

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

YEAR ENDED DECEMBER 31, 2017



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, 2017**

<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	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:		
Member	Marilyn Shamp	July 2020
Chair	Julie Sundquist	July 2019
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

FINANCIAL SECTION

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



Hoffman, Philipp, & Knutson, PLLC

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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, 2017, 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, 2017, 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 September 28, 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.



Hoffman, Philipp, & Knutson, PLLC

September 28, 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
STIENSENG**
District #5

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

The management of Clearwater County offers readers of the County's Financial Statements this narrative overview and analysis of the financial activities of Clearwater County for the fiscal year ended December 31, 2017. The Management's Discussion and Analysis provides comparisons with the previous year and is designed to focus on the current year's activities, resulting changes, and currently known facts, and should be read in conjunction with the County's basic financial statements that follow this section.

FINANCIAL HIGHLIGHTS

The total net position of governmental activities is \$55,608,084, of which \$46,438,386 is the net investment in capital assets, \$3,719,582 is restricted for specific purposes, and \$5,450,116 is unrestricted. The total net position of governmental activities increased by \$1,153,554 for the year ended December 31, 2017. This is attributed mainly to a decrease in net pension liability.

At the close of 2017, the County's governmental funds reported combined ending fund balances of \$13,447,183, an increase of \$1,047,891 from the prior year. Of the total fund balance amount, \$333,468 is non-spendable, \$1,478,836 is legally or contractually restricted, \$1,690,340 is formally committed for specific purposes, \$6,782,772 is assigned for specific purposes, and \$3,161,767 is noted as unassigned fund balance. Maintaining an adequate fund balance is necessary to provide County services throughout the year.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

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

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

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

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

Fund Financial Statements

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

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

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

The County reports two governmental fund types: General and Special Revenue. Information is presented separately in the Governmental Funds Balance Sheet and in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund, the Road and Bridge Special Revenue Fund, the Human Services Special Revenue Fund, and the Land Management 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 \$55,608,084 at the close of the fiscal year. The largest portion of the County's net position (approximately 84 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 7 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 \$5,450,116, as of December 31, 2017, 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 \$1,804,599, primarily due to road and bridge construction projects financed by State Aid Highway Allotments. Total liabilities decreased by \$2,913,690, from the prior year, primarily due to a decrease in net pension liability. This resulted in an increased net position of \$1,153,554 from the prior year.

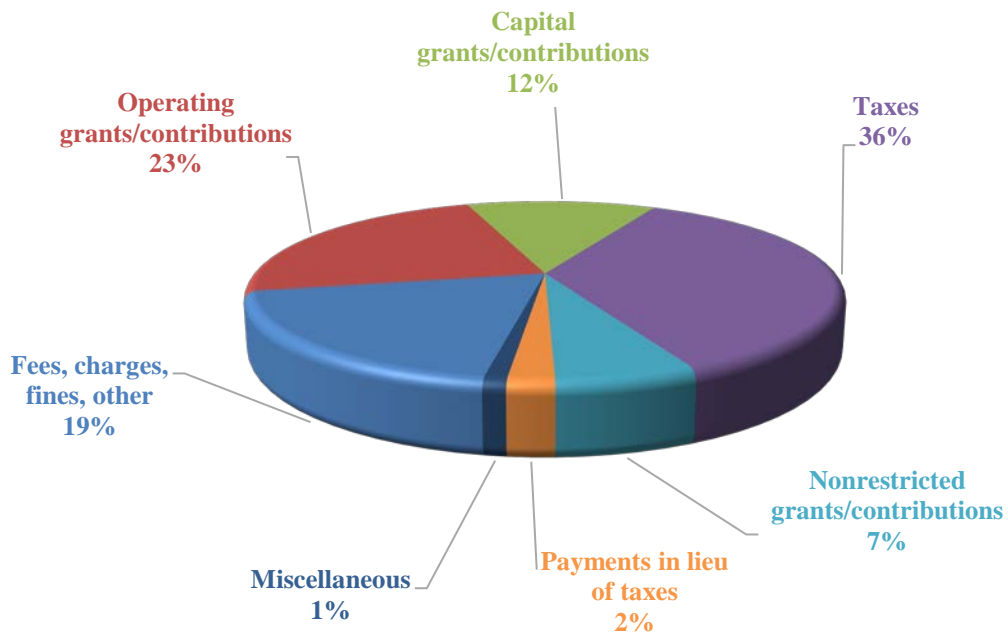
NET POSITION

	Governmental Activities	
	2017	2016
Current and other assets	\$ 17,276,318	\$ 16,838,453
Capital assets	46,438,386	45,071,652
Total assets	<u>\$ 63,714,704</u>	<u>\$ 61,910,105</u>
Deferred outflows - pensions	\$ 3,883,928	\$ 5,016,742
Other liabilities	\$ 818,520	\$ 665,517
Long-term liabilities outstanding	7,511,125	10,577,818
Total liabilities	<u>\$ 8,329,645</u>	<u>\$ 11,243,335</u>
Deferred inflows - pensions	\$ 3,660,903	\$ 1,228,982
Net position		
Net investment in capital assets	\$ 46,438,386	\$ 45,071,652
Restricted	3,719,582	4,528,945
Unrestricted	5,450,116	4,853,933
Total net position	<u>\$ 55,608,084</u>	<u>\$ 54,454,530</u>

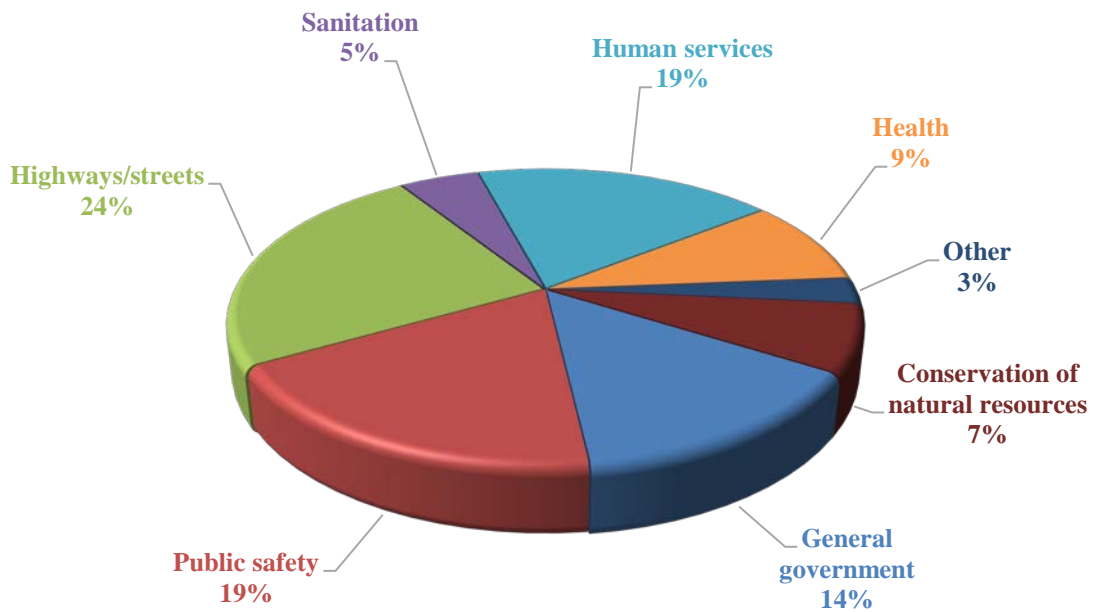
CHANGES IN NET POSITION

	Governmental Activities	
	2017	2016
Revenues		
Program Revenues		
Fees, charges, fines and other	\$ 3,559,419	\$ 3,404,645
Operating grants and contributions	4,283,637	4,820,980
Capital grants and contributions	2,330,133	3,025,424
General Revenues		
Taxes	6,660,576	6,563,459
Payments in lieu of taxes	405,194	311,061
Grants and contributions not restricted to specific programs	1,214,417	1,224,817
Investment earnings	100,650	167,215
Miscellaneous	98,130	88,167
Total revenues	<u>\$ 18,652,156</u>	<u>\$ 19,605,768</u>
Expenses		
General government	\$ 2,494,136	\$ 2,762,060
Public safety	3,261,966	3,391,092
Highways and streets	4,226,086	3,735,082
Sanitation	852,946	803,858
Human services	3,258,950	3,740,106
Health	1,619,406	1,791,148
Culture and recreation	488,871	453,862
Conservation of natural resources	1,290,816	1,418,078
Economic development	2,800	2,800
Interest	2,625	3,750
Total expenses	<u>\$ 17,498,602</u>	<u>\$ 18,101,836</u>
Increase (decrease)	\$ 1,153,554	\$ 1,503,932
Net position, January 1	\$ 54,454,530	\$ 52,950,598
Net position, December 31	<u>\$ 55,608,084</u>	<u>\$ 54,454,530</u>

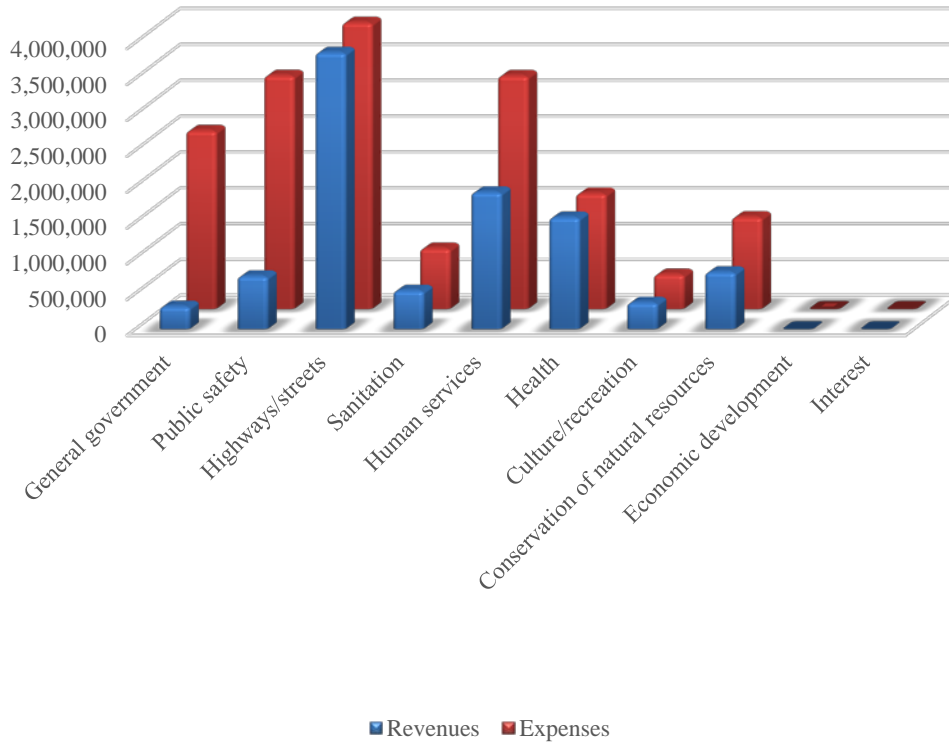
Revenues by Source



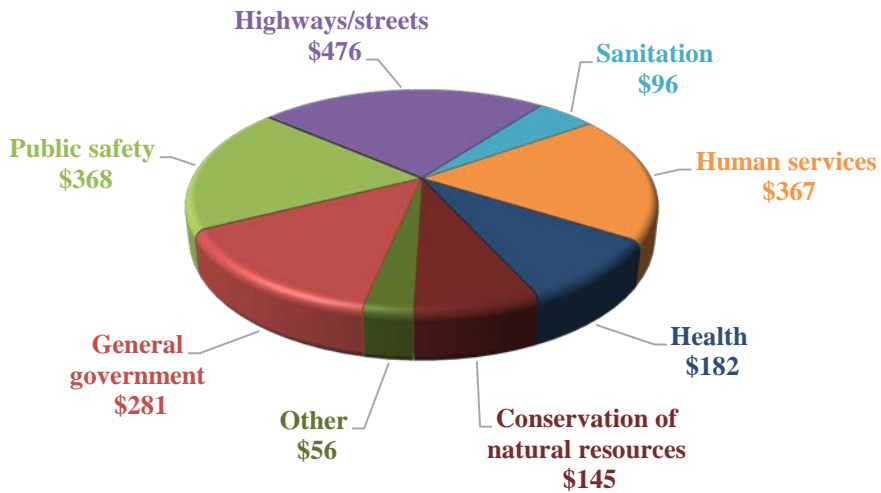
Expenses by Function



Program Revenues & Expenses



Expenditures Per Capita 8,875 Population as of December 31, 2017



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 2017, the County's governmental funds reported combined ending fund balances of \$13,447,183. Of this amount, approximately 3 percent constitutes non-spendable fund balance, 11 percent constitutes legally or contractually restricted fund balance, 12 percent constitutes formally committed fund balance, 50 percent constitutes specifically assigned fund balance, and 24 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 \$5,532,148. The General Fund's restricted fund balance was \$410,143, assigned fund balance was \$1,960,166, and unassigned fund balance was \$3,161,839. 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 2017. Unrestricted fund balance represents 79 percent of total General Fund expenditures, while total fund balance represents 86 percent of that same amount.

In 2017, the fund balance amount in the General Fund increased by \$939,250. 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 \$185,043 in 2017. This was due to lower than anticipated maintenance and construction costs.

The fund balance of the Human Services Special Revenue Fund decreased \$203,355 from the prior year, as a result costs allocated and transferred to the General Fund.

The fund balance of the Land Management Special Revenue Fund decreased \$41,750, also due to costs allocated and transferred to the General Fund.

GENERAL FUND BUDGETARY HIGHLIGHTS

There were amendments to the original budgeted revenues and expenditures as approved for 2017. The expenditure budget for MIS Departments general equipment changed by \$13,048 for the purchase of a data license.

Actual revenues were more than overall final budgeted revenues by \$101,802, with the largest variance in charges for services. Actual expenditures were less than overall final budgeted expenditures by \$232,818, 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, 2017, amounted to \$46,438,386 (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 infrastructure and various equipment purchases.

	Governmental Activities	
	2017	2016
Land	\$ 165,750	\$ 165,750
Construction in progress	57,396	589,903
Infrastructure	41,842,129	39,777,562
Buildings and improvements	2,267,315	2,482,574
Machinery and equipment	2,105,796	2,055,863
Total capital assets	<u>\$ 46,438,386</u>	<u>\$ 45,071,652</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 \$40,000 which is backed by the full faith and credit of the government and special assessments.

	Governmental Activities	
	2017	2016
General Obligation Bonds	<u>\$ 40,000</u>	<u>\$ 65,000</u>

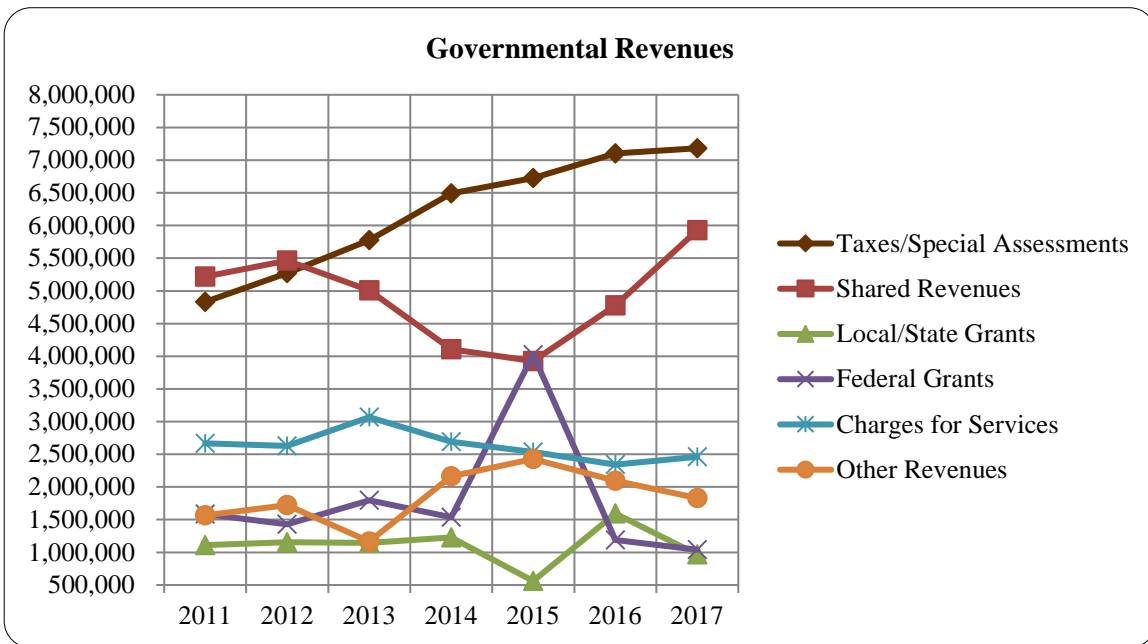
The County's net decrease in debt of \$25,000 (approximately 38 percent) during the fiscal year was attributable to the repayment of debt.

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 9.6 percent as of December 31, 2017. This is considerably higher than the statewide rate of 3.4 percent and the national average rate of 3.9 percent.
- Clearwater County’s population at December 31, 2017 was 8,875, an increase of 180 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 12, 2017, Clearwater County set its 2018 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, 2017**

	Governmental Activities
<u>Assets</u>	
Cash and pooled investments	\$ 12,482,682
Investments	549,927
Taxes receivable - prior	118,254
Special assessments receivable - prior	21,541
Accounts receivable	98,537
Accrued interest receivable	41,156
Contracts receivable	472,333
Due from other governments	3,141,709
Inventories	333,468
Special assessments - noncurrent	16,711
Capital assets	
Non-depreciable	223,146
Depreciable - net of accumulated depreciation	46,215,240
Total Assets	\$ 63,714,704
<u>Deferred Outflows of Resources</u>	
Related to pensions	\$ 3,883,928
<u>Liabilities</u>	
Accounts payable	\$ 245,069
Salaries payable	259,754
Contracts payable	102,875
Due to other governments	210,822
Long-term liabilities	
Due within one year	359,286
Due in more than one year	7,151,839
Total Liabilities	\$ 8,329,645
<u>Deferred Inflows of Resources</u>	
Related to pensions	\$ 3,660,903
<u>Net Position</u>	
Net investment in capital assets	\$ 46,438,386
Amounts restricted for	
General government	119,207
Public safety	218,940
Highways and streets	2,476,862
Conservation of natural resources	849,673
Debt service	54,900
Unrestricted amounts	5,450,116
Total Net Position	\$ 55,608,084

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

EXHIBIT 2

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Program Revenues			Net (Expense)	
Expenses	Fees, Charges, Fines and Other	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Position	
Functions/Programs					
Governmental activities					
General government	\$ 2,494,136	\$ 245,748	\$ 75,102	\$ -	\$ (2,173,286)
Public safety	3,261,966	502,103	243,043	-	(2,516,820)
Highways and streets	4,226,086	162,238	1,477,856	2,224,259	(361,733)
Sanitation	852,946	28,934	514,415	-	(309,597)
Human services	3,258,950	308,692	1,538,372	-	(1,411,886)
Health	1,619,406	1,342,329	225,832	-	(51,245)
Culture and recreation	488,871	284,011	91,540	-	(113,320)
Conservation of natural resources	1,290,816	685,364	117,477	105,874	(382,101)
Economic development	2,800	-	-	-	(2,800)
Interest	2,625	-	-	-	(2,625)
Total governmental activities	\$ 17,498,602	\$ 3,559,419	\$ 4,283,637	\$ 2,330,133	\$ (7,325,413)
 General revenues					
Taxes					\$ 6,660,576
Payments in lieu of taxes					405,194
Grants and contributions not restricted to specific programs					1,214,417
Investment earnings					100,650
Miscellaneous					98,130
Total general revenues					\$ 8,478,967
Change in net position					\$ 1,153,554
Net position - January 1					54,454,530
Net position - December 31					\$ 55,608,084

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

EXHIBIT 3

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2017**

	General	Special Revenue Funds			Other Governmental Funds (Statement 1)	Total Governmental Funds
		Road and Bridge	Human Services	Land Management		
Assets						
Cash and pooled investments	\$ 5,064,994	\$ 3,375,503	\$ 2,397,568	\$ 894,594	\$ 750,023	\$ 12,482,682
Investments	495,027	-	-	-	54,900	549,927
Taxes receivable - prior	71,482	18,966	21,664	-	6,142	118,254
Special assessments receivable - prior	-	-	-	-	21,541	21,541
Accounts receivable	18,478	50	155	-	79,854	98,537
Accrued interest receivable	41,156	-	-	-	-	41,156
Contracts receivable	-	-	-	472,333	-	472,333
Cash loan to other funds	17,636	-	-	-	-	17,636
Due from other funds	84,993	117	-	-	-	85,110
Due from other governments	88,250	2,760,720	131,554	-	161,185	3,141,709
Inventories	-	333,468	-	-	-	333,468
Special assessments - noncurrent	-	-	-	-	16,711	16,711
Total Assets	\$ 5,882,016	\$ 6,488,824	\$ 2,550,941	\$ 1,366,927	\$ 1,090,356	\$ 17,379,064
Liabilities, Deferred Inflows of Resources, and Fund Balances						
Liabilities						
Accounts payable	\$ 95,756	\$ 49,525	\$ 71,940	\$ 3,358	\$ 24,490	\$ 245,069
Salaries payable	113,428	36,509	53,115	7,572	49,130	259,754
Contracts payable	-	102,875	-	-	-	102,875
Cash loan from other funds	-	-	-	-	17,636	17,636
Due to other funds	117	-	562	84,431	-	85,110
Due to other governments	89,741	8,908	80,906	16	31,251	210,822
Total Liabilities	\$ 299,042	\$ 197,817	\$ 206,523	\$ 95,377	\$ 122,507	\$ 921,266
Deferred Inflows of Resources						
Taxes	\$ 50,826	\$ 13,650	\$ 15,481	\$ -	\$ 4,686	\$ 84,643
Special assessments	-	-	-	-	52,926	52,926
County State Aid Highway Allotment	-	2,476,862	-	-	-	2,476,862
Land and timber sales	-	-	-	396,184	-	396,184
Total Deferred Inflows of Resources	\$ 50,826	\$ 2,490,512	\$ 15,481	\$ 396,184	\$ 57,612	\$ 3,010,615
Fund Balances						
Nonspendable	\$ -	\$ 333,468	\$ -	\$ -	\$ -	\$ 333,468
Restricted	410,143	401,597	-	604,068	63,028	1,478,836
Committed	-	-	1,187,868	-	502,472	1,690,340
Assigned	1,960,166	3,065,430	1,141,069	271,298	344,809	6,782,772
Unassigned	3,161,839	-	-	-	(72)	3,161,767
Total Fund Balances	\$ 5,532,148	\$ 3,800,495	\$ 2,328,937	\$ 875,366	\$ 910,237	\$ 13,447,183
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 5,882,016	\$ 6,488,824	\$ 2,550,941	\$ 1,366,927	\$ 1,090,356	\$ 17,379,064

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE STATEMENT OF NET POSITION--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2017**

Fund balances - total governmental funds (Exhibit 3)	\$	13,447,183
<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>		46,438,386
<p>Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.</p>		3,010,615
<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>	\$ (40,000)	
<p>Compensated absences payable</p>	(841,986)	
<p>Other post-employment benefits</p>	(190,916)	(1,072,902)
<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>	\$ 3,883,928	
<p>Deferred inflows of resources related to pensions</p>	(3,660,903)	
<p>Net pension liability</p>	(6,438,223)	(6,215,198)
Net position of governmental activities (Exhibit 1)	\$	<u>55,608,084</u>

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

EXHIBIT 5

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

	General	Special Revenue Funds			Other Governmental Funds (Statement 2)	Total Governmental Funds
		Road and Bridge	Human Services	Land Management		
Revenues						
Taxes	\$ 4,043,107	\$ 1,030,216	\$ 1,202,091	\$ -	\$ 389,023	\$ 6,664,437
Special assessments	-	-	-	-	517,115	517,115
Licenses and permits	23,978	-	-	245	338	24,561
Intergovernmental	1,598,954	4,800,271	1,637,252	84,721	427,505	8,548,703
Charges for services	867,311	162,238	158,714	2,612	1,273,239	2,464,114
Fines and forfeitures	1,532	-	-	-	-	1,532
Investment earnings	100,647	-	-	-	3	100,650
Land and timber sales	-	-	-	461,558	-	461,558
Miscellaneous	384,578	-	149,978	58,591	33,082	626,229
Total Revenues	\$ 7,020,107	\$ 5,992,725	\$ 3,148,035	\$ 607,727	\$ 2,640,305	\$ 19,408,899
Expenditures						
Current						
General government	\$ 2,452,756	\$ -	\$ -	\$ -	\$ -	\$ 2,452,756
Public safety	2,618,939	-	-	-	-	2,618,939
Highways and streets	-	5,429,926	-	-	9	5,429,935
Sanitation	-	-	-	-	825,198	825,198
Human services	-	-	3,151,214	-	63,779	3,214,993
Health	93,852	-	-	-	1,502,590	1,596,442
Culture and recreation	484,925	-	-	-	-	484,925
Conservation of natural resources	687,731	-	-	542,495	45,334	1,275,560
Economic development	2,800	-	-	-	-	2,800
Total Current	\$ 6,341,003	\$ 5,429,926	\$ 3,151,214	\$ 542,495	\$ 2,436,910	\$ 17,901,548
Debt service						
Principal retirement	\$ -	\$ -	\$ -	\$ -	\$ 25,000	\$ 25,000
Interest	-	-	-	-	2,625	2,625
Total Debt Service	\$ -	\$ -	\$ -	\$ -	\$ 27,625	\$ 27,625

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

**EXHIBIT 5
(Continued)**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

	General	Special Revenue Funds			Other Governmental Funds (Statement 2)	Total Governmental Funds
		Road and Bridge	Human Services	Land Management		
Expenditures (Continued)						
Capital outlay						
General government	\$ 36,134	\$ -	\$ -	\$ -	\$ -	\$ 36,134
Public safety	58,409	-	-	-	-	58,409
Highways and streets	-	303,598	-	-	-	303,598
Culture and recreation	16,100	-	-	-	-	16,100
Total Capital Outlay	\$ 110,643	\$ 303,598	\$ -	\$ -	\$ -	\$ 414,241
Total Expenditures	\$ 6,451,646	\$ 5,733,524	\$ 3,151,214	\$ 542,495	\$ 2,464,535	\$ 18,343,414
Excess of Revenues Over (Under) Expenditures	\$ 568,461	\$ 259,201	\$ (3,179)	\$ 65,232	\$ 175,770	\$ 1,065,485
Other Financing Sources (Uses)						
Transfers in	\$ 370,789	\$ -	\$ -	\$ -	\$ -	\$ 370,789
Transfers out	-	(56,564)	(200,176)	(106,982)	(7,067)	(370,789)
Total Other Financing Sources (Uses)	\$ 370,789	\$ (56,564)	\$ (200,176)	\$ (106,982)	\$ (7,067)	\$ -
Net Change in Fund Balance	\$ 939,250	\$ 202,637	\$ (203,355)	\$ (41,750)	\$ 168,703	\$ 1,065,485
Fund Balance - January 1	4,592,898	3,615,452	2,532,292	917,116	741,534	12,399,292
Increase (decrease) in inventories	-	(17,594)	-	-	-	(17,594)
Fund Balance - December 31	\$ 5,532,148	\$ 3,800,495	\$ 2,328,937	\$ 875,366	\$ 910,237	\$ 13,447,183

**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, 2017**

Net change in fund balances - total governmental funds (Exhibit 5) **\$ 1,065,485**

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	\$	3,182,833	
Current year depreciation		(1,791,975)	
Net book value of disposed assets		<u>(24,124)</u>	1,366,734

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	(763,029)
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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	25,000
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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	\$	(1,369)	
Other post-employment benefits		(263)	
Inventories		<u>(17,594)</u>	(19,226)

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.

(521,410)

Change in net position of governmental activities (Exhibit 2) **\$ 1,153,554**

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

EXHIBIT 7

**STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
DECEMBER 31, 2017**

	<u>Agency (Statement 3)</u>
<u>Assets</u>	
Cash and pooled investments	<u>\$ 566,701</u>
<u>Liabilities</u>	
Due to other governments	<u>\$ 566,701</u>

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017

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 VII, 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.

Land Management Special Revenue Fund is used to account for financial transactions of forest and timber management. Financing is provided by various grants and timber sales, payments in lieu of taxes, and the sale and rental of tax forfeited land.

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.

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, 2017, 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 2017 were \$114,556; and total investment earnings were \$114,634.

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

2. Receivables and Payables

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.

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

I. Summary of Significant Accounting Policies

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

2. Receivables and Payables (Continued)

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.

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

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

I. Summary of Significant Accounting Policies

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

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.

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.

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

I. Summary of Significant Accounting Policies

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

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

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.

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

I. Summary of Significant Accounting Policies

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

9. Net Position and Fund Balance (Continued)

Unassigned – includes negative fund balances in the non-major governmental funds.

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, 2017.

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.

II. Stewardship, Compliance, and Accountability

A. Individual Ditch Fund Deficit

One of the 14 drainage systems has 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.

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

II. Stewardship, Compliance, and Accountability (Continued)

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	\$ 12,482,682
Investments	549,927
Fiduciary funds	
Cash and pooled investments	566,701
Total cash and investments	\$ 13,599,310
Cash on hand	\$ 14,036
Checking accounts	5,720,261
Savings	865,628
Certificates of deposit	1,955,419
Investments	5,043,966
Total deposits and investments	\$ 13,599,310

Deposits

Minnesota Statutes, §§ 118A.02 and 118A.04 authorize the County to deposit its cash and to invest in certificates of deposit in financial institutions designated by the Board. Minnesota Statute, § 118A.03 requires that all County deposits be covered by insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit plus accrued interest at the close of the financial institution's banking day, not covered by insurance or bonds.

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

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

III. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments

Deposits (Continued)

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, 2017, the County's deposits were not exposed to custodial credit risk.

Investments

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

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as high risk by Minnesota Statute, § 118A.04, subdivision 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities, and certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers' acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. The County's policy is to diversify use of investment instruments to avoid incurring unreasonable risks inherent in overinvesting in specific instruments, individual financial institutions, or maturities. 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.

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

III. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments

Interest Rate Risk (Continued)

At December 31, 2017, the County had the following investments and maturities:

	Fair Value	Less Than		
		1 Year	1-5 Years	5+ Years
MAGIC Fund	\$ 230,056	\$ 230,056	\$ -	\$ -
Wells Fargo Negotiable Certificates of Deposit	345,645	345,645	-	-
Federal Home Loan Bank	489,345	-	-	489,345
Municipal Bonds	3,241,394	496,565	2,434,985	309,844
Certificates of Deposit	247,566	-	247,566	-
Federal Home Loan Mortgage Corporation	489,960	-	489,960	-
Total Investments	<u>\$ 5,043,966</u>	<u>\$ 1,072,266</u>	<u>\$ 3,172,511</u>	<u>\$ 799,189</u>
	100%	21%	63%	16%

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, 2017, is as follows:

	S & P Rating	Fair Value
Federal Home Loan Bank	AA+	\$ 489,345
Sallie Mae	N/R	245,706
United Bank	N/R	99,939
Federal Home Loan Mortgage Corporation	AA+	489,960
Municipal Bonds	AA+	421,668
Municipal Bonds	A+	472,435
Municipal Bonds	AA	1,889,242
Municipal Bonds	AAA	458,049
Certificates of Deposit	N/R	247,566
MAGIC Cash Management Funds	N/A	230,056
		<u>\$ 5,043,966</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, 2017, 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	\$ 435,152
Federal Home Loan Bank	434,566
Certificate of Deposits	220,044
Municipal Bonds	<u>2,878,543</u>
Total Custodial Credit Risk	<u>\$ 3,968,305</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. At December 31, 2017, the County had no investments subject to concentration of credit risk.

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.

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

III. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments (Continued)

At December 31, 2017, the County had the following recurring fair value measurements:

	December 31, 2017	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	\$ 593,210	\$ -	\$ 593,210
Municipal Bonds	3,241,395	-	3,241,395
United States Agencies	979,305	-	979,305
Total Investments by fair value level	<u>\$ 4,813,910</u>	<u>\$ -</u>	<u>\$ 4,813,910</u>
Investments measured at the net asset value - MAGIC	<u>\$ 230,056</u>		

All Level 2 debt securities are valued using a market approach based on the securities' relationship to benchmark quoted prices. The County had no Level 3 investments.

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.

2. Receivables

Receivables as of December 31, 2017, 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	\$ 118,254	\$ -
Special assessments	38,252	16,711
Accounts	98,537	-
Accrued interest	41,156	-
Contracts	472,333	-
Due from other governments	3,141,709	-
Total	<u>\$ 3,910,241</u>	<u>\$ 16,711</u>

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

III. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources (Continued)

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, 2017.

3. Capital Assets

Capital asset activity for the governmental activities for the year ended December 31, 2017, was as follows:

Governmental Activities

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated				
Land	\$ 165,750	\$ -	\$ -	\$ 165,750
Construction in progress	589,903	3,411,794	3,944,301	57,396
Total capital assets not depreciated	\$ 755,653	\$ 3,411,794	\$ 3,944,301	\$ 223,146
Capital assets being depreciated				
Infrastructure	\$ 57,862,706	\$ 3,258,491	\$ -	\$ 61,121,197
Buildings and improvements	9,165,871	9,964	-	9,175,835
Machinery and equipment	6,844,548	446,885	362,127	6,929,306
Total capital assets being depreciated	\$ 73,873,125	\$ 3,715,340	\$ 362,127	\$ 77,226,338
Less: accumulated depreciation for				
Infrastructure	\$ 18,085,144	\$ 1,193,924	\$ -	\$ 19,279,068
Buildings and improvements	6,683,297	225,223	-	6,908,520
Machinery and equipment	4,788,685	372,828	338,003	4,823,510
Total accumulated depreciation	\$ 29,557,126	\$ 1,791,975	\$ 338,003	\$ 31,011,098
Total capital assets, depreciated, net	\$ 44,315,999	\$ 1,923,365	\$ 24,124	\$ 46,215,240
Governmental Activities Capital Assets, Net	\$ 45,071,652	\$ 5,335,159	\$ 3,968,425	\$ 46,438,386

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

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

III. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

3. Capital Assets (Continued)

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

Governmental Activities		
General government	\$	32,879
Public safety		224,755
Highways and streets, including depreciation of infrastructure assets		1,470,352
Sanitation		25,965
Human services		21,713
Health		7,393
Culture and recreation		3,946
Conservation of natural resources		4,972
Total Depreciation Expense - Governmental Activities	\$	1,791,975

Construction Contracts

The County has 1 active road and bridge construction contract as of December 31, 2017. The contract totals \$2,086,564 with a remaining uncompleted balance of \$102,875.

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2017, is as follows:

1. Due To/From Other Funds

Receivable Fund	Payable Fund	Amount	
General Fund	Human Services Special Revenue Fund	\$ 562	Reimbursements
	Forfeited Tax Sale Special Revenue Fund	84,431	Forfeited tax sale settlement
Total Due to General Fund		\$ 84,993	
Road and Bridge Special Revenue Fund	General Fund	\$ 117	Reimbursements
Total Due To/From Other Funds		\$ 85,110	

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.

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

III. Detailed Notes on All Funds

B. Interfund Receivables, Payables, and Transfers

2. Interfund Transfers (Continued)

Interfund transfers for the year ended December 31, 2017 consisted of the following operating transfers:

Transfer to General Fund from		
Road and Bridge Special Revenue Fund	\$ 56,564	Cost allocation
Human Services Special Revenue Fund	200,176	Cost allocation
Forfeited Tax Sale Special Revenue Fund	22,551	Cost allocation
Forfeited Tax Sale Special Revenue Fund	84,431	Forfeited sales
Other Governmental	<u>7,067</u>	Cost allocation
Total transfers to General Fund	<u>\$ 370,789</u>	

C. Liabilities and Deferred Inflows of Resources

1. Payables

Payables at December 31, 2017 were as follows:

Accounts	\$ 245,069
Salaries	259,754
Contracts	102,875
Due to other governments	<u>210,822</u>
Total Payables	<u>\$ 818,520</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 Land Management 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 \$733,819 at December 31, 2017, is available to employees in the event of illness-related absences and is not paid to them at termination.

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

III. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources (Continued)

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 \$40,000 as of December 31, 2017.

4. Debt Service Requirements

Debt service requirements for governmental activities at December 31, 2017, are as follows:

Year Ending December 31	General Obligation Watershed Bonds, Series 1999	
	Principal	Interest
2018	\$ 20,000	\$ 1,500
2019	20,000	500
Total	\$ 40,000	\$ 2,000

5. Changes in Long-Term Liabilities

Long-term liability activity for the governmental activities for the year ended December 31, 2017, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
G.O. Watershed Bonds, Series 1999	\$ 65,000	\$ -	\$ 25,000	\$ 40,000	\$ 20,000
Net OPEB Payable	190,653	263	-	190,916	-
Compensated Absences	840,617	532,939	531,570	841,986	339,286
Net Pension Liability	9,481,548	-	3,043,325	6,438,223	-
Governmental Activities Long-Term Liabilities	\$ 10,577,818	\$ 533,202	\$ 3,599,895	\$ 7,511,125	\$ 359,286

**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, 2017, 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	\$ 50,826	\$ -	\$ -	\$ -	\$ 50,826
Road and Bridge	13,650	-	-	2,476,862	2,490,512
Human Services	15,481	-	-	-	15,481
Forfeited Land	-	-	396,184	-	396,184
Solid Waste	4,686	36,181	-	-	40,867
Ditch	-	16,745	-	-	16,745
	<u>-\$ 84,643</u>	<u>\$ 52,926</u>	<u>\$ 396,184</u>	<u>\$ 2,476,862</u>	<u>\$ 3,010,615</u>

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

III. Detailed Notes on All Funds (Continued)

D. Fund Balances

	General	Road and Bridge	Human Services	Land Management	Other Governmental Funds	Total Governmental Funds
Fund Balances						
Nonspendable						
Inventories	\$ -	\$ 333,468	\$ -	\$ -	\$ -	\$ 333,468
Restricted for						
AIS prevention	\$ 120,132	\$ -	\$ -	\$ -	\$ -	\$ 120,132
Boat and water safety	1,423	-	-	-	-	1,423
Conservation of natural resources	-	-	-	-	8,128	8,128
County State Highway Allotments	-	401,597	-	-	-	401,597
DARE program	1,084	-	-	-	-	1,084
Debt service	-	-	-	-	54,900	54,900
Enhanced 911	15,563	-	-	-	-	15,563
Handgun permits	27,671	-	-	-	-	27,671
Help America Vote Act	50,000	-	-	-	-	50,000
Law library	23,774	-	-	-	-	23,774
Memorial forest	-	-	-	137,892	-	137,892
Missing heirs	26,057	-	-	-	-	26,057
Probation	26,249	-	-	-	-	26,249
Recorder's equipment	16,316	-	-	-	-	16,316
Riparian protection aid	70,573	-	-	-	-	70,573
Sheriff's contingent fund	2,455	-	-	-	-	2,455
Sheriff's forfeited property	25,786	-	-	-	-	25,786
Technology	3,060	-	-	-	-	3,060
Timber development	-	-	-	466,176	-	466,176
Total restricted	\$ 410,143	\$ 401,597	\$ -	\$ 604,068	\$ 63,028	\$ 1,478,836
Committed to						
Capital improvements	\$ -	\$ -	\$ 152,891	\$ -	\$ -	\$ 152,891
Compensated absences	-	-	400,000	-	-	400,000
Landfill	-	-	-	-	29,242	29,242
Out of home placement	-	-	400,000	-	-	400,000
Public transportation	-	-	134,977	-	-	134,977
Recycling	-	-	-	-	32,679	32,679
Solid waste collection	-	-	-	-	187,095	187,095
Solid waste disposal	-	-	-	-	253,456	253,456
Technology	-	-	100,000	-	-	100,000
Total committed	\$ -	\$ -	\$ 1,187,868	\$ -	\$ 502,472	\$ 1,690,340
Assigned to						
General government	\$ 782,756	\$ -	\$ -	\$ -	\$ -	\$ 782,756
Public safety	12,942	-	-	-	-	12,942
Culture and recreation	571,669	-	-	-	-	571,669
Conservation of natural resources	-	-	-	271,298	-	271,298
Energy assistance	-	-	-	-	8,271	8,271
Health	592,799	-	-	-	-	592,799
Highways and streets	-	3,065,430	-	-	-	3,065,430
Human services	-	-	1,141,069	-	-	1,141,069
Nursing service	-	-	-	-	161,216	161,216
Sanitation	-	-	-	-	172,773	172,773
Unorganized townships	-	-	-	-	2,549	2,549
Total assigned	\$ 1,960,166	\$ 3,065,430	\$ 1,141,069	\$ 271,298	\$ 344,809	\$ 6,782,772
Unassigned	\$ 3,161,839	\$ -	\$ -	\$ -	\$ (72)	\$ 3,161,767
Total Fund Balances	\$ 5,532,148	\$ 3,800,495	\$ 2,328,937	\$ 875,366	\$ 910,237	\$ 13,447,183

**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 2017, there were approximately 97 participants in the plan, with 3 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	\$	24,441
Interest on net OPEB obligation		6,673
Adjustments to Annual Required Contribution		<u>(10,189)</u>
Annual OPEB cost (expense)	\$	20,925
Contributions made		<u>(20,662)</u>
Increase in net OPEB obligation	\$	263
Net OPEB Obligation - January 1, 2017		<u>190,653</u>
Net OPEB Obligation - December 31, 2017	\$	<u><u>190,916</u></u>

The County's annual OPEB cost for December 31, 2017, was \$20,925. The percentage of annual OPEB cost contributed to the plan was 98.7 percent, and the net OPEB obligation for 2017 was \$190,916. 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, 2017, the most recent actuarial valuation date, the plan was zero percent funded. The actuarial liability for benefits was \$177,681, and the actuarial value of assets was zero, resulting in an unfunded actuarial liability (UAAL) of \$177,681. The covered payroll (annual payroll of active employees covered by the plan) was \$4,573,021, and the ratio of the UAAL to the covered payroll was 3.9 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 63 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 – RP-2014 White Collar Mortality Tables with MP-2016 Generational Improvement Scale (Blue Collar Tables for Police and Fire personnel).

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.

Medical trend rate – The medical trend rate has been chosen based on a review of historical medical increase rates, projected medical increase rates, and projected health care expenditures as a percentage of GDP. The components of health care costs were considered when developing the aggregate set of trend rates.

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

IV. Other Post-Employment Benefits (OPEB)

E. Methods and Assumptions (Continued)

Health insurance premiums – 2017 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits paid.

Discount rate – Since the plan is not funded (has no assets), the discount rate was developed by estimating the long term investment yield on the employer funds that will be used to pay benefits as they come due.

Inflation rate – The long-term inflation assumption has been chosen based on a review of historical changes in CPI with more weight applied to recent years. Published projections of future inflation rates were also considered.

Salary increases – Used to project pay forward one year to the valuation year. The salary scale has been determined based on the long-term inflation assumption plus any additional wage increase assumption in excess of inflation. The additional wage increase assumption in excess of inflation. The additional wage assumption is based on a review of increases in the taxable wage base compared to inflation. Any additional information on expected salary increases provided by the client is also reflected in the assumption.

Based on the historical and expected returns of the County’s short-term investment portfolio, a discount rate of 3.5 percent was used. In addition, a projected unit credit actuarial cost method was used. The unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at December 31, 2017, was twenty-one 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.

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

V. Defined Benefit Pension Plans

A. Plan Description (Continued)

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.

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 2017. 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 2017. Clearwater County's contributions to the General Employees Fund for the year ended December 31, 2017, were \$350,097. 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 2017. Clearwater County was required to contribute 16.20 percent of pay for members in calendar year 2017. Clearwater County's contributions to the Police and Fire Fund for the year ended December 31, 2017, were \$84,527. 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 2017 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 2017. The County's contributions to the Correctional Fund for the year ended December 31, 2017 were \$60,738. 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, 2017, Clearwater County reported a liability of \$4,780,658 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 2017. 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 \$58,704. The net pension liability was measured as of June 30, 2017 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 .0731 percent which was a decrease of .0014 percent from its proportion measured as of June 30, 2016.

There were no provision changes during the measurement period.

For the year ended December 31, 2017, Clearwater County recognized pension expense of \$163,735 for its proportionate share of the General Employees Plan's pension expense. In addition, Clearwater County recognized an additional \$1,695 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, 2017, 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:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 155,265	\$ 311,649
Changes in actuarial assumptions	796,732	472,306
Difference between projected and actual investment earnings	854,020	799,939
Changes in proportion	-	319,225
Contributions paid to PERA subsequent to the measurement date	174,633	-
Total	\$ 1,980,650	\$ 1,903,119

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

V. Defined Benefit Pension Plans

C. Pension Costs

1. General Employee Retirement Fund Pension Costs (Continued)

\$174,633 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, 2017. 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
2018	\$ (600)
2019	214,568
2020	(112,021)
2021	(198,066)
2022	-

2. Public Employee Police and Fire Fund Pension Costs

At December 31, 2017, Clearwater County reported a liability of \$688,561 for its proportionate share of the Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2017, 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, 2016, through June 30, 2017, relative to the total employer contributions received from all PERA's participating employers. At June 30, 2017, Clearwater County's proportion was .051 percent which was an increase of .001 percent from its proportion measured as of June 30, 2016.

There were no provision changes during the measurement period.

For the year ended December 31, 2017, Clearwater County recognized pension expense of (\$81,825) for its proportionate share of the Police and fire Plan's pension expense. Clearwater County also recognized \$4,590 for the year ended December 31, 2017 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, 2017, 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:

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

V. Defined Benefit Pension Plans

C. Pension Costs

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 15,849	\$ 179,365
Changes in actuarial assumptions	883,451	977,585
Difference between projected and actual investment earnings	222,489	218,491
Changes in proportion	41,018	32,402
Contributions paid to PERA subsequent to the measurement date	42,196	-
Total	\$ 1,205,003	\$ 1,407,843

\$42,196 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, 2017. 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
2018	\$ 4,566
2019	4,567
2020	(19,688)
2021	(48,820)
2022	(185,661)

3. Local Government Correctional Plan Pension Costs

At December 31, 2017, the County reported a liability of \$969,003 for its proportionate share of the Correctional Plan's net pension liability. The net pension liability was measured as of June 30, 2017, 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, 2016 through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the County's proportion was .340 percent which was a decrease of .020 percent from its proportion measured as of June 30, 2016.

There were no provision changes during the measurement period.

For the year ended December 31, 2017 the County recognized pension expense of \$53,668 for its proportionate share of the Correctional Plan's pension expense.

At December 31, 2017, 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:

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

V. Defined Benefit Pension Plans

C. Pension Costs (Continued)

3. Local Government Correctional Plan Pension Costs (Continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 687	\$ 16,464
Changes in actuarial assumptions	558,597	168,674
Difference between projected and actual investment earnings	109,208	107,896
Changes in proportion	-	56,908
Contributions paid to PERA subsequent to the measurement date	29,782	-
Total	\$ 698,274	\$ 349,942

\$29,782 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, 2017. 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
2018	\$ 206,836
2019	206,836
2020	214,898
2021	(76,210)
2022	-

D. Actuarial Assumptions

The total pension liability in the June 30, 2017, 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, 2017 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.

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

V. Defined Benefit Pension Plans

D. Actuarial Assumptions (Continued)

Experience studies have not been prepared for the Correctional Plan, but assumptions are reviewed annually.

The following changes in actuarial assumptions occurred in 2017:

General Employees Retirement Fund

1. The Combined Service Annuity (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and non-vested deferred members. The revised CSA loads are now 0.0 percent for active member liability, 15.0 percent for vested deferred member liability, and 3.0 percent for non-vested deferred member liability.
2. The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044, and 2.5 percent per year thereafter.

Public Employees Police and Fire Fund

1. Assumed salary increases were changed as recommended in the June 30, 2016 experience study. The net effect is proposed rates that average 0.34 percent lower than the previous rates.
2. Assumed rates of retirement were changed, resulting in fewer retirements.
3. The Combined Service Annuity (CSA) load was 30 percent for vested and non-vested deferred members. The CSA has been changed to 33 percent for vested members and 2 percent for non-vested members.
4. The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016. The base mortality table for disable annuitants was changed from the RP-2000 disabled mortality table to the mortality tables assumed for healthy retirees.
5. Assumed termination rates were decreased to 3.0 percent for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall.
6. Assumed percentage of married female members was decreased from 65 percent to 60 percent.
7. Assumed age difference was changed from separate assumptions for male members (wives assumed to be three years younger) and female members (husbands assumed to be four years older) to the assumption that males are two years older than females.
8. The assumed percentage of female members electing Joint and Survivor annuities was increased.

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

V. Defined Benefit Pension Plans

D. Actuarial Assumptions

Public Employees Police and Fire Fund (Continued)

9. The assumed post-retirement benefit increase rate was changed from 1.00 percent for all years to 1.00 percent per year through 2064, and 2.50 percent thereafter.

Public Employees Correctional Fund

1. The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016 and is applied to healthy and disabled members. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the RP-2014 disabled annuitant mortality table (with future mortality improvement according to MP-2016).
2. The Combined Service Annuity (CSA) load was 30 percent for vested and non-vested, deferred members. The CSA has been changed to 35 percent for vested members and 1 percent for non-vested members.
3. The Single Discount Rate was changed from 5.31 percent per annum to 5.96 percent per annum.

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	39%	5.10%
International Stocks	19%	5.30%
Bonds	20%	0.75%
Alternative Assets	20%	5.90%
Cash	2%	0.00%

E. Discount Rate

The discount rate used to measure the total pension liability in 2017 was 7.50%. 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 and the Police and Fire 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.

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

V. Defined Benefit Pension Plans

E. Discount Rate (Continued)

In 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, 2061. Beginning in fiscal years ended June 30, 2062, when projected benefit payments exceed the funds projected fiduciary net position, benefit payments were discounted at the municipal bond rate of 3.56% 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 5.96% 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 3.56% 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**

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	\$ 7,436,369	\$ 4,794,334	\$ 2,631,349

**Sensitivity of Net Pension Liability at Current Single Discount Rate
Police and Fire Fund**

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	\$ 1,296,761	\$ 688,561	\$ 186,458

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

County of Clearwater	1% Decrease in Discount Rate (4.96%)	Discount Rate (5.96%)	1% Increase in Discount Rate (6.96%)
Proportionate share of Net Pension Liability	\$ 1,596,796	\$ 969,003	\$ 479,002

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

V. Defined Benefit Pension Plans (Continued)

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

One employee is 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.

Total contributions made by Clearwater County during fiscal year 2017 were:

Contribution Amount		Percentage of Cover Payroll		Required
Employee	Employer	Employee	Employer	Rate
\$ 1,232	\$ 1,232	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

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

VII. Summary of Significant Contingencies and Other Items

B. Risk Management (Continued)

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 2017 and 2018. 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.

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, 2017. 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.

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

VII. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

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.

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.

2. 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, Mahnommen, 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, 2017. Complete financial information can be obtained from the Natural Resources Board's Treasurer, Josh Stromlund, Box 808, Baudette, Minnesota 56623.

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

VII. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

3. 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 Headwaters Board for the year ended December 31, 2017. 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.

4. 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, 2017. 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.

5. 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.

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

VII. Summary of Significant Contingencies and Other Items

C. Joint Ventures

6. Northern Counties Land Use Coordinating Board (Continued)

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

The Land Use Coordinating Board has no long-term debt. Financing is provided by appropriations from member counties. Clearwater County did not contribute to the Land Use Coordinating Board for the year ended December 31, 2017. 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, 2017. 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.

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

VII. Summary of Significant Contingencies and Other Items

C. Joint Ventures

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

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

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

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.

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

VII. Summary of Significant Contingencies and Other Items

C. Joint Ventures

10. 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 did not contribute to the Association for the year ended December 31, 2017.

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.

11. 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 \$4,817 to the Waste Management Group for the year ended December 31, 2017. 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.

12. 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

12. 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 purchased services from the Northwestern Minnesota Juvenile Center of \$65,860 for the year ended December 31, 2017. 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.

13. 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.

14. PrimeWest County-Based Purchasing Initiative

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

**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, 2017.

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 \$98,085 to the Lake Agassiz Regional Library for the year ended December 31, 2017.

**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, 2017.

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 Becker, Clay, Mahnomen, and Norman Counties. Norman County appoints three members, Clay County appoints two members, and the remaining counties each appoint one member.

REQUIRED SUPPLEMENTARY INFORMATION

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

Schedule 1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 4,037,525	\$ 4,037,525	\$ 4,043,107	\$ 5,582
Licenses and permits	53,325	53,325	23,978	(29,347)
Intergovernmental	1,582,390	1,582,390	1,598,954	16,564
Charges for services	738,000	738,000	867,311	129,311
Fines and forfeitures	5,100	5,100	1,532	(3,568)
Investment earnings	175,700	175,700	100,647	(75,053)
Miscellaneous	326,985	326,985	384,578	57,593
Total Revenues	\$ 6,919,025	\$ 6,919,025	\$ 7,020,107	\$ 101,082
Expenditures				
Current				
General government				
Commissioners	\$ 223,781	\$ 223,781	\$ 193,068	\$ 30,713
District court	40,000	40,000	29,671	10,329
County auditor	508,070	508,070	475,140	32,930
County assessor	276,551	276,551	246,123	30,428
Elections	54,700	54,700	6,372	48,328
Accounting and auditing services	27,000	27,000	14,931	12,069
Management information systems	396,077	409,125	363,081	46,044
Personnel	3,650	3,650	1,050	2,600
Attorney	297,343	297,343	269,538	27,805
Safety control coordinator	1,000	1,000	669	331
Recorder	370,824	370,824	358,142	12,682
Motor pool	20,000	20,000	16,496	3,504
Buildings and grounds	58,000	58,000	41,255	16,745
Building maintenance	293,734	293,734	289,420	4,314
Veterans service officer	85,962	85,962	81,046	4,916
Insurance	101,000	101,000	37,804	63,196
Other general government	25,700	25,700	28,950	(3,250)
Total general government	\$ 2,783,392	\$ 2,796,440	\$ 2,452,756	\$ 343,684
Public safety				
Sheriff	\$ 1,039,244	\$ 1,001,507	\$ 952,449	\$ 49,058
Boat and water safety	14,402	14,402	3,061	11,341
Handgun permits	14,344	14,344	14,273	71
Coroner	28,500	28,500	25,434	3,066
Enhanced 911	72,750	72,750	60,504	12,246
Snowmobile safety	3,704	3,704	2,884	820
DARE program	900	900	1,399	(499)

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

***Schedule 1
(Continued)***

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures				
Current				
Public safety (Continued)				
Emergency services	30,000	30,000	29,259	741
Rural signing	25,000	25,000	7,441	17,559
Law enforcement center	1,290,492	1,328,229	1,321,741	6,488
Probation and parole	126,760	126,760	112,300	14,460
Radio jail project	29,900	29,900	4,382	25,518
Sentence to serve	62,895	62,895	62,359	536
Law enforcement center canteen	15,000	15,000	16,275	(1,275)
Other public safety	9,035	9,035	5,178	3,857
Total public safety	\$ 2,762,926	\$ 2,762,926	\$ 2,618,939	\$ 143,987
Health				
Hospice	\$ 20,000	\$ 20,000	\$ 20,000	\$ -
Medical facilities management	10,000	10,000	73,852	(63,852)
Total health	\$ 30,000	\$ 30,000	\$ 93,852	\$ (63,852)
Culture and recreation				
Historical society	\$ 15,000	\$ 15,000	\$ 15,000	\$ -
Parks	305,921	305,921	310,210	(4,289)
Regional library	98,085	98,085	98,085	-
Snowmobile and ski trails	50,000	50,000	61,630	(11,630)
Total culture and recreation	\$ 469,006	\$ 469,006	\$ 484,925	\$ (15,919)
Conservation of natural resources				
Agricultural society	\$ 35,000	\$ 35,000	\$ 35,000	\$ -
Aquatic invasive species	10,000	10,000	89,784	(79,784)
County extension	124,379	124,379	114,600	9,779
Environmental services	106,058	106,058	97,398	8,660
Predator and weed control	67,450	67,450	67,713	(263)
Soil and water conservation	69,360	69,360	69,360	-
Soil survey	75,000	75,000	76,440	(1,440)
Water planning	41,774	41,774	41,774	-
Wetlands administration	93,603	93,603	94,998	(1,395)
Other conservation of natural resources	668	668	664	4
Total conservation of natural resources	\$ 623,292	\$ 623,292	\$ 687,731	\$ (64,439)

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

***Schedule 1
(Continued)***

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2017**

	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	\$ 6,671,416	\$ 6,684,464	\$ 6,341,003	\$ 343,461
Capital outlay				
General government	-	-	36,134	(36,134)
Public safety	-	-	58,409	(58,409)
Culture and recreation	-	-	16,100	(16,100)
Total capital outlay	\$ -	\$ -	\$ 110,643	\$ (110,643)
Total Expenditures	\$ 6,671,416	\$ 6,684,464	\$ 6,451,646	\$ 232,818
Excess of Revenues Over (Under) Expenditures	\$ 247,609	\$ 234,561	\$ 568,461	\$ 333,900
Other Financing Sources (Uses)				
Transfers in	250,000	250,000	370,789	120,789
Net Change in Fund Balance	\$ 497,609	\$ 484,561	\$ 939,250	\$ 454,689
Fund Balance - January 1	4,592,898	4,592,898	4,592,898	-
Fund Balance - December 31	\$ 5,090,507	\$ 5,077,459	\$ 5,532,148	\$ 454,689

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

Schedule 2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 1,166,000	\$ 1,166,000	\$ 1,030,216	\$ (135,784)
Intergovernmental	3,531,000	3,531,000	4,800,271	1,269,271
Charges for services	250,000	250,000	162,238	(87,762)
Total Revenues	\$ 4,947,000	\$ 4,947,000	\$ 5,992,725	\$ 1,045,725
Expenditures				
Current				
Highways and Streets				
Administration	\$ 160,000	\$ 160,000	\$ 474,801	\$ (314,801)
Maintenance	2,141,165	2,141,165	1,230,069	911,096
Construction	4,290,000	4,290,000	3,297,894	992,106
Equipment maintenance and shop	529,300	529,300	375,654	153,646
Materials for resale	-	-	19,215	(19,215)
Other highways and streets	50,000	50,000	32,293	17,707
Capital outlay				
Highways and streets	379,000	379,000	303,598	75,402
Total Expenditures	\$ 7,549,465	\$ 7,549,465	\$ 5,733,524	\$ 1,815,941
Excess of Revenues Over (Under) Expenditures	\$ (2,602,465)	\$ (2,602,465)	\$ 259,201	\$ 2,861,666
Other Financing Sources (Uses)				
Transfers out	-	-	(56,564)	(56,564)
Net Change in Fund Balance	\$ (2,602,465)	\$ (2,602,465)	\$ 202,637	\$ 2,805,102
Fund Balance - January 1	3,615,452	3,615,452	3,615,452	-
Increase (decrease) in inventories	-	-	(17,594)	(17,594)
Fund Balance - December 31	\$ 1,012,987	\$ 1,012,987	\$ 3,800,495	\$ 2,787,508

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

Schedule 3

**BUDGETARY COMPARISON SCHEDULE
HUMAN SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 1,400,268	\$ 1,400,268	\$ 1,202,091	\$ (198,177)
Intergovernmental	2,267,001	2,267,001	1,637,252	(629,749)
Charges for services	211,400	211,400	158,714	(52,686)
Miscellaneous	251,050	251,050	149,978	(101,072)
Total Revenues	\$ 4,129,719	\$ 4,129,719	\$ 3,148,035	\$ (981,684)
Expenditures				
Current				
Human Services				
Income maintenance	\$ 1,688,791	\$ 1,688,791	\$ 1,359,487	\$ 329,304
Social services	2,775,269	2,775,269	1,791,727	983,542
Total Expenditures	\$ 4,464,060	\$ 4,464,060	\$ 3,151,214	\$ 1,312,846
Excess of Revenues Over (Under) Expenditures	\$ (334,341)	\$ (334,341)	\$ (3,179)	\$ 331,162
Other Financing Sources (Uses)				
Transfers out	-	-	(200,176)	(200,176)
Net Change in Fund Balance	\$ (334,341)	\$ (334,341)	\$ (203,355)	\$ 130,986
Fund Balance - January 1	2,532,292	2,532,292	2,532,292	-
Fund Balance - December 31	\$ 2,197,951	\$ 2,197,951	\$ 2,328,937	\$ 130,986

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

Schedule 4

**BUDGETARY COMPARISON SCHEDULE
LAND MANAGEMENT SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Licenses and permits	\$ 400	\$ 400	\$ 245	\$ (155)
Intergovernmental	66,700	66,700	84,721	18,021
Charges for services	1,600	1,600	2,612	1,012
Land and timber sales	317,100	317,100	461,558	144,458
Miscellaneous	37,800	37,800	58,591	20,791
Total Revenues	\$ 423,600	\$ 423,600	\$ 607,727	\$ 184,127
Expenditures				
Current				
Conservation of natural resources				
Forfeited land	\$ 467,706	\$ 467,706	\$ 386,422	\$ 81,284
Forest access road	15,500	15,500	51,180	(35,680)
Timber development	91,393	91,393	55,047	36,346
Payments in lieu of taxes	50,247	50,247	49,846	401
Total Expenditures	\$ 624,846	\$ 624,846	\$ 542,495	\$ 82,351
Excess of Revenues Over (Under) Expenditures	\$ (201,246)	\$ (201,246)	\$ 65,232	\$ 266,478
Other Financing Sources (Uses)				
Transfers out	(35,000)	(35,000)	(106,982)	(71,982)
Net Change in Fund Balance	\$ (236,246)	\$ (236,246)	\$ (41,750)	\$ 194,496
Fund Balance - January 1	917,116	917,116	917,116	-
Fund Balance - December 31	\$ 680,870	\$ 680,870	\$ 875,366	\$ 194,496

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

Schedule 5

**SCHEDULE OF FUNDING PROGRESS
OTHER POST-EMPLOYMENT BENEFIT PLAN
FOR THE YEAR ENDED DECEMBER 31, 2017**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
January 1, 2011	\$ -	\$ 490,151	\$ 490,151	-	\$ 4,954,261	9.9%
January 1, 2014	\$ -	\$ 447,159	\$ 447,159	-	\$ 4,310,595	10.4%
January 1, 2017	\$ -	\$ 177,681	\$ 177,681	-	\$ 4,573,021	3.9%

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

Schedule 6

**SCHEDULE OF EMPLOYER CONTRIBUTIONS
OTHER POST-EMPLOYMENT BENEFIT PLAN
FOR THE YEAR ENDED DECEMBER 31, 2017**

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2015	\$ 54,658	\$ 32,999	60.4%	\$ 175,641
December 31, 2016	\$ 54,151	\$ 39,139	72.3%	\$ 190,653
December 31, 2017	\$ 20,925	\$ 20,662	98.7%	\$ 190,916

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

Schedule 7

**SCHEDULE OF CONTRIBUTIONS
PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF MINNESOTA
FOR THE YEAR ENDED DECEMBER 31, 2017**

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%
December 31, 2017	\$ 359,656	\$ 359,656	\$ -	\$ 4,774,402	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%
December 31, 2017	\$ 84,527	\$ 84,527	\$ -	\$ 521,773	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%
December 31, 2017	\$ 64,065	\$ 64,065	\$ -	\$ 732,172	8.75%

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

Schedule 8

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PUBLIC EMPLOYEES RETIREMENT ASSOCIATION
FOR THE YEAR ENDED DECEMBER 31, 2017**

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	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%
June 30, 2017	0.0731%	\$ 4,780,658	\$ 58,704	\$ -	\$ 4,839,362	\$ 4,823,862	99.10%	75.90%

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	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%
June 30, 2017	0.0510%	\$ 688,561	\$ 4,590	\$ -	\$ 693,151	\$ 519,185	132.62%	85.40%

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	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%
June 30, 2017	0.3400%	\$ 969,003	\$ -	\$ -	\$ 969,003	\$ 707,868	136.89%	67.90%

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017

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, 2017:

	Expenditures	Budget	Excess
General Fund			
Other general government	28,950	25,700	(3,250)
Public safety			
Law enforcement center canteen	16,275	15,000	(1,275)
Health			
Medical facilities management	73,852	10,000	(63,852)
Culture and recreation			
Parks	310,210	305,921	(4,289)
Snowmobile and ski trails	61,630	50,000	(11,630)
Conservation of natural resources			
Aquatic invasive species	89,784	10,000	(79,784)
Soil survey	76,440	75,000	(1,440)
Predator and weed control	67,713	67,450	(263)
Wetlands administration	94,998	93,603	(1,395)
Capital outlay			
General government	36,134	-	(36,134)
Public safety	58,409	-	(58,409)
Culture and recreation	16,100	-	(16,100)
Road and Bridge Special Revenue Fund			
Highways and Streets			
Administration	474,801	160,000	(314,801)
Materials for resale	19,215	-	(19,215)

**CLEARWATER COUNTY
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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 table was updated from RP-2000 Combined Healthy Table projected to 2014 with Scale BB (with Blue Collar adjustment for Police & Fire) to the RP-2014 White Collar Mortality Tables with MP-2016 Generational Improvement Scale (Blue Collar Tables for Police and Fire personnel).
- The withdrawal and retirement tables for all employees were updated.
- The retiree plan participation assumption for participants not eligible for pre-65 subsidy was changed from 40% to 20% based on actual plan experience.
- The discount rate changed from 4.50% to 3.50%.

Since the last actuarial valuation as of January 1, 2014, the following plan provisions have changed:

- The years of service required to be eligible for a benefit was increased from three years to five years.

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. 2017 Changes in Actuarial Assumptions

- The Combined Service Annuity (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and non-vested deferred members. The revised CSA loads are now 0.0 percent for active member liability, 15.0 percent for vested deferred member liability, and 3.0 percent for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044, and 2.5 percent per year thereafter.

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BAGLEY, MINNESOTA**

2. 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.

3. 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.

4. 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. 2017 Changes in Actuarial Assumptions

- Assumed salary increases were changed as recommended in the June 30, 2016 experience study. The net effect is proposed rates that average 0.34 percent lower than the previous rates.
- Assumed rates of retirement were changed, resulting in fewer retirements.
- The Combined Service Annuity (CSA) load was 30 percent for vested and non-vested deferred members. The CSA has been changed to 33 percent for vested members and 2 percent for non-vested members.
- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016. The base mortality table for disable annuitants was changed from the RP-2000 disabled mortality table to the mortality tables assumed for healthy retirees.

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

- Assumed termination rates were decreased to 3.0 percent for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall.
- Assumed percentage of married female members was decreased from 65 percent to 60 percent.
- Assumed age difference was changed from separate assumptions for male members (wives assumed to be three years younger) and female members (husbands assumed to be four years older) to the assumption that males are two years older than females.
- The assumed percentage of female members electing Joint and Survivor annuities was increased.
- The assumed post-retirement benefit increase rate was changed from 1.00 percent for all years to 1.00 percent per year through 2064, and 2.50 percent thereafter.

2. 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.

3. 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.

4. 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

1. 2017 Changes in Actuarial Assumptions

- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016 and is applied to healthy and disabled members. The base mortality

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

table for disabled annuitants was changed from the RP-2000 disabled mortality table to the RP-2014 disabled annuitant mortality table (with future mortality improvement according to MP-2016).

- The Combined Service Annuity (CSA) load was 30 percent for vested and non-vested, deferred members. The CSA has been changed to 35 percent for vested members and 1 percent for non-vested members.
- The Single Discount Rate was changed from 5.31 percent per annum to 5.96 percent per annum.

2. 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 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, 2017**

	Special Revenue Funds					Total Nonmajor Governmental Funds (Exhibit 3)
	Ditch	Energy Assistance	Nursing Service	Solid Waste Management	Unorganized Townships	
Assets						
Cash and pooled investments	\$ 8,056	\$ 8,797	\$ -	\$ 730,621	\$ 2,549	\$ 750,023
Investments	54,900	-	-	-	-	54,900
Taxes receivable - prior	-	-	-	6,142	-	6,142
Special assessments receivable - prior	34	-	-	21,507	-	21,541
Accounts receivable	-	-	79,854	-	-	79,854
Due from other governments	-	-	161,185	-	-	161,185
Special assessments - noncurrent	16,711	-	-	-	-	16,711
Total Assets	\$ 79,701	\$ 8,797	\$ 241,039	\$ 758,270	\$ 2,549	\$ 1,090,356
Liabilities, Deferred Inflows of Resources, and Fund Balances						
Liabilities						
Accounts payable	\$ -	\$ 526	\$ 15,805	\$ 8,159	\$ -	\$ 24,490
Salaries payable	-	-	46,068	3,062	-	49,130
Cash loan from other funds	-	-	17,636	-	-	17,636
Due to other governments	-	-	314	30,937	-	31,251
Total Liabilities	\$ -	\$ 526	\$ 79,823	\$ 42,158	\$ -	\$ 122,507
Deferred Inflows of Resources						
Taxes	\$ -	\$ -	\$ -	\$ 4,686	\$ -	\$ 4,686
Special assessments	16,745	-	-	36,181	-	52,926
Total Deferred Inflows of Resources	\$ 16,745	\$ -	\$ -	\$ 40,867	\$ -	\$ 57,612
Fund Balances						
Restricted for						
Conservation of natural resources	\$ 8,128	\$ -	\$ -	\$ -	\$ -	\$ 8,128
Debt service	54,900	-	-	-	-	54,900
Committed to						
Landfill	-	-	-	29,242	-	29,242
Recycling	-	-	-	32,679	-	32,679
Solid waste collection	-	-	-	187,095	-	187,095
Solid waste disposal	-	-	-	253,456	-	253,456
Assigned to						
Energy assistance	-	8,271	-	-	-	8,271
Nursing service	-	-	161,216	-	-	161,216
Sanitation	-	-	-	172,773	-	172,773
Unorganized townships	-	-	-	-	2,549	2,549
Unassigned	(72)	-	-	-	-	(72)
Total Fund Balances	\$ 62,956	\$ 8,271	\$ 161,216	\$ 675,245	\$ 2,549	\$ 910,237
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 79,701	\$ 8,797	\$ 241,039	\$ 758,270	\$ 2,549	\$ 1,090,356

**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, 2017**

	Special Revenue Funds					Total Nonmajor Governmental Funds (Exhibit 5)
	Ditch	Energy Assistance	Nursing Service	Solid Waste Management	Unorganized Townships	
Revenues						
Taxes	\$ -	\$ -	\$ -	\$ 389,023	\$ -	\$ 389,023
Special assessments	63,968	-	-	453,147	-	517,115
Licenses and permits	-	-	-	300	38	338
Intergovernmental	-	72,859	230,005	123,622	1,019	427,505
Charges for services	-	-	1,247,039	26,200	-	1,273,239
Investment earnings	-	3	-	-	-	3
Miscellaneous	-	-	30,648	2,434	-	33,082
Total Revenues	\$ 63,968	\$ 72,862	\$ 1,507,692	\$ 994,726	\$ 1,057	\$ 2,640,305
Expenditures						
Current						
Highways and streets	\$ -	\$ -	\$ -	\$ -	\$ 9	\$ 9
Sanitation	-	-	-	825,198	-	825,198
Human services	-	63,779	-	-	-	63,779
Health	-	-	1,502,590	-	-	1,502,590
Conservation of natural resources	45,334	-	-	-	-	45,334
Debt service						
Principal retirement	25,000	-	-	-	-	25,000
Interest	2,625	-	-	-	-	2,625
Total Expenditures	\$ 72,959	\$ 63,779	\$ 1,502,590	\$ 825,198	\$ 9	\$ 2,464,535
Excess of Revenues Over (Under) Expenditures	\$ (8,991)	\$ 9,083	\$ 5,102	\$ 169,528	\$ 1,048	\$ 175,770
Other Financing Sources (Uses)						
Transfers out	-	(858)	-	(6,209)	-	(7,067)
Net Change in Fund Balance	\$ (8,991)	\$ 8,225	\$ 5,102	\$ 163,319	\$ 1,048	\$ 168,703
Fund Balance - January 1	71,947	46	156,114	511,926	1,501	741,534
Fund Balance - December 31	\$ 62,956	\$ 8,271	\$ 161,216	\$ 675,245	\$ 2,549	\$ 910,237

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

Schedule 9

**BUDGETARY COMPARISON SCHEDULE
DITCH SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Special assessments	\$ 65,390	\$ 65,390	\$ 63,968	\$ (1,422)
Expenditures				
Current				
Conservation of natural resources				
Administration	\$ 405	\$ 405	\$ -	\$ 405
Ditch maintenance and repair	47,731	47,731	45,334	2,397
Total current	\$ 48,136	\$ 48,136	\$ 45,334	\$ 2,802
Debt service				
Principal retirement	\$ 25,000	\$ 25,000	\$ 25,000	\$ -
Interest	2,625	2,625	2,625	-
Total debt service	\$ 27,625	\$ 27,625	\$ 27,625	\$ -
Total Expenditures	\$ 75,761	\$ 75,761	\$ 72,959	\$ 2,802
Excess of Revenues Over (Under) Expenditures	\$ (10,371)	\$ (10,371)	\$ (8,991)	\$ 1,380
Fund Balance - January 1	71,947	71,947	71,947	-
Fund Balance - December 31	\$ 61,576	\$ 61,576	\$ 62,956	\$ 1,380

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

Schedule 10

**BUDGETARY COMPARISON SCHEDULE
ENERGY ASSISTANCE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Intergovernmental	\$ 92,088	\$ 92,088	\$ 72,859	\$ (19,229)
Investment earnings	-	-	3	3
Total Revenues	\$ 92,088	\$ 92,088	\$ 72,862	\$ (19,226)
Expenditures				
Current				
Human services				
Administration	\$ 30,410	\$ 30,410	\$ 36,284	\$ (5,874)
Energy assistance	61,678	61,678	27,495	34,183
Total Expenditures	\$ 92,088	\$ 92,088	\$ 63,779	\$ 28,309
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ 9,083	\$ 9,083
Other Financing Sources (Uses)				
Transfers out	-	-	(858)	(858)
Net Change in Fund Balance	\$ -	\$ -	\$ 8,225	\$ 8,225
Fund Balance - January 1	46	46	46	-
Fund Balance - December 31	\$ 46	\$ 46	\$ 8,271	\$ 8,225

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

Schedule 11

**BUDGETARY COMPARISON SCHEDULE
NURSING SERVICE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Intergovernmental	\$ 128,007	\$ 128,007	\$ 230,005	\$ 101,998
Charges for services	1,397,029	1,397,029	1,247,039	(149,990)
Miscellaneous	3,500	3,500	30,648	27,148
Total Revenues	\$ 1,528,536	\$ 1,528,536	\$ 1,507,692	\$ (20,844)
Expenditures				
Current				
Health				
Nursing service	1,486,409	1,486,409	1,502,590	(16,181)
Excess of Revenues Over (Under) Expenditures	\$ 42,127	\$ 42,127	\$ 5,102	\$ (37,025)
Fund Balance - January 1	156,114	156,114	156,114	-
Fund Balance - December 31	\$ 198,241	\$ 198,241	\$ 161,216	\$ (37,025)

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

Schedule 12

**BUDGETARY COMPARISON SCHEDULE
SOLID WASTE MANAGEMENT SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 300,350	\$ 300,350	\$ 389,023	\$ 88,673
Special assessments	467,000	467,000	453,147	(13,853)
License and permits	400	400	300	(100)
Intergovernmental	125,024	125,024	123,622	(1,402)
Charges for services	15,000	15,000	26,200	11,200
Miscellaneous	500	500	2,434	1,934
Total Revenues	\$ 908,274	\$ 908,274	\$ 994,726	\$ 86,452
Expenditures				
Current				
Sanitation				
Demolition landfill	\$ 119,576	\$ 119,576	\$ 120,663	\$ (1,087)
Household hazardous waste	7,500	7,500	6,949	551
Recycling	97,758	97,758	74,183	23,575
Solid waste collection	329,820	329,820	299,938	29,882
Solid waste disposal	346,248	346,248	323,465	22,783
Total Expenditures	\$ 900,902	\$ 900,902	\$ 825,198	\$ 75,704
Excess of Revenues Over (Under) Expenditures	\$ 7,372	\$ 7,372	\$ 169,528	\$ 162,156
Other Financing Sources (Uses)				
Transfers out	(10,000)	(10,000)	(6,209)	3,791
Net Change in Fund Balance	\$ (2,628)	\$ (2,628)	\$ 163,319	\$ 165,947
Fund Balance - January 1	511,926	511,926	511,926	-
Fund Balance - December 31	\$ 509,298	\$ 509,298	\$ 675,245	\$ 165,947

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

Schedule 13

**BUDGETARY COMPARISON SCHEDULE
UNORGANIZED TOWNSHIPS SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
License and permits	\$ -	\$ -	\$ 38	\$ 38
Intergovernmental	-	-	1,019	1,019
Total Revenues	\$ -	\$ -	\$ 1,057	\$ 1,057
Expenditures				
Current				
Highways and streets				
Township roads	-	-	9	(9)
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ 1,048	\$ 1,048
Fund Balance - January 1	1,501	1,501	1,501	-
Fund Balance - December 31	\$ 1,501	\$ 1,501	\$ 2,549	\$ 1,048

**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, 2017**

	Balance January 1	Additions	Deductions	Balance December 31
<u>CLEARWATER COLLABORATIVE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 42,850	\$ 81,911	\$ 61,333	\$ 63,428
<u>Liabilities</u>				
Due to other governments	\$ 42,850	\$ 81,911	\$ 61,333	\$ 63,428
 <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	\$ 214,753	\$ 1,437,200	\$ 1,430,651	\$ 221,302
<u>Liabilities</u>				
Due to other governments	\$ 214,753	\$ 1,437,200	\$ 1,430,651	\$ 221,302
 <u>NORTHWEST COUNTIES DATA PROCESSING SECURITY ASSOCIATION</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 20,815	\$ -	\$ 20,815	\$ -
<u>Liabilities</u>				
Due to other governments	\$ 20,815	\$ -	\$ 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, 2017**

	Balance January 1	Additions	Deductions	Balance December 31
<u>NORTHWESTERN MINNESOTA HOUSEHOLD HAZARDOUS WASTE MANAGEMENT GROUP</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 134,622	\$ 213,033	\$ 209,196	\$ 138,459
<u>Liabilities</u>				
Due to other governments	\$ 134,622	\$ 213,033	\$ 209,196	\$ 138,459
 <u>SCHOOL DISTRICTS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 2,886,707	\$ 2,886,707	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 2,886,707	\$ 2,886,707	\$ -
 <u>STATE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 3,215	\$ 3,477,941	\$ 3,475,972	\$ 5,184
<u>Liabilities</u>				
Due to other governments	\$ 3,215	\$ 3,477,941	\$ 3,475,972	\$ 5,184

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

*Statement 3
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Balance January 1	Additions	Deductions	Balance December 31
<u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 73,885	\$ 457,688	\$ 396,021	\$ 135,552
<u>Liabilities</u>				
Due to other governments	\$ 73,885	\$ 457,688	\$ 396,021	\$ 135,552
 <u>TOWNS AND CITIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 1,389	\$ 2,927,137	\$ 2,927,137	\$ 1,389
<u>Liabilities</u>				
Due to other governments	\$ 1,389	\$ 2,927,137	\$ 2,927,137	\$ 1,389
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 492,916	\$ 11,481,617	\$ 11,407,832	\$ 566,701
<u>Liabilities</u>				
Due to other governments	\$ 492,916	\$ 11,481,617	\$ 11,407,832	\$ 566,701

OTHER SCHEDULES

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

**BALANCE SHEET - BY DITCH
DITCH SPECIAL REVENUE FUND
DECEMBER 31, 2017**

	Assets			Total Assets
	Cash and Investments	Special Assessments Receivable - Prior	Special Assessments Receivable - Noncurrent	
County Ditches				
2	\$ 592	\$ 7	\$ -	\$ 599
Project 113	55,128	27	16,711	71,866
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	\$ 62,956	\$ 34	\$ 16,711	\$ 79,701

Schedule 14

Deferred Inflows of Resources	Fund Balance			Total Deferred Inflows and Fund Balance
	Restricted	Unassigned	Total Fund Balance	
\$ 7	\$ 592	\$ -	\$ 592	\$ 599
16,738	55,128	-	55,128	71,866
-	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
\$ 16,745	\$ 63,028	\$ (72)	\$ 62,956	\$ 79,701

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

Schedule 15

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2017**

Shared Revenue

State

Aquatic ISP Aid	\$	100,159
Volunteer retention stipend aid		5,500
County program aid		663,099
Disparity reduction aid		46,620
Enhanced 911		79,520
Highway users tax		4,645,056
Market value credit		206,540
PERA rate reimbursement		21,917
Police state aid		81,375
Riparian Protection Aid		77,291
		77,291

Total Shared Revenue **\$ 5,927,077**

Reimbursement for Services

State

Minnesota Department of Human Services	\$	210,007
		210,007

Payments

Payments in lieu of taxes	\$	405,194
		405,194

Grants

Local

City of Bagley	\$	2,400
Mental Health Collaborative		34,737
Northwest Minnesota Foundation		38,415
Other		10,417
		10,417

Total Local **\$ 85,969**

State

Minnesota Department/Board of

Commerce	\$	72,859
Corrections		55,333
Health		4,416
Human Services		442,157
Natural Resources		103,146
Peace Officer Standards and Training		3,497
Pollution Control Agency		68,711
Trial courts		3,431
Public Safety		27,624
Veteran Affairs		7,500
Water and Soil Resources		91,540
		91,540

Total State **\$ 880,214**

Federal

Department of

Agriculture	\$	115,091
Health and Human Services		884,214
Homeland Security		40,937
		40,937

Total Federal **\$ 1,040,242**

Total Grants **\$ 2,006,425**

Total Intergovernmental Revenue **\$ 8,548,703**

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

Schedule 16

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

Federal Grantor Pass Through Agency Grant Program Title	Federal CFDA Number	Pass-Through Grant Award Number			Expenditures
U.S. Department of Agriculture					
Passed Through Minnesota Department of Human Services SNAP Cluster State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	172MN101S2514			\$ 115,091
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			\$ 2,000
Passed Through North Country Community Health Services Affordable Care Act Maternal, Infant, and Early Childhood Home Visiting Program	93.505	D89NC23539			59,674
Passed Through Minnesota Department of Human Services Promoting Safe and Stable Families	93.556	G-1601MNFPS			1,798
TANF Cluster					
Temporary Assistance for Needy Families	93.558	1602MFTANF	\$	102,462	
Temporary Assistance for Needy Families	93.558	1602MNTANF		2,798	
Passed Through North Country Community Health Services Temporary Assistance for Needy Families	93.558	2017G996115		<u>22,405</u>	127,665
Passed Through Minnesota Department of Human Services Child Support Enforcement	93.563	1704MNCSES	\$	2,980	
Child Support Enforcement	93.563	1704MNCSEST		<u>137,955</u>	140,935
Refugee and Entrant Assistance	93.566	1701MNRCA			290
CCDF Cluster					
Child Care Mandatory and Matching Funds of the Child Care and Devel	93.575	G1701MNCCDF			1,837
Community Based Child Abuse Prevention Grant	93.590	G-1502MNFPRG			105
Stephanie Tubbs Jones Child Welfare Services Program	93.645	G-1601MNCWSS			1,198
Foster Care Title IV-E	93.658	1701MNFOST			55,135
Social Services Block Grant	93.667	G-1701MNSOSR			92,126

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

**Schedule 16
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

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)					
Chafee Foster Care Independence Program	93.674	G-1601MNCILP	\$		646
Children's Health Insurance Program	93.767	05-1705MN0301			116
Medicaid Cluster Medical Assistance Program	93.778	05-1705MN5ADM	\$	337,738	
Medical Assistance Program	93.778	05-1705MN5MAP		28,233	
Passed Through North Country Community Health Services Medical Assistance Program	93.778	05-1705MN5ADM		<u>18,721</u>	384,692
Passed Through North Country Community Health Services Maternal and Child Health Services Block Grant to the States	93.994	B04MC28107			<u>15,997</u>
Total U.S. Department of Health and Human Services					<u>\$ 884,214</u>
U.S. Department of Homeland Security					
Passed Through Minnesota Department of Natural Resources					
Boating Safety Financial Assistance	97.012	CLEARWATER FBE	\$	13,000	
Boating Safety Financial Assistance	97.012	CLEARWATER SBG		<u>1,458</u>	\$ 14,458
Direct Emergency Food and Shelter National Board Program	97.024	Not provided			11,820
Passed Through Minnesota Department of Public Safety Emergency Management Performance Grants	97.042	F-EMPG-2017-CLRWTRCO			<u>14,659</u>
Total U.S. Department of Homeland Security					<u>\$ 40,937</u>
Total Federal Awards					<u>\$ 1,040,242</u>

Clearwater County did not pass any federal awards through to subrecipients during the year ended December 31, 2017.

Totals by Cluster	
Total expenditures for SNAP Cluster	\$ 115,091
Total expenditures for TANF Cluster	127,665
Total expenditures for CCDF Cluster	105
Total expenditures for Medicaid Cluster	384,692

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2017

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, 2017. 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 Principals, 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 principals 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 2017, the County did not pass any federal awards through 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 2017, 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, 2017

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. No matters involving internal control over compliance relating to the audit of the major federal award programs were reported in the "Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance"
- E. The Report on Compliance for the major federal award programs for Clearwater County expresses an unmodified opinion.
- F. No findings were disclosed that are required to be reported in accordance with 2CFR 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

PREVIOUSLY REPORTED ITEM RESOLVED

2016-001 Reporting Requirements

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

Resolution: This was an isolated incident beyond the control of the County. The 2017 annual County audit was completed within 9 months of the fiscal year end to allow for timely submission of the data collection form and reporting package.

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

Schedule 17
(Continued)

IV. OTHER FINDINGS AND RESPONSES

MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM RESOLVED

2015-001 Deposits in Excess of Collateral

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.

Resolution: In 2017 the County obtained adequate levels of collateral from all designated depositories as required by Minn. Stat. § 118A.03, and has implemented policies to monitor the collateral on a regular basis.

**CLEARWATER COUNTY
BAGLEY, MINNESOTA**

SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2017

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.

Finding Number: 2016-001

Finding Title: Reporting Requirements

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

Summary of Corrective Action: The 2017 audit report and data collection form were submitted to the Federal Audit Clearinghouse within the required time frame.

Status: 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: In 2017 the County Auditor/Treasurer obtained adequate levels of collateral from all designated depositories as required by Minn. Stat. § 118A.03, and implemented a policy to monitor the collateral on a regular basis.

Status: Fully corrected.

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



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, 2017, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 28, 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*. 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

September 28, 2018

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



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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, 2017. 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, 2017.

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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

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

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
September 28, 2018