,125,227
Construction	3,650,000	3,650,000	3,061,120	588,880
Equipment maintenance and shop	365,000	365,000	380,681	(15,681)
Materials for resale	-	-	25,829	(25,829)
Township roads	-	-	-	-
Other highways and streets	50,000	50,000	49,657	343
Capital outlay				
Highways and streets	391,000	391,000	370,917	20,083
Total Expenditures	\$ 6,861,766	\$ 6,861,766	\$ 5,464,835	\$ 1,396,931
Excess of Revenues Over (Under) Expenditures	\$ (1,010,766)	\$ (1,010,766)	\$ 179,023	\$ 1,189,789
Other Financing Sources (Uses)				
Transfers out	-	-	(58,712)	(58,712)
Net Change in Fund Balance	\$ (1,010,766)	\$ (1,010,766)	\$ 120,311	\$ 1,131,077
Fund Balance - January 1	3,502,794	3,502,794	3,502,794	-
Increase (decrease) in inventories	-	-	(7,653)	(7,653)
Fund Balance - December 31	\$ 2,492,028	\$ 2,492,028	\$ 3,615,452	\$ 1,123,424

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

Schedule 3

**BUDGETARY COMPARISON SCHEDULE
HUMAN SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 1,346,008	\$ 1,346,008	\$ 1,166,285	\$ (179,723)
Intergovernmental	2,317,531	2,317,531	1,832,498	(485,033)
Charges for services	256,900	256,900	139,044	(117,856)
Miscellaneous	233,880	233,880	202,399	(31,481)
Total Revenues	\$ 4,154,319	\$ 4,154,319	\$ 3,340,226	\$ (814,093)
Expenditures				
Current				
Human Services				
Income maintenance	\$ 1,632,106	\$ 1,632,106	\$ 1,347,677	\$ 284,429
Social services	2,898,890	2,898,890	2,208,528	690,362
Total Expenditures	\$ 4,530,996	\$ 4,530,996	\$ 3,556,205	\$ 974,791
Excess of Revenues Over (Under) Expenditures	\$ (376,677)	\$ (376,677)	\$ (215,979)	\$ 160,698
Other Financing Sources (Uses)				
Transfers out	-	-	(161,738)	(161,738)
Net Change in Fund Balance	\$ (376,677)	\$ (376,677)	\$ (377,717)	\$ (1,040)
Fund Balance - January 1	2,910,009	2,910,009	2,910,009	-
Fund Balance - December 31	\$ 2,533,332	\$ 2,533,332	\$ 2,532,292	\$ (1,040)

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

Schedule 4

**SCHEDULE OF FUNDING PROGRESS
OTHER POST-EMPLOYMENT BENEFIT PLAN
FOR THE YEAR ENDED DECEMBER 31, 2016**

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
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 5

**SCHEDULE OF EMPLOYER CONTRIBUTIONS
OTHER POST-EMPLOYMENT BENEFIT PLAN
FOR THE YEAR ENDED DECEMBER 31, 2016**

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2014	\$ 55,223	\$ 27,478	49.8%	\$ 153,982
December 31, 2015	\$ 54,658	\$ 32,999	60.4%	\$ 175,641
December 31, 2016	\$ 54,151	\$ 39,139	72.3%	\$ 190,653

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

Schedule 6

**SCHEDULE OF CONTRIBUTIONS
PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF MINNESOTA
FOR THE YEAR ENDED DECEMBER 31, 2016**

GENERAL EMPLOYEES RETIREMENT FUND PENSION PLAN

Fiscal Year Ending	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
December 31, 2015	\$ 350,346	\$ 350,346	\$ -	\$ 4,671,266	7.5%
December 31, 2016	\$ 351,527	\$ 351,527	\$ -	\$ 4,687,027	7.5%

PUBLIC EMPLOYEES POLICE AND FIRE FUND PENSION PLAN

Fiscal Year Ending	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
December 31, 2015	\$ 77,245	\$ 77,245	\$ -	\$ 476,822	16.2%
December 31, 2016	\$ 81,374	\$ 81,374	\$ -	\$ 502,314	16.2%

PUBLIC EMPLOYEES CORRECTIONAL FUND PENSION PLAN

Fiscal Year Ending	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
December 31, 2015	\$ 58,248	\$ 58,248	\$ -	\$ 665,697	8.75%
December 31, 2016	\$ 56,933	\$ 56,933	\$ -	\$ 650,663	8.75%

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

Schedule 7

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PUBLIC EMPLOYEES RETIREMENT ASSOCIATION
FOR THE YEAR ENDED DECEMBER 31, 2016**

GENERAL EMPLOYEES RETIREMENT FUND PENSION PLAN

Fiscal Year Ending	Employer's Proportion of the Net Pension Liability	Employer's Proportionate Share of the Net Pension Liability	Employer's Proportionate Share of the State of Minnesota's Proportionate Share of the Net Pension Liability	Employer's Proportionate Share of the Net Pension Liability and the Employer's Proportionate Share of the State of Minnesota's Share of the Net Pension Liability	Covered Payroll	Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
June 30, 2015	0.0799%	\$ 4,140,834	\$ -	\$ 4,140,834	\$ 4,693,208	88.23%	78.20%
June 30, 2016	0.0746%	\$ 6,159,830	\$ 79,104	\$ 6,238,934	\$ 4,671,494	131.86%	68.90%

PUBLIC EMPLOYEES POLICE AND FIRE FUND PENSION PLAN

Fiscal Year Ending	Employer's Proportion of the Net Pension Liability	Employer's Proportionate Share of the Net Pension Liability	Employer's Proportionate Share of the State of Minnesota's Proportionate Share of the Net Pension Liability	Employer's Proportionate Share of the Net Pension Liability and the Employer's Proportionate Share of the State of Minnesota's Share of the Net Pension Liability	Covered Payroll	Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
June 30, 2015	0.0490%	\$ 556,755	\$ -	\$ 556,755	\$ 451,688	123.26%	86.60%
June 30, 2016	0.0500%	\$ 2,006,587	\$ -	\$ 2,006,587	\$ 485,959	412.91%	63.90%

PUBLIC EMPLOYEES CORRECTIONAL FUND PENSION PLAN

Fiscal Year Ending	Employer's Proportion of the Net Pension Liability	Employer's Proportionate Share of the Net Pension Liability	Employer's Proportionate Share of the State of Minnesota's Proportionate Share of the Net Pension Liability	Employer's Proportionate Share of the Net Pension Liability and the Employer's Proportionate Share of the State of Minnesota's Share of the Net Pension Liability	Covered Payroll	Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
June 30, 2015	0.3800%	\$ 58,748	\$ -	\$ 58,748	\$ 681,053	8.63%	96.90%
June 30, 2016	0.3600%	\$ 1,315,130	\$ -	\$ 1,315,130	\$ 696,180	188.91%	58.20%

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016

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, 2016:

	Expenditures	Budget	Excess
General Fund			
General government			
County auditor	\$ 472,680	\$ 472,162	\$ (518)
County assessor	271,733	261,558	(10,175)
Software development	7,349	-	(7,349)
Attorney	299,125	283,341	(15,784)
Buildings and grounds	14,264	13,000	(1,264)
Veterans service officer	84,235	81,061	(3,174)
Other general government	29,591	25,300	(4,291)
Public safety			
Sheriff	1,360,209	1,351,472	(8,737)
Boat and water safety	17,594	7,452	(10,142)
Handgun permits	19,027	9,794	(9,233)
Emergency services	35,147	24,860	(10,287)
Probation and parole	109,916	108,765	(1,151)
Health			
Medical facilities management	149,176	10,000	(139,176)
Culture and recreation			
Snowmobile and ski trails	61,246	58,000	(3,246)
Conservation of natural resources			
Soil survey	76,850	75,000	(1,850)
Wetlands administration	90,548	88,079	(2,469)
Other conservation of natural resources	3,003	668	(2,335)
Capital outlay			
General government	64,556	-	(64,556)
Public safety	140,531	25,000	(115,531)
Road and Bridge Special Revenue Fund			
Highways and Streets			
Administration	450,092	154,000	(296,092)
Equipment maintenance and shop	380,681	365,000	(15,681)
Materials for resale	25,829	-	(25,829)

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

II. Other Post-Employment Benefits (OPEB)

Since the last actuarial valuation as of January 1, 2014, the following actuarial assumptions have been changed:

- The health care trend rates were changed to better anticipate short-term and long-term medical increases.
- The mortality assumptions were updated to include the RP-2014 tables, including the generational improvement scale, to include future mortality improvement. This change caused an increase in the liability.
- Starting claim costs were developed by age adjusting the premium information provided by Clearwater County.
- The prior valuation assumed the post-retirement medical subsidy remained constant after retirement. Since the Board contribution to retiree VEBA accounts does increase the same as actives, pre- and post-retirement medical trend has been applied to the subsidy in this valuation.

There have been no changes to the plan provisions since the last actuarial valuation as of January 1, 2014. Currently, three year's actuarial data is available. For more information, refer to Schedules 4 and 5 of this section and the Notes to the Financial Statements Section V., Other Post-Employment Benefits.

III. Net Pension Liability

The information presented in the required supplementary schedules was used in the actuarial valuation for purposes of determining the actuarially determined contribution rates. The assumptions and methods used for this actuarial valuation were recommend by PERA and adopted by the County Commissioners.

For more information, refer to Schedules 6 and 7 of this section and the Notes to the Financial Statements.

A. General Employees Fund

1. 2016 Changes in Actuarial Assumptions

- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2035 and 2.5 percent per year thereafter to 1.0 percent per year for all years.
- The assumed investment return was changed from 7.9 percent to 7.5 percent. The single discount rate was changed from 7.9 percent to 7.5 percent.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

2. 2015 Changes in Actuarial Assumptions

- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2030 and 2.5 percent per year thereafter to 1.0 percent per year through 2035 and 2.5 percent per year thereafter.

3. 2015 Changes in Plan Provisions

- On January 1, 2015 the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by \$1.1 billion and increased the fiduciary plan net position by \$892 million. Upon consolidation, state and employer contributions were revised.

B. Police and Fire Fund

1. 2016 Changes in Actuarial Assumptions:

- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2037 and 2.5 percent thereafter to 1.0 percent per year for all future years.
- The assumed investment return was changed from 7.9 percent to 7.5 percent. The single discount rate changed from 7.9 percent to 5.6 percent.
- The assumed future salary increases, payroll growth, and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

2. 2015 Changes in Actuarial Assumptions

- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2030 and 2.5 percent per year thereafter to 1.0 percent per year through 2037 and 2.5 percent per year thereafter.

3. 2015 Changes in Plan Provisions

- The post-retirement benefit increases to be paid after attainment of the 90 percent funding threshold was changed, from inflation up to 2.5 percent, to a fixed rate of 2.5 percent.

C. Local Government Correctional Fund

4. 2016 Changes in Actuarial Assumptions:

- The assumed investment return was changed from 7.9 percent per year to 7.5 percent per year. The single discount rate changed from 7.9 percent to 5.31 percent.
- The assumed future salary increases, payroll growth, and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

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 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.

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, 2016**

	Special Revenue Funds						Total Nonmajor Governmental Funds (Exhibit 3)
	Ditch	Energy Assistance	Forfeited Tax Sale	Nursing Service	Solid Waste Management	Unorganized Townships	
Assets							
Cash and pooled investments	\$ 7,928	\$ 5,801	\$ 966,330	\$ 49,138	\$ 544,150	\$ 1,501	\$ 1,574,848
Investments	64,019	-	-	-	-	-	64,019
Taxes receivable - prior	-	-	-	-	6,193	-	6,193
Special assessments receivable - prior	7	-	-	-	50,804	-	50,811
Accounts receivable	-	-	-	25,419	-	-	25,419
Contracts receivable	-	-	261,124	-	-	-	261,124
Due from other governments	-	-	-	144,114	-	-	144,114
Special assessments - noncurrent	33,423	-	-	-	-	-	33,423
Total Assets	\$ 105,377	\$ 5,801	\$ 1,227,454	\$ 218,671	\$ 601,147	\$ 1,501	\$ 2,159,951
Liabilities, Deferred Inflows of Resources, and Fund Balances							
Liabilities							
Accounts payable	\$ -	\$ 5,755	\$ 901	\$ 8,856	\$ 8,287	\$ -	\$ 23,799
Salaries payable	-	-	6,618	53,320	3,030	-	62,968
Due to other funds	-	-	124,462	-	6	-	124,468
Due to other governments	-	-	7	381	29,720	-	30,108
Total Liabilities	\$ -	\$ 5,755	\$ 131,988	\$ 62,557	\$ 41,043	\$ -	\$ 241,343
Deferred Inflows of Resources							
Taxes	\$ -	\$ -	\$ -	\$ -	\$ 4,554	\$ -	\$ 4,554
Special assessments	33,430	-	-	-	43,624	-	77,054
Land and timber sales	-	-	178,350	-	-	-	178,350
Total Deferred Inflows of Resources	\$ 33,430	\$ -	\$ 178,350	\$ -	\$ 48,178	\$ -	\$ 259,958
Fund Balances							
Restricted for							
Conservation of natural resources	\$ 8,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,000
Debt service	64,019	-	-	-	-	-	64,019
Memorial forest	-	-	137,892	-	-	-	137,892
Timber development	-	-	426,643	-	-	-	426,643
Committed to							
County forest roads	-	-	27,273	-	-	-	27,273
Forfeited tax sales	-	-	263,042	-	-	-	263,042
In lieu	-	-	62,266	-	-	-	62,266
Landfill	-	-	-	-	113,604	-	113,604
Recycling	-	-	-	-	66,847	-	66,847
Solid waste collection	-	-	-	-	172,438	-	172,438
Solid waste disposal	-	-	-	-	159,037	-	159,037
Assigned to							
Energy assistance	-	46	-	-	-	-	46
Nursing service	-	-	-	156,114	-	-	156,114
Unorganized townships	-	-	-	-	-	1,501	1,501
Unassigned	(72)	-	-	-	-	-	(72)
Total Fund Balances	\$ 71,947	\$ 46	\$ 917,116	\$ 156,114	\$ 511,926	\$ 1,501	\$ 1,658,650
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 105,377	\$ 5,801	\$ 1,227,454	\$ 218,671	\$ 601,147	\$ 1,501	\$ 2,159,951

**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, 2016**

	Special Revenue Funds						Total Nonmajor Governmental Funds (Exhibit 5)
	Ditch	Energy Assistance	Forfeited Tax Sale	Nursing Service	Solid Waste Management	Unorganized Townships	
Revenues							
Taxes	\$ -	\$ -	\$ -	\$ -	\$ 346,640	\$ -	\$ 346,640
Special assessments	57,796	-	-	-	479,381	-	537,177
Licenses and permits	-	-	434	-	500	38	972
Intergovernmental	-	85,127	66,675	249,529	125,650	812	527,793
Charges for services	-	-	1,282	1,095,365	21,893	-	1,118,540
Investment earnings	-	2	-	-	-	-	2
Land and timber sales	-	-	565,947	-	-	-	565,947
Miscellaneous	-	-	49,097	17,864	3,141	-	70,102
Total Revenues	\$ 57,796	\$ 85,129	\$ 683,435	\$ 1,362,758	\$ 977,205	\$ 850	\$ 3,167,173
Expenditures							
Current							
Highways and streets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,057	\$ 1,057
Sanitation	-	-	-	-	772,954	-	772,954
Human services	-	84,382	-	-	-	-	84,382
Health	-	-	-	1,535,410	-	-	1,535,410
Conservation of natural resources	34,275	-	708,394	-	-	-	742,669
Capital outlay	-	-	24,988	-	-	-	24,988
Debt service							
Principal retirement	20,000	-	-	-	-	-	20,000
Interest	3,750	-	-	-	-	-	3,750
Total Expenditures	\$ 58,025	\$ 84,382	\$ 733,382	\$ 1,535,410	\$ 772,954	\$ 1,057	\$ 3,185,210
Excess of Revenues Over (Under) Expenditures	\$ (229)	\$ 747	\$ (49,947)	\$ (172,652)	\$ 204,251	\$ (207)	\$ (18,037)
Other Financing Sources (Uses)							
Transfers out	-	(427)	(65,004)	-	(8,330)	-	(73,761)
Net Change in Fund Balance	\$ (229)	\$ 320	\$ (114,951)	\$ (172,652)	\$ 195,921	\$ (207)	\$ (91,798)
Fund Balance - January 1	72,176	(274)	1,032,067	328,766	316,005	1,708	1,750,448
Fund Balance - December 31	\$ 71,947	\$ 46	\$ 917,116	\$ 156,114	\$ 511,926	\$ 1,501	\$ 1,658,650

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

Schedule 8

**BUDGETARY COMPARISON SCHEDULE
DITCH SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Special assessments	\$ 51,946	\$ 51,946	\$ 57,796	\$ 5,850
Expenditures				
Current				
Conservation of natural resources				
Administration	\$ 405	\$ 405	\$ 400	\$ 5
Ditch maintenance and repair	33,879	33,879	33,875	4
Total current	\$ 34,284	\$ 34,284	\$ 34,275	\$ 9
Debt service				
Principal retirement	\$ 20,000	\$ 20,000	\$ 20,000	\$ -
Interest	3,750	3,750	3,750	-
Total debt service	\$ 23,750	\$ 23,750	\$ 23,750	\$ -
Total Expenditures	\$ 58,034	\$ 58,034	\$ 58,025	\$ 9
Excess of Revenues Over (Under) Expenditures	\$ (6,088)	\$ (6,088)	\$ (229)	\$ 5,859
Fund Balance - January 1	72,176	72,176	72,176	-
Fund Balance - December 31	\$ 66,088	\$ 66,088	\$ 71,947	\$ 5,859

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

Schedule 9

**BUDGETARY COMPARISON SCHEDULE
ENERGY ASSISTANCE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Intergovernmental	\$ 85,639	\$ 85,639	\$ 85,127	\$ (512)
Investment earnings	-	-	2	2
Total Revenues	\$ 85,639	\$ 85,639	\$ 85,129	\$ (510)
Expenditures				
Current				
Human services				
Administration	\$ 36,523	\$ 36,523	\$ 45,330	\$ (8,807)
Energy assistance	49,116	49,116	39,052	10,064
Total Expenditures	\$ 85,639	\$ 85,639	\$ 84,382	\$ 1,257
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ 747	\$ 747
Other Financing Sources (Uses)				
Transfers out	-	-	(427)	(427)
Net Change in Fund Balance	\$ -	\$ -	\$ 320	\$ 320
Fund Balance - January 1	(274)	(274)	(274)	-
Fund Balance - December 31	\$ (274)	\$ (274)	\$ 46	\$ 320

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

Schedule 10

**BUDGETARY COMPARISON SCHEDULE
FORFEITED TAX SALE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Licenses and permits	\$ 500	\$ 500	\$ 434	\$ (66)
Intergovernmental	66,700	66,700	66,675	(25)
Charges for services	2,460	2,460	1,282	(1,178)
Land and timber sales	316,000	316,000	565,947	249,947
Miscellaneous	37,720	37,720	49,097	11,377
Total Revenues	\$ 423,380	\$ 423,380	\$ 683,435	\$ 260,055
Expenditures				
Current				
Conservation of natural resources				
Forfeited land	\$ 397,257	\$ 397,257	\$ 389,452	\$ 7,805
Forest access road	16,000	16,000	20,730	(4,730)
Timber development	193,955	193,955	252,996	(59,041)
Payments in lieu of taxes	45,115	45,115	45,216	(101)
Capital outlay				
Conservation of natural resources	6,000	6,000	24,988	(18,988)
Total Expenditures	\$ 658,327	\$ 658,327	\$ 733,382	\$ (75,055)
Excess of Revenues Over (Under) Expenditures	\$ (234,947)	\$ (234,947)	\$ (49,947)	\$ 185,000
Other Financing Sources (Uses)				
Transfers out	(50,000)	(50,000)	(65,004)	(15,004)
Net Change in Fund Balance	\$ (284,947)	\$ (284,947)	\$ (114,951)	\$ 169,996
Fund Balance - January 1	1,032,067	1,032,067	1,032,067	-
Fund Balance - December 31	\$ 747,120	\$ 747,120	\$ 917,116	\$ 169,996

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

Schedule 11

**BUDGETARY COMPARISON SCHEDULE
NURSING SERVICE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Intergovernmental	\$ 236,241	\$ 236,241	\$ 249,529	\$ 13,288
Charges for services	1,385,333	1,385,333	1,095,365	(289,968)
Miscellaneous	5,020	5,020	17,864	12,844
Total Revenues	\$ 1,626,594	\$ 1,626,594	\$ 1,362,758	\$ (263,836)
Expenditures				
Current				
Health				
Nursing service	1,583,710	1,583,710	1,535,410	48,300
Excess of Revenues Over (Under) Expenditures	\$ 42,884	\$ 42,884	\$ (172,652)	\$ (215,536)
Fund Balance - January 1	328,766	328,766	328,766	-
Fund Balance - December 31	\$ 371,650	\$ 371,650	\$ 156,114	\$ (215,536)

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

Schedule 12

**BUDGETARY COMPARISON SCHEDULE
SOLID WASTE MANAGEMENT SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 344,000	\$ 344,000	\$ 346,640	\$ 2,640
Special assessments	460,000	460,000	479,381	19,381
License and permits	300	300	500	200
Intergovernmental	71,655	71,655	125,650	53,995
Charges for services	15,000	15,000	21,893	6,893
Miscellaneous	20,600	20,600	3,141	(17,459)
Total Revenues	\$ 911,555	\$ 911,555	\$ 977,205	\$ 65,650
Expenditures				
Current				
Sanitation				
Demolition landfill	\$ 102,214	\$ 102,214	\$ 89,042	\$ 13,172
Household hazardous waste	7,500	7,500	7,532	(32)
Recycling	101,687	101,687	62,814	38,873
Solid waste collection	322,244	322,244	283,984	38,260
Solid waste disposal	324,951	324,951	329,582	(4,631)
Total Expenditures	\$ 858,596	\$ 858,596	\$ 772,954	\$ 85,642
Excess of Revenues Over (Under) Expenditures	\$ 52,959	\$ 52,959	\$ 204,251	\$ 151,292
Other Financing Sources (Uses)				
Transfers out	(11,100)	(11,100)	(8,330)	2,770
Net Change in Fund Balance	\$ 41,859	\$ 41,859	\$ 195,921	\$ 154,062
Fund Balance - January 1	316,005	316,005	316,005	-
Fund Balance - December 31	\$ 357,864	\$ 357,864	\$ 511,926	\$ 154,062

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

Schedule 13

**BUDGETARY COMPARISON SCHEDULE
UNORGANIZED TOWNSHIPS SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
License and permits	\$ -	\$ -	\$ 38	\$ 38
Intergovernmental	-	-	812	812
Total Revenues	\$ -	\$ -	\$ 850	\$ 850
Expenditures				
Current				
Highways and streets				
Township roads	-	-	1,057	(1,057)
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ (207)	\$ (207)
Fund Balance - January 1	1,708	1,708	1,708	-
Fund Balance - December 31	\$ 1,708	\$ 1,708	\$ 1,501	\$ (207)

**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, 2016**

	Balance January 1	Additions	Deductions	Balance December 31
<u>CLEARWATER COLLABORATIVE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 60,070	\$ 50,822	\$ 68,042	\$ 42,850
<u>Liabilities</u>				
Due to other governments	\$ 60,070	\$ 50,822	\$ 68,042	\$ 42,850
 <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	\$ 119,419	\$ 2,078,525	\$ 1,983,191	\$ 214,753
<u>Liabilities</u>				
Due to other governments	\$ 119,419	\$ 2,078,525	\$ 1,983,191	\$ 214,753
 <u>NORTHWEST COUNTIES DATA PROCESSING SECURITY ASSOCIATION</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 21,776	\$ 602	\$ 1,563	\$ 20,815
<u>Liabilities</u>				
Due to other governments	\$ 21,776	\$ 602	\$ 1,563	\$ 20,815

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

*Statement 3
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Balance January 1	Additions	Deductions	Balance December 31
<u>NORTHWESTERN MINNESOTA HOUSEHOLD HAZARDOUS WASTE MANAGEMENT GROUP</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 70,052	\$ 256,862	\$ 192,292	\$ 134,622
<u>Liabilities</u>				
Due to other governments	\$ 70,052	\$ 256,862	\$ 192,292	\$ 134,622
 <u>SCHOOL DISTRICTS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 2,921,861	\$ 2,921,861	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 2,921,861	\$ 2,921,861	\$ -
 <u>STATE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 3,577	\$ 3,663,795	\$ 3,664,157	\$ 3,215
<u>Liabilities</u>				
Due to other governments	\$ 3,577	\$ 3,663,795	\$ 3,664,157	\$ 3,215

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

*Statement 3
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Balance January 1	Additions	Deductions	Balance December 31
<u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 111,015	\$ 17,321,061	\$ 17,358,191	\$ 73,885
<u>Liabilities</u>				
Due to other governments	\$ 111,015	\$ 17,321,061	\$ 17,358,191	\$ 73,885
 <u>TOWNS AND CITIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 1,389	\$ 2,882,577	\$ 2,882,577	\$ 1,389
<u>Liabilities</u>				
Due to other governments	\$ 1,389	\$ 2,882,577	\$ 2,882,577	\$ 1,389
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 388,685	\$ 29,176,105	\$ 29,071,874	\$ 492,916
<u>Liabilities</u>				
Due to other governments	\$ 388,685	\$ 29,176,105	\$ 29,071,874	\$ 492,916

OTHER SCHEDULES

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

**BALANCE SHEET - BY DITCH
DITCH SPECIAL REVENUE FUND
DECEMBER 31, 2016**

	Assets			Total Assets
	Cash and Investments	Special Assessments Receivable - Prior	Special Assessments Receivable - Noncurrent	
County Ditches				
2	\$ 592	\$ -	\$ -	\$ 592
Project 113	64,119	7	33,423	97,549
Red Lake Watershed Ditches				
County Ditches				
1	274	-	-	274
5	91	-	-	91
72	830	-	-	830
Judicial Ditches				
2 Branch A	437	-	-	437
2 Branch B	642	-	-	642
4	148	-	-	148
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	506	-	-	506
Wild Rice Allocation	314	-	-	314
Total	\$ 71,947	\$ 7	\$ 33,423	\$ 105,377

Schedule 14

Deferred Inflows of Resources	Fund Balance		Total Fund Balance	Total Deferred Inflows and Fund Balance
	Restricted	Unassigned		
\$ -	\$ 592	\$ -	\$ 592	\$ 592
33,430	64,119	-	64,119	97,549
-	274	-	274	274
-	91	-	91	91
-	830	-	830	830
-	437	-	437	437
-	642	-	642	642
-	148	-	148	148
-	10	-	10	10
-	81	-	81	81
-	3,975	-	3,975	3,975
-	-	(72)	(72)	(72)
-	506	-	506	506
-	314	-	314	314
\$ 33,430	\$ 72,019	\$ (72)	\$ 71,947	\$ 105,377

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

Schedule 15

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2016**

Shared Revenue

State

Aquatic ISP Aid	\$	98,448
Volunteer retention stipend aid		5,000
County program aid		742,918
Disparity reduction aid		48,589
Enhanced 911		79,520
Highway users tax		3,502,255
Market value credit		202,208
PERA rate reimbursement		21,917
Police state aid		77,245
		77,245

Total Shared Revenue **\$ 4,778,100**

Reimbursement for Services

State

Minnesota Department of Human Services	\$	353,589
		353,589

Payments

Payments in lieu of taxes	\$	311,061
		311,061

Grants

Local

City of Bagley	\$	2,400
Mental Health Collaborative		18,085
Northwest Minnesota Foundation		45,915
Other		13,180
		13,180

Total Local **\$ 79,580**

State

Minnesota Department/Board of

Corrections	\$	44,865
Health		50,646
Human Services		449,101
Natural Resources		78,646
Peace Officer Standards and Training		3,752
Pollution Control Agency		68,710
Trial courts		3,702
Public Safety		43,563
Veteran Affairs		7,500
Transportation		700,000
Water and Soil Resources		62,709
		62,709

Total State **\$ 1,513,194**

Federal

Department of

Agriculture	\$	139,535
Health and Human Services		1,022,177
Homeland Security		22,732
Transportation		6,109
		6,109

Total Federal **\$ 1,190,553**

Total Grants **\$ 2,783,327**

Total Intergovernmental Revenue **\$ 8,226,077**

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

Schedule 16

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

Federal Grantor Pass Through Agency Grant Program Title	Federal CFDA Number	Pass-Through Grant Award Number	Expenditures	
U.S. Department of Agriculture				
Passed Through North Country Community Health Services Special Supplemental Nutrition Assistance Program for Women, Infants,	10.557	Not provided	\$	652
Passed Through Minnesota Department of Human Services SNAP Cluster State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	16162MN10152514		<u>138,883</u>
Total U.S. Department of Agriculture			\$	<u>139,535</u>
U.S. Department of Transportation				
Passed Through Minnesota Department of Public Safety Highway Safety Cluster National Priority Safety Program	20.616	Not provided	\$	<u>6,109</u>
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	Not provided	\$	3,000
Passed Through North Country Community Health Services Public Health Emergency Preparedness	93.069	Not provided		25,294
Affordable Care Act Maternal, Infant, and Early Childhood Home Visiting Program	93.505	D89NC23539		54,628
Passed Through Minnesota Department of Human Services Promoting Safe and Stable Families	93.556	G-1601MNFPS		2,443
TANF Cluster Temporary Assistance for Needy Families	93.558	1602MFTANF	\$	118,187
Temporary Assistance for Needy Families	93.558	1602MNTANF		9,898
Passed Through North Country Community Health Services Temporary Assistance for Needy Families	93.558	2016G996115		<u>19,732</u> 147,817
Passed Through Minnesota Department of Human Services Child Support Enforcement	93.563	1604MNCSES	\$	15,360
Child Support Enforcement	93.563	1604MNCSEST		<u>172,944</u> 188,304
Refugee and Entrant Assistance	93.566	1501MNRCA		135
Passed Through Minnesota Department of Commerce Low-Income Home Energy Assistance	93.568	Not provided		85,127
Passed Through Minnesota Department of Human Services CCDF Cluster Child Care Mandatory and Matching Funds of the Child Care and Develo	93.575	G1601MNCCDF	\$	1,692
Community Based Child Abuse Prevention Grant	93.590	1302MNFPRG		1,697

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

Schedule 16
(Continued)

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

Federal Grantor Pass Through Agency Grant Program Title	Federal CFDA Number	Pass-Through Grant Award Number	Expenditures
U.S. Department of Health and Human Services			
Passed Through Minnesota Department of Human Services (Continued)			
Stephanie Tubbs Jones Child Welfare Services Program	93.645	1601MNCWSS	394
Foster Care Title IV-E	93.658	1601MNFOST	58,139
Social Services Block Grant	93.667	1601MNSOSR	83,442
Chafee Foster Care Independence Program	93.674	G-1601MNCLIP	507
Medicaid Cluster			
Medical Assistance Program	93.778	1605MN5ADM	\$ 304,236
Medical Assistance Program	93.778	1605MN5MAP	42,156
Passed Through North Country Community Health Services Medical Assistance Program	93.778	1505MN5ADM	7,998
Passed Through Minnesota Department of Human Services Block Grants for Prevention and Treatment of Substance Abuse	93.959	T1010027-16	760
Passed Through North Country Community Health Services Maternal and Child Health Services Block Grant to the States	93.994	B04MC28107	14,408
Total U.S. Department of Health and Human Services			\$ 1,022,177
U.S. Department of Homeland Security			
Passed Through Minnesota Department of Natural Resources			
Boating Safety Financial Assistance	97.012	CLEARWATER SBG-050416	\$ 1,657
Direct			
Emergency Food and Shelter National Board Program	97.024		3,502
Passed Through Minnesota Department of Public Safety Emergency Management Performance Grants	97.042	F-EMPG-2016- CLRWTRCO-1152	17,573
Total U.S. Department of Homeland Security			\$ 22,732
Total Federal Awards			\$ 1,190,553

Clearwater County did not pass any federal awards through to subrecipients during the year ended December 31, 2016.

Totals by Cluster			
Total expenditures for SNAP Cluster			\$ 138,883
Total expenditures for Highway Safety Cluster			6,109
Total expenditures for TANF Cluster			147,817
Total expenditures for CCDF Cluster			1,692
Total expenditures for Medicaid Cluster			354,390

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

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

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, 2016. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of 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, as applicable, either the cost principles contained in Office of Management and Budget Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, or the cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Clearwater County has elected to not use the 10 percent de minimis indirect cost rate allowed under Uniform Guidance.

IV. Subrecipients

During 2016, 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 2016, the County had no funds designated as ARRA funds.

MANAGEMENT AND COMPLIANCE SECTION

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

Schedule 17

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2016

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 "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*."
- C. No instances of noncompliance material to the financial statements of Clearwater County were disclosed during the audit.
- D. One matter involving internal control over compliance relating to the audit of the major federal award programs was 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. One finding was disclosed that is required to be reported in accordance with 2 CFR 200.516(a).
- G. The major programs were:
 - Child Support Enforcement CFDA #93.563
 - Medical Assistance CFDA#93.778
- H. The threshold for distinguishing between Types A and B programs was \$750,000.
- I. Clearwater County was determined to be a non-low-risk auditee.

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

Schedule 17
(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

Criteria: The management of Clearwater County is responsible for establishing and maintaining internal control. This responsibility includes the internal controls over the various accounting cycles, the fair presentation of the financial statements and related notes, and the accuracy and completeness of all financial records and related information. Adequate segregation of duties is a key internal control in an organization's accounting system, and where segregation of duties may not be cost effective, compensating controls should be in place.

Condition: Due to the limited number of personnel within the County, segregation of the accounting functions necessary to ensure adequate internal accounting control is not possible. Generally, one person is responsible for the financial information and activity within County departments.

Context: The small size and available staffing within the County limits the internal control that management can design and implement into the organization.

Effect: Without adequate segregation of duties, opportunities for errors and irregularities or fraudulent activities to occur are created and may not be detected in a timely manner.

Cause: This is not unusual in operations the size of Clearwater County, where, because of staffing limitations, it is impractical to achieve a desirable level of segregation of duties. Management has determined that, given limited resources, it is not feasible to achieve the desired level of segregation of duties.

Recommendation: Management should continually be aware that segregation of duties is not adequate from an internal control point of view. We recommend the County Board be aware that limited staffing causes inherent risks in safeguarding the County's assets and the proper reporting of financial activity. We recommend the County Board continue to implement oversight procedures and monitor those procedures to determine if they are still effective internal controls.

Clearwater 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.*

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

Schedule 17
(Continued)

2007-001 Internal Controls

Criteria: The financial statements are the responsibility of Clearwater County's management. Internal control over financial reporting is a process designed to provide reliable assurance about the achievement of the County's objectives with regard to reliability of financial reporting, and compliance with applicable laws and regulations. These controls must include a process for risk assessment and monitoring to ensure effectiveness and efficiency of operations.

Condition: Internal controls over financial reporting and the safeguarding of assets against unauthorized acquisition, use, or disposition include controls related to financial reporting and operational objectives. The County does not have a process for risk assessment and monitoring to ensure the internal controls are effective.

Context: Although Clearwater County has a system of internal controls in spite of limited staff, they do not have written documentation of the process for monitoring those controls.

Effect: Without a documented process for monitoring internal controls, the County cannot provide assurance about the reliability of financial reporting or the effectiveness and efficiency of operations.

Cause: The County has never formalized its policies and procedures for internal controls and monitoring of those controls into a written comprehensive document.

Recommendation: We recommend the County formalize written documentation of their internal controls, including an assessment on risk and the process used to minimize the risks, and the monitoring process to ensure the reliability of financial reporting and the effectiveness and efficiency of operations.

Clearwater 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

2016-001 Reporting Requirements

Criteria: The Uniform Guidance states that an auditee must submit a data collection form and audit reporting package to the Federal Audit Clearinghouse within the earlier of 30 days after receipt of the auditor's report or 9 months after the end of the audit period.

Condition: Clearwater County did not submit the data collection form to the Federal Audit Clearinghouse within the required time frame.

Context: The County was in violation of the reporting requirements when their audit was not completed until 12 months after the end of the fiscal year.

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

Schedule 17
(Continued)

Effect: This was a first-time isolated instance of late reporting that is not expected to reoccur.

Cause: Complications during the course of the audit imposed by an external oversight agency delayed the auditor's in the completion of the auditor report.

Recommendation: The annual County audit should be completed within 9 months of the fiscal year end to allow for timely submission of the data collection form and reporting package.

Corrective Action Plan: *The late audit report was beyond the control of the County. The County Auditor/Treasurer will monitor the progress of the annual audit in the future so that the annual audit will be completed on a timely basis as described in our corrective action plan.*

IV. OTHER FINDINGS AND RESPONSES

MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

2015-001 Deposits in Excess of Collateral

Criteria: County bank deposits are required to be secured by insurance and/or pledged collateral. Minn. Stat. § 118A.03 requires that "...the collateral computed at its market value shall be at least ten percent more than the amount on deposit plus accrued interest at the close of the business day."

Condition: At December 31, 2015, the County deposits with the Northern State Bank of Gonvick exceeded the amount of insurance and collateral pledged by \$166,239. At December 31, 2016, the County deposits exceeded the amount of insurance and collateral pledged by \$102,211.

Context: County bank deposit balances fluctuate from day to day and pledges of collateral are amended only periodically.

Effect: Unsecured County deposits expose the County to a loss if the financial institution develops difficulties.

Cause: The County does not have formal policies and procedures for monitoring collateral levels compared to amounts on deposits.

Recommendation: We recommend the County obtain adequate levels of collateral from all designated depositories as required by Minn. Stat. § 118A.03, and monitor the collateral on a regular basis.

Clearwater County's Response: *The Clearwater County Auditor/Treasurer will work with the bank to more closely monitor the deposit balances to ensure there is adequate collateral coverage at all times.*



CLEARWATER COUNTY COMMISSIONERS

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**ARLEN
SYVERSON**
District #1

**DEAN
NEWLAND**
District #2

**NEAL
ILLIES**
District #3

**JOHN
NELSON**
District #4

**DANIEL
STENSENG**
District #5

CORRECTIVE ACTION PLAN FOR THE YEAR ENDED DECEMBER 31, 2016

Finding Number 2016-001

Reporting Requirements

Name of Contact Person:

Allen Paulson, County Auditor/Treasurer

Corrective Action:

The County will ensure that their annual audit is completed on a timely basis to allow for the required submission of the data collection form and audit reporting package.

Proposed Completion Date:

The 2016 reporting package has been submitted and the 2017 reporting package will be submitted by September 30, 2018.

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2016

Schedule 18

Finding Number: 1996-005

Finding Title: Segregation of Duties

Summary of Condition

Due to the limited number of personnel within the County, segregation of the accounting functions necessary to ensure adequate internal accounting control is not possible.

Summary of Corrective Action

Management is continually aware that segregation of duties is not adequate from an internal control point of view. The County Board continues to implement oversight procedures and monitor those procedures to determine if they are still effective.

Status

Not fully corrected.

Finding Number: 2007-001

Finding Title: Internal Controls

Summary of Condition

Internal controls over financial reporting and the safeguarding of assets against unauthorized acquisition, use, or disposition include controls related to financial reporting and operational objectives. The County does not have a process for monitoring to ensure the internal controls are effective.

Summary of Corrective Action

The County has begun to formalize written documentation of their internal controls and the monitoring process to ensure the reliability of financial reporting and the effectiveness and efficiency of operations.

Status

Not fully corrected.

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

Schedule 18
(Continued)

Finding Number: 2015-001

Finding Title: Deposits in Excess of Collateral

Summary of Condition

County bank deposits are required to be secured by insurance and/or pledged collateral. Minn. Stat. § 118A.03 requires that "...the collateral computed at its market value shall be at least ten percent more than the amount on deposit plus accrued interest at the close of the business day." At December 31, 2015, the County deposits exceeded the amount of insurance and collateral pledged by \$166,239.

Summary of Corrective Action

We recommend the County obtain adequate levels of collateral from all designated depositories as required by Minn. Stat. § 118A.03, and monitor the collateral on a regular basis. The Clearwater County Auditor/Treasurer will work with the bank to more closely monitor the deposit balances to ensure there is adequate collateral coverage at all times.

Status

Not corrected. At December 31, 2016, County deposits exceeded the amount of issuance and collateral pledged by \$102,211.



Hoffman, Philipp, & Knutson, PLLC

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

Independent Auditor's Report

Board of County Commissioners
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, 2016, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated August 31, 2018.

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as items 1996-005 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 Counties*, 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 Counties*, except as described in the Schedule of Findings and Questioned Costs as item 2015-001. 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 over financial reporting, compliance, and the provisions of the *Minnesota Legal Compliance Audit Guide for Counties* and the results of that testing, and not to provide an opinion on the effectiveness of the County's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.



Hoffman, Philipp, & Knutson, PLLC

August 31, 2018

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



Hoffman, Philipp, & Knutson, PLLC

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

Independent Auditor's Report

Board of County Commissioners
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 U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on the County's major federal programs for the year ended December 31, 2016. 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for 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 the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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, 2016.

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 Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness* in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* in internal control over compliance is a deficiency, or 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 and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a deficiency in internal control over compliance as described in the accompanying Schedule of Findings and Questioned Costs as item 2016-001 that we consider to be material weakness.

Clearwater County's Responses to Findings

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



Hoffman, Philipp, & Knutson, PLLC

August 31, 2018