STATE OF MINNESOTA

Office of the State Auditor

Julie Blaha
State Auditor

CLEARWATER COUNTY
BAGLEY, MINNESOTA

YEAR ENDED DECEMBER 31, 2015

Description of the Office of the State Auditor

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

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

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

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

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

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

Pension - monitors investment, financial, and actuarial reporting for approximately 650 public pension funds; and

Tax Increment Financing - promotes compliance and accountability in local governments' use of tax increment financing through financial and compliance audits.

The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

Office of the State Auditor
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CLEARWATER COUNTY
BAGLEY, MINNESOTA

Year Ended December 31, 2015

Audit Practice Division
Office of the State Auditor
State of Minnesota

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CLEARWATER COUNTY
BAGLEY, MINNESOTA

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Introductory Section

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CLEARWATER COUNTY
BAGLEY, MINNESOTA

ORGANIZATION SCHEDULE
DECEMBER 31, 2015

Office	Name	Term Expires
Commissioners		
First District	Arlen Syverson	January 2019
Second District	Dean Newland	January 2017
Third District	Neal Illies	January 2019
Fourth District	John Nelson	January 2017
Fifth District	Daniel C. Stenseng, Chair	January 2019
Officers		
Elected		
Attorney	Richard Mollin	January 2019
Sheriff	Darin Halverson	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
Veteran Services Officer	Harry Hutchens, III	Indefinite
Environmental Services	Daniel Hecht	Indefinite
Human Services Board		
Chair	Marilyn Shamp	Indefinite
Secretary	Julie Sundquist	Indefinite
Member	John Nelson	December 2017
Member	Dean Newland	December 2017
Member	Daniel C. Stenseng	December 2019
Member	Arlen Syverson	December 2019
Member	Neal Illies	December 2019
Director	Malotte Backer	Indefinite

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Financial Section

STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

JULIE BLAHA
STATE AUDITOR

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525 PARK STREET
SAINT PAUL, MN 55103-2139

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(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Clearwater County
Bagley, Minnesota

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the County's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

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

Emphasis of Matter

Change in Accounting Principle

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

Correction of Material Misstatement in Previously Issued Financial Statements

As discussed in Note 1.E. to the financial statements, the previously issued 2014 financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Clearwater County's basic financial statements. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 3, 2019, 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 solely 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 effectiveness of Clearwater County's 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 Clearwater County's internal control over financial reporting and compliance.

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

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

/s/Julie Blaha	*/s/Greg Hierlinger*
JULIE BLAHA STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

January 3, 2019

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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CLEARWATER COUNTY COMMISSIONERS

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

ARLEN SYVERSON	DEAN NEWLAND	NEAL ILLIES	JOHN NELSON	DANIEL STENSENG
District # 1	District #2	District #3	District #4	District #5

CLEARWATER COUNTY
BAGLEY, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2015
(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, 2015. The Management's Discussion and Analysis provides comparisons with the previous year and is designed to focus on the current year's activities, resulting changes, and currently known facts, and should be read in conjunction with the County's basic financial statements that follow this section.

FINANCIAL HIGHLIGHTS

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

The total net position of governmental activities is $52,831,009, of which $43,363,275 is the net investment in capital assets, $5,089,500 is restricted for specific purposes, and $4,378,234 is unrestricted. The total net position of governmental activities increased by $2,613,696 for the year ended December 31, 2015. This is attributed mainly to the implementation of new Governmental Accounting Standards Board (GASB) pronouncements recognizing net pension liability.

At the close of 2015, the County's governmental funds reported combined ending fund balances of $10,920,357, an increase of $275,003 from the prior year, as restated. Of the total fund balance amount, $384,442 is non-spendable, $1,208,813 is legally or contractually restricted, $5,788,036 is assigned for specific purposes, and $3,539,066 is the total 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 full 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, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference 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 are 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 are general government, public safety, highways and streets, sanitation, human services, health, culture and recreation, conservation of natural resources, and economic development. Property taxes and state and federal grants finance most of these activities.

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

Fund Financial Statements

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

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

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

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

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

Fiduciary Funds. Fiduciary funds are used to account for assets held by the County as an agent for individuals, private organizations, other governments, or other funds. Clearwater County's fiduciary funds consist of nine agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. In addition, the fiduciary funds are not reflected in the government-wide financial statements because those resources are not available to support the County's programs. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All fiduciary activities are reported in Exhibit 7, Statement of Fiduciary Net Position.

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 26 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 schedule of expenditures of federal awards, 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 and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $52,831,009 at the close of the fiscal year. The largest portion of the County's net position (approximately 82 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 10 percent of the County's net position is restricted, and 8 percent of the County's net position is unrestricted. The unrestricted net position amount of $4,378,234 as of December 31, 2015, may be used to meet the County's ongoing obligations to citizens.

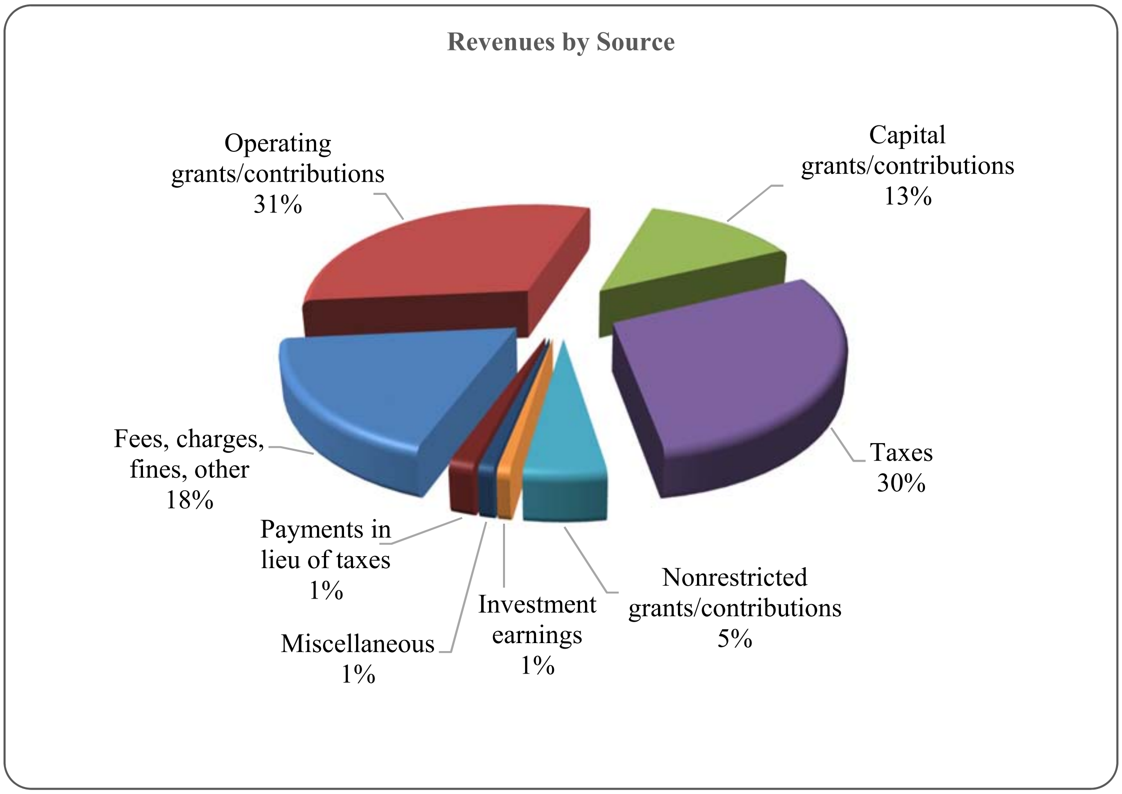
The County's overall financial position increased from last year. Total assets increased by $2,511,842, primarily due to the addition of infrastructure and purchase of capital assets. Total liabilities increased by $4,597,631 from the prior year, primarily due to the addition of net pension liability. These changes, as well as recognizing deferred inflows of resources and deferred outflows of resources associated with pensions, resulted in an increased net position of $2,613,696 from the prior year.

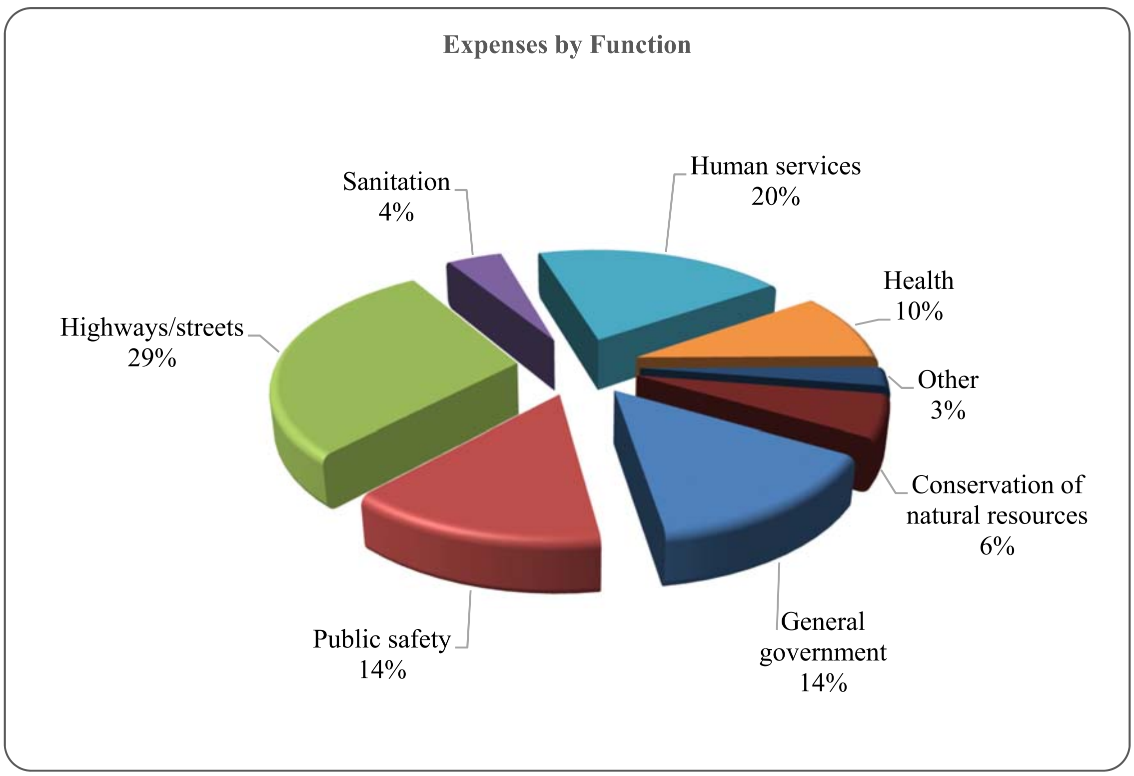
Net Position

	Governmental Activities 2015	Governmental Activities 2014
Assets		
Current and other assets	$ 15,965,807	$ 14,135,448
Capital assets	43,363,275	42,681,792
Total Assets	$ 59,329,082	$ 56,817,240
Deferred outflows of resources - pensions	$ 785,476	$ -
Liabilities		
Other liabilities	$ 617,294	$ 789,380
Long-term liabilities outstanding	5,834,526	1,064,809
Total Liabilities	$ 6,451,820	$ 1,854,189
Deferred inflows of resources - pensions	$ 831,729	$ -
Net Position		
Net investment in capital assets	$ 43,363,275	$ 42,681,792
Restricted	5,089,500	3,127,681
Unrestricted	4,378,234	9,153,578
Total Net Position, as reported	$ 52,831,009	$ 54,963,051

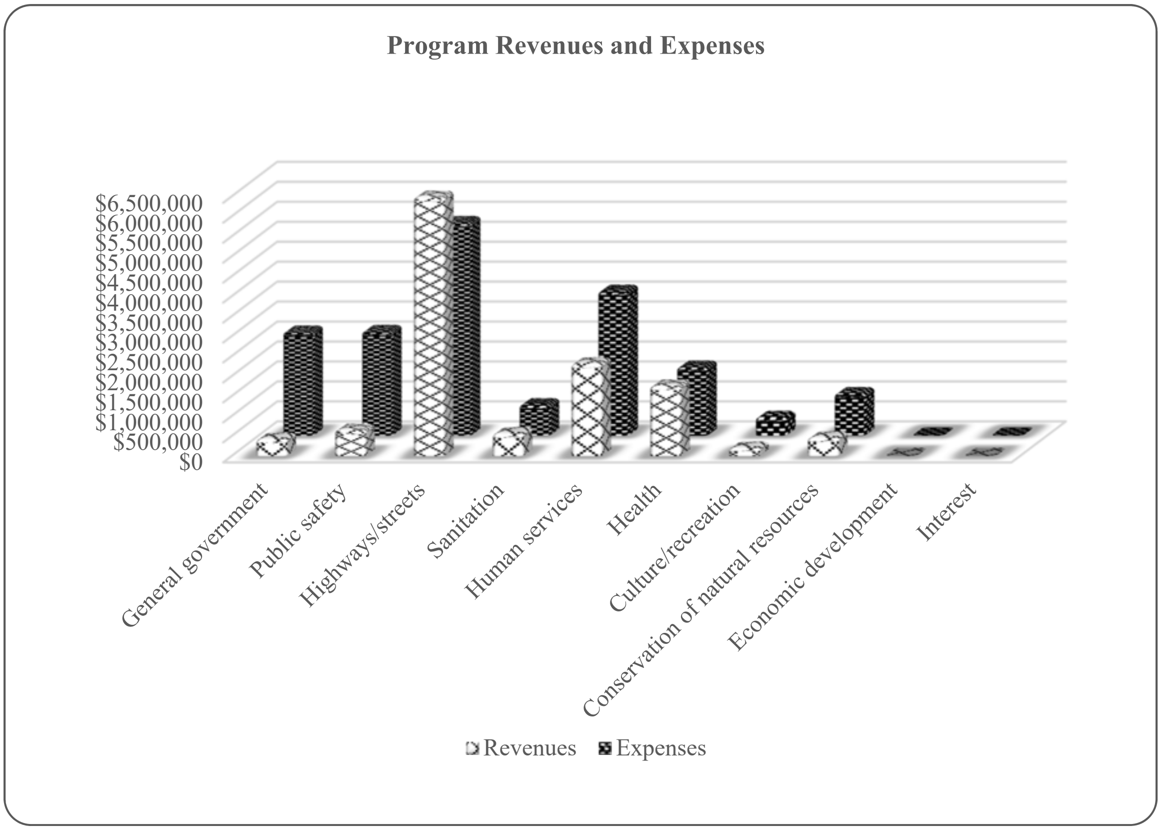
Changes in Net Position

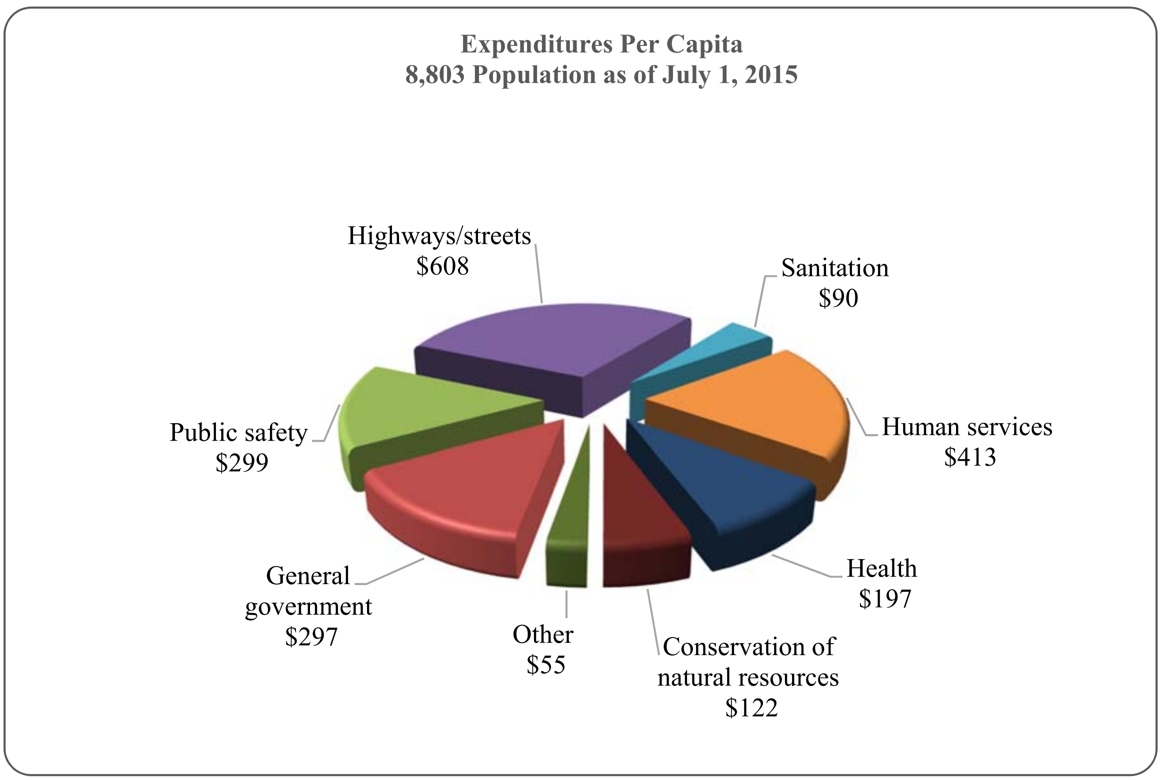
	Governmental Activities	
	2015	2014
Revenues		
Program revenues		
Fees, charges, fines, and other	$ 3,756,596	$ 3,825,836
Operating grants and contributions	6,552,252	4,854,281
Capital grants and contributions	2,728,089	2,047,040
General revenues		
Taxes	6,204,094	5,989,640
Payments in lieu of taxes	311,061	310,992
Grants and contributions not restricted to specific programs	1,031,424	1,131,512
Investment earnings	163,655	647,395
Miscellaneous	192,288	-
Total Revenues	$ 20,939,459	$ 18,806,696
Expenses		
General government	$ 2,614,658	$ 2,651,426
Public safety	2,629,067	2,821,768
Highways and streets	5,355,968	2,580,491
Sanitation	795,044	840,396
Human services	3,636,614	3,506,734
Health	1,735,769	1,920,760
Culture and recreation	479,656	437,290
Conservation of natural resources	1,071,812	1,126,085
Economic development	2,300	2,800
Interest	4,875	5,995
Total Expenses	$ 18,325,763	$ 15,893,745
Increase (decrease)	$ 2,613,696	$ 2,912,951
Net assets, January 1, as previously reported	$ 54,963,051	$ 52,050,100
Prior period adjustment	(4,745,738)	-
Net Position, January 1, as restated	$ 50,217,313	$ 52,050,100
Net Position, December 31	$ 52,831,009	$ 54,963,051


Revenues by Source
Operating grants/contributions 31%
Capital grants/contributions 13%
Taxes 30%
Nonrestricted grants/contributions 5%
Investment earnings 1%
Miscellaneous 1%
Payments in lieu of taxes 1%
Fees, charges, fines, other 18%


Expenses by Function
Sanitation 4%
Human services 20%
Health 10%
Other 3%
Conservation of natural resources 6%
General government 14%
Public safety 14%
Highways/streets 29%

(Unaudited)


Program Revenues and Expenses
$6,500,000
$6,000,000
$5,500,000
$5,000,000
$4,500,000
$4,000,000
$3,500,000
$3,000,000
$2,500,000
$2,000,000
$1,500,000
$1,000,000
$500,000
$0
General government
Public safety
Highways/streets
Sanitation
Human services
Health
Culture/recreation
Conservation of natural resources
Economic development
Interest
Revenues
Expenses


Expenditures Per Capita
8,803 Population as of July 1, 2015
Highways/streets $608
Sanitation $90
Human services $413
Health $197
Conservation of natural resources $122
Other $55
General government $297
Public safety $299

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 2015, the County's governmental funds reported combined ending fund balances of $10,920,357. Of this amount, approximately 4 percent constitutes non-spendable fund balance, 11 percent constitutes legally or contractually restricted fund balance, 53 percent constitutes specifically assigned fund balance, and 32 percent constitutes unassigned fund balance.

The General Fund is the operating fund of the County. At the end of the current fiscal year, the General Fund's total fund balance was $3,952,747. The General Fund's non-spendable fund balance was $25,727, restricted fund balance was $387,608, and unassigned fund balance was $3,539,412. 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 2015. Unrestricted fund balance represents 57 percent of total General Fund expenditures, while total fund balance represents 63 percent of that same amount.

In 2015, the fund balance amount in the General Fund increased by $614,489. The primary reason for this was due to a slight levy increase and departmental spending under budget.

The fund balance of the Road and Bridge Special Revenue Fund decreased $509,754 in 2015. This was due to timing of intergovernmental revenue.

The fund balance of the Human Services Special Revenue Fund increased $7,787 from the prior year as a result of decreased expenditures.

GENERAL FUND BUDGETARY HIGHLIGHTS

There were no material amendments to the original budgeted revenues and expenditures as approved for 2015.

Actual revenues were less than overall final budgeted revenues by $107,624, with the largest variance in taxes. Actual expenditures were less than overall final budgeted expenditures by $95,202, 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, 2015, amounted to $43,363,275 (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	
	2015	2014
Land	$ 165,750	$ 165,750
Construction in progress	47,844	963,770
Infrastructure	38,656,491	36,831,994
Buildings and improvements	2,713,063	2,975,900
Machinery and equipment	1,780,127	1,744,378
Total Capital Assets	$ 43,363,275	$ 42,681,792

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 $85,000, which is backed by the full faith and credit of the government and special assessments.

	Governmental Activities	
	2015	2014
General obligation bonds	$ 85,000	$ 110,000

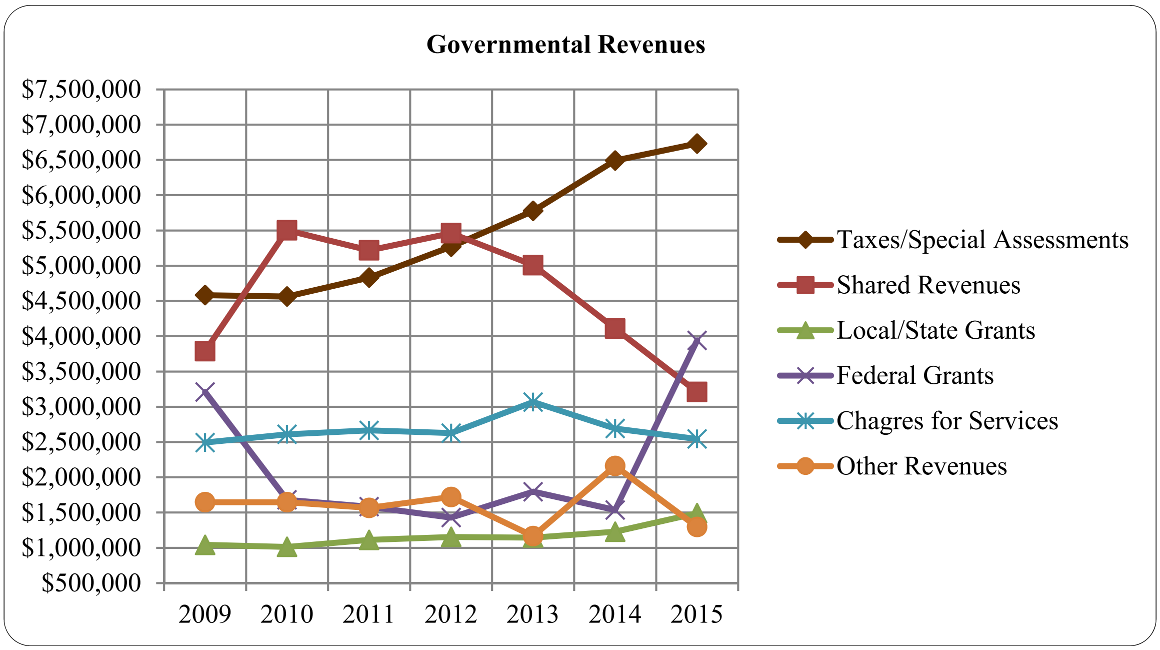
The County's net decrease in debt of $25,000 (approximately 23 percent) during the fiscal year was attributable to the repayment of debt.

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

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

- The County depends on financial resources flowing from, or associated with, both the federal government and the State of Minnesota. Because of this dependency, the County is subject to changes in specific flows of intergovernmental revenues based on modifications to federal and state laws and federal and state appropriations. It is also subject to changes in investment earnings and asset values associated with U.S. Treasury Securities because of actions by foreign governments and other holders of publicly held U.S. Treasury Securities. The analysis below focuses on the revenues of the County's governmental funds taken from Exhibit 5 and the Schedule of Intergovernmental Revenue.



- The unemployment rate for Clearwater County was 10.8 percent as of December 31, 2015. This is considerably higher than the statewide rate of 3.7 percent and the national average rate of 5.0 percent.

- Clearwater County's population at July 1, 2015, was 8,803, an increase of 108 since 2010. This ranks Clearwater County 74th of 87 in the State of Minnesota.

- The economic trends in our community, as well as our population figures, have stayed relatively stable over the past years, and thus, there has been little change in the economic profile of the community.

- Beginning January 1, 2015, the positions of County Auditor and County Treasurer were combined into the position of County Auditor/Treasurer. The County is in the process of evaluating internal controls and adjusting policies to allow for greater efficiencies and cost savings in providing services to residents.

- On December 1, 2015, Clearwater County set its 2016 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.

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BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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CLEARWATER COUNTY
BAGLEY, MINNESOTA

EXHIBIT 1

STATEMENT OF NET POSITION
DECEMBER 31, 2015

		Governmental Activities
Assets		
Cash and pooled investments	$	10,433,387
Taxes receivable		
Delinquent		131,408
Special assessments receivable		
Delinquent		57,708
Noncurrent		50,135
Accounts receivable		96,500
Accrued interest receivable		38,185
Contracts receivable		239,488
Due from other governments		4,560,281
Inventories		358,715
Capital assets		
Non-depreciable		213,594
Depreciable - net of accumulated depreciation		43,149,681
Total Assets	**$**	**59,329,082**
Deferred Outflows of Resources		
Deferred pension outflows	**$**	**785,476**
Liabilities		
Accounts payable	$	188,723
Salaries payable		206,991
Contracts payable		4,949
Due to other governments		216,631
Long-term liabilities		
Due within one year		508,422
Due in more than one year		394,126
Net pension liability		4,756,337
Other postemployment benefits		175,641
Total Liabilities	**$**	**6,451,820**
Deferred Inflows of Resources		
Deferred pension inflows	**$**	**831,729**

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

EXHIBIT 1
(Continued)

STATEMENT OF NET POSITION
DECEMBER 31, 2015

		Governmental Activities
Net Position		
Investment in capital assets	$	43,363,275
Restricted for		
General government		124,105
Public safety		185,135
Highways and streets		3,880,687
Conservation of natural resources		834,812
Debt service		64,761
Unrestricted		4,378,234
Total Net Position	**$**	**52,831,009**

CLEARWATER COUNTY
BAGLEY, MINNESOTA

EXHIBIT 2

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2015

	Expenses	Program Revenues: Fees, Charges, Fines, and Other	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
Functions/Programs					
Primary Government					
Governmental activities					
General government	$ 2,614,658	$ 360,883	$ 81,207	$ -	$ (2,172,568)
Public safety	2,629,067	459,869	206,801	-	(1,962,397)
Highways and streets	5,355,968	173,961	3,662,168	2,728,089	1,208,250
Sanitation	795,044	509,538	69,692	-	(215,814)
Human services	3,636,614	383,993	1,941,585	-	(1,311,036)
Health	1,735,769	1,456,410	312,313	-	32,954
Culture and recreation	479,656	215,005	-	-	(264,651)
Conservation of natural resources	1,071,812	196,937	278,486	-	(596,389)
Economic development	2,300	-	-	-	(2,300)
Interest	4,875	-	-	-	(4,875)
Total Primary Government	**$ 18,325,763**	**$ 3,756,596**	**$ 6,552,252**	**$ 2,728,089**	**$ (5,288,826)**

General Revenues	
Property taxes	$ 6,199,867
Wheelage tax	4,227
Payments in lieu of tax	311,061
Grants and contributions not restricted to specific programs	1,031,424
Investment earnings	163,655
Miscellaneous	192,288
Total general revenues	**$ 7,902,522**
Change in Net Position	**$ 2,613,696**
Net Position - January 1, as restated (Note 1.E.)	**50,217,313**
Net Position - December 31	**$ 52,831,009**

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

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

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CLEARWATER COUNTY
BAGLEY, MINNESOTA

EXHIBIT 3

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2015

	General	Road and Bridge	Human Services	Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and pooled investments	$ 3,992,990	$ 2,182,758	$ 2,771,033	$ 1,486,606	$ 10,433,387
Taxes receivable					
Delinquent	77,991	22,510	24,521	6,386	131,408
Special assessments receivable					
Delinquent	-	-	-	57,708	57,708
Noncurrent	-	-	-	50,135	50,135
Accounts receivable	18,570	-	8,818	69,112	96,500
Accrued interest receivable	38,185	-	-	-	38,185
Due from other funds	105,701	411	-	-	106,112
Due from other governments	68,143	3,930,677	276,967	284,494	4,560,281
Contracts receivable	-	-	-	239,488	239,488
Inventories	-	358,715	-	-	358,715
Total Assets	**$ 4,301,580**	**$ 6,495,071**	**$ 3,081,339**	**$ 2,193,929**	**$ 16,071,919**
Liabilities, Deferred Inflows of Resources, and Fund Balances					
Liabilities					
Accounts payable	$ 108,795	$ 5,293	$ 59,170	$ 15,465	$ 188,723
Salaries payable	95,932	31,382	47,643	32,034	206,991
Contracts payable	-	4,949	-	-	4,949
Due to other funds	411	614	12,219	92,868	106,112
Due to other governments	89,414	542	34,900	91,775	216,631
Total Liabilities	**$ 294,552**	**$ 42,780**	**$ 153,932**	**$ 232,142**	**$ 723,406**
Deferred Inflows of Resources					
Unavailable revenue	**$ 54,281**	**$ 3,896,780**	**$ 17,398**	**$ 459,697**	**$ 4,428,156**

CLEARWATER COUNTY
BAGLEY, MINNESOTA

EXHIBIT 3
(Continued)

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2015

	General	Road and Bridge	Human Services	Nonmajor Governmental Funds	Total Governmental Funds
Liabilities, Deferred Inflows of Resources, and Fund Balances (Continued)					
Fund Balances					
Nonspendable					
Inventories	$ -	$ 358,715	$ -	$ -	$ 358,715
Missing heirs	25,727	-	-	-	25,727
Restricted for					
Debt service	-	-	-	64,761	64,761
Law library	8,899	-	-	-	8,899
Aquatic invasive species prevention	78,368	-	-	-	78,368
Recorder's technology equipment	54,619	-	-	-	54,619
Enhanced 911	103,257	-	-	-	103,257
Recorder's enhancements	60,587	-	-	-	60,587
Sheriff's forfeited property	28,680	-	-	-	28,680
Boat and water	5,963	-	-	-	5,963
Sheriff contingencies	1,743	-	-	-	1,743
DARE program	959	-	-	-	959
Probation	18,992	-	-	-	18,992
Memorial forest	-	-	-	137,892	137,892
Timber development	-	-	-	611,065	611,065
Permit to carry	25,541	-	-	-	25,541
Conservation of natural resources	-	-	-	7,487	7,487
Assigned to					
Highways and streets	-	2,196,796	-	-	2,196,796
Sanitation	-	-	-	316,005	316,005
Human services	-	-	2,910,009	-	2,910,009
Health	-	-	-	148,157	148,157
Conservation of natural resources	-	-	-	215,361	215,361
Unorganized townships	-	-	-	1,708	1,708
Unassigned	3,539,412	-	-	(346)	3,539,066
Total Fund Balances	**$ 3,952,747**	**$ 2,555,511**	**$ 2,910,009**	**$ 1,502,090**	**$ 10,920,357**
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	**$ 4,301,580**	**$ 6,495,071**	**$ 3,081,339**	**$ 2,193,929**	**$ 16,071,919**

CLEARWATER COUNTY
BAGLEY, MINNESOTA

EXHIBIT 4

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION--GOVERNMENTAL ACTIVITIES DECEMBER 31, 2015

Fund balance - total governmental funds		**$ 10,920,357**
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		43,363,275
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as deferred inflows of resources in the governmental funds.		4,428,156
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
General obligation bonds and any related unamortized discounts/premiums	$ (85,000)	
Other postemployment benefits	(175,641)	
Compensated absences	(817,548)	
Net pension liability	(4,756,337)	(5,834,526)
Deferred outflows of resources and deferred inflows of resources are created as a result of various differences related to pensions that are not recognized in the governmental funds.		
Deferred outflows related to pensions	$ 785,476	
Deferred inflows related to pensions	(831,729)	(46,253)
Net Position of Governmental Activities		**$ 52,831,009**

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

CLEARWATER COUNTY
BAGLEY, MINNESOTA

EXHIBIT 5

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

	General	Road and Bridge	Human Services	Nonmajor Governmental Funds	Total Governmental Funds
Revenues					
Taxes	$ 3,764,311	$ 1,003,150	$ 1,114,088	$ 327,378	$ 6,208,927
Special assessments	-	-	-	522,889	522,889
Licenses and permits	17,468	-	-	897	18,365
Intergovernmental	1,427,792	4,604,452	2,065,893	542,578	8,640,715
Charges for services	825,126	173,278	163,631	1,381,105	2,543,140
Fines and forfeitures	790	-	-	-	790
Gifts and contributions	-	-	-	30,242	30,242
Investment earnings	163,653	-	-	2	163,655
Miscellaneous	400,551	683	220,362	461,698	1,083,294
Total Revenues	**$ 6,599,691**	**$ 5,781,563**	**$ 3,563,974**	**$ 3,266,789**	**$ 19,212,017**
Expenditures					
Current					
General government	$ 2,551,963	$ -	$ -	$ -	$ 2,551,963
Public safety	2,408,458	-	-	-	2,408,458
Highways and streets	-	5,755,245	-	857	5,756,102
Sanitation	-	-	-	778,722	778,722
Human services	-	-	3,499,247	63,565	3,562,812
Health	38,593	-	-	1,555,970	1,594,563
Culture and recreation	481,936	-	-	-	481,936
Conservation of natural resources	672,869	-	-	420,663	1,093,532
Economic development	2,300	-	-	-	2,300
Capital outlay					
General government	60,334	-	-	-	60,334
Public safety	43,316	-	-	-	43,316
Highways and streets	-	228,344	-	-	228,344
Sanitation	-	-	-	110,145	110,145
Intergovernmental					
Highways and streets	-	214,441	-	-	214,441
Debt service					
Principal	-	-	-	25,000	25,000
Interest	-	-	-	4,875	4,875
Total Expenditures	**$ 6,259,769**	**$ 6,198,030**	**$ 3,499,247**	**$ 2,959,797**	**$ 18,916,843**
Excess of Revenues Over (Under) Expenditures	**$ 339,922**	**$ (416,467)**	**$ 64,727**	**$ 306,992**	**$ 295,174**

EXHIBIT 5
(Continued)

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

	General	Road and Bridge	Human Services	Nonmajor Governmental Funds	Total Governmental Funds
Other Financing Sources (Uses)					
Transfers in	$ 274,567	$ -	$ -	$ -	$ 274,567
Transfers out	-	(73,116)	(56,940)	(144,511)	(274,567)
Total Other Financing Sources (Uses)	**$ 274,567**	**$ (73,116)**	**$ (56,940)**	**$ (144,511)**	**$ -**
Net Change in Fund Balances	**$ 614,489**	**$ (489,583)**	**$ 7,787**	**$ 162,481**	**$ 295,174**
Fund Balances - January 1, as restated (Note 1.E.)	**3,338,258**	**3,065,265**	**2,902,222**	**1,339,609**	**10,645,354**
Increase (decrease) in inventories	**-**	**(20,171)**	**-**	**-**	**(20,171)**
Fund Balances - December 31	**$ 3,952,747**	**$ 2,555,511**	**$ 2,910,009**	**$ 1,502,090**	**$ 10,920,357**

CLEARWATER COUNTY
BAGLEY, MINNESOTA

EXHIBIT 6

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

Net change in fund balance - total governmental funds (Exhibit 5)		**$ 295,174**
Amounts reported for governmental activities in the statement of activities are different because:		
In the governmental funds, under the modified accrual basis, receivables not available for expenditure are deferred. In the statement of activities, those revenues are recognized when earned. The adjustment to revenues between the governmental fund statements and the statement of activities is the increase or decrease in revenues deferred as unavailable.		
Change in unavailable revenue		1,727,442
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. In the statement of activities, only the gain or loss on the disposal of capital assets is reported; whereas, in the governmental funds, the proceeds from the sale increase financial resources. Therefore, the change in net position differs from the change in fund balance by the net book value of the assets sold.		
Expenditures for general capital assets and infrastructure	$ 2,409,794	
Net book value of assets sold	(18,278)	
Current year depreciation expense	(1,710,033)	681,483
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		
Principal payments		
General obligation bonds		25,000
Some expenses reported in the statement of activities do not require the use of current financial resources, so are not reported as expenditures in the governmental funds.		
Change in compensated absences	$ (16,721)	
Change in inventories	(20,171)	
Change in other postemployment benefits	(21,659)	
Change in deferred pension outflows, as restated	546,982	
Change in deferred pension inflows	(831,729)	
Change in net pension liability, as restated	227,895	(115,403)
Net Change in Net Position of Governmental Activities (Exhibit 2)		**$ 2,613,696**

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

FIDUCIARY FUNDS

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CLEARWATER COUNTY
BAGLEY, MINNESOTA

EXHIBIT 7

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
DECEMBER 31, 2015

	Agency
Assets	
Cash and pooled investments	**$ 388,684**
Liabilities	
Due to other governments	**$ 388,684**

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

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1. 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) for the year ended December 31, 2015. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

Clearwater County was established December 20, 1902, and is an organized county having the powers, duties, and privileges granted counties by Minn. Stat. ch. 373. The County is governed by a five-member Board of Commissioners elected from districts within the County. The Board is organized with a chair and vice chair elected at the annual meeting in January of each year. The Board Coordinator, appointed by the County Board, serves as the clerk of the Board of Commissioners but has no vote.

Joint Ventures

The County participates in joint ventures and jointly-governed organizations described in Notes 5.C. and 5.D., respectively.

B. Basic Financial Statements

1. Government-Wide Statements

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

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

In the government-wide statement of net position, the governmental activities: (a) are presented on a consolidated basis; and (b) 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) 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 clearly identifiable with a specific function or activity. Program revenues include: (1) fees, fines, and charges paid by the recipients of goods, services, or privileges provided by a given function or activity; and (2) grants and contributions restricted to meeting the operational or capital requirements of a particular function or activity. Revenues not classified as program revenues, including all taxes, are presented as general revenues.

2. Fund Financial Statements

The fund financial statements provide information about the County's funds, including its fiduciary funds. 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 all financial resources of the general government, except those accounted for in another fund.

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

The Road and Bridge Special Revenue Fund is used to account for and report financial transactions of County highway operations.

The Human Services Special Revenue Fund is used to account for and report financial services provided to persons receiving public assistance.

Additionally, the County reports the following fund types:

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 agent capacity.

C. Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the full accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Clearwater County considers all revenues to be available if collected within 60 days after the end of the current period. Property and other taxes, licenses, and interest are all considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Issuances of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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

1. Summary of Significant Accounting Policies (Continued)

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

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Auditor/Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2015, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds receive investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2015 were $163,653.

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 Minn. Stat. § 471.59. The investment in the pool is measured at the net asset value per share provided by the pool.

2. Receivables and Payables

Activity between funds representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either "due to/from other funds" (the current portion of interfund loans) or "advances to/from other funds" (the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

Advances between funds, as reported in the fund financial statements, are offset by a nonspendable fund balance account in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources. There were no advances in 2015.

1. Summary of Significant Accounting Policies

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

2. Receivables and Payables (Continued)

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 May 15 and the second half payment due October 15. Unpaid taxes at December 31 become liens on the respective property and are classified in the financial statements as delinquent taxes receivable.

No allowance has been made for uncollectible receivables because such amounts are not expected to be material.

3. Special Assessments Receivable

Special assessments receivable consist of delinquent special assessments payable in the years 1996 through 2015 and noncurrent special assessments payable in 2016 and after. No allowance for special assessments are shown because such amounts are not expected to be material.

4. Inventories

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

5. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (for example, roads, bridges, sidewalks, and similar items), are reported in the government-wide financial statements. Capital assets are defined by the County as assets with an initial, individual cost of more than the capitalization threshold and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The government's capitalization threshold for capital assets is as follows:

1. Summary of Significant Accounting Policies

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

5. Capital Assets (Continued)

Assets	Capitalization Threshold
Land	$ 1
Construction in progress	1
All other classes of assets	5,000

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

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

Assets	Years
Infrastructure	30 - 80
Buildings and improvements	10 - 40
Machinery and equipment	4 - 30

6. Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated annual vacation, compensatory time, and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. Compensated absences are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements. The current portion of the liability consists of vacation and compensatory time earned within the year. The compensated absences liability is liquidated by the General Fund and the Road and Bridge, Human Services, Forfeited Tax Sale, Nursing Service, and Solid Waste Special Revenue Funds.

1. Summary of Significant Accounting Policies

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

7. Long-Term Obligations

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

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. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

8. Deferred Outflows/Inflows of Resources

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

1. Summary of Significant Accounting Policies

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

      8. Deferred Outflows/Inflows of Resources (Continued)

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

      9. Pension Plan

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

1. Summary of Significant Accounting Policies

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

10. Classification of Net Position

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

Investment in capital assets - the amount of net position representing capital assets, net of accumulated depreciation.

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 investment in capital assets.

11. Classification of Fund Balances

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

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

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

1. Summary of Significant Accounting Policies

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

11. Classification of Fund Balances (Continued)

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

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

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

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

1. Summary of Significant Accounting Policies

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

11. Classification of Fund Balances (Continued)

Minimum Fund Balance Policy

The County has adopted a minimum fund balance policy to maintain an adequate level of fund balance to provide for cash flow requirements and contingency needs. The County is heavily reliant upon property tax revenues to fund current operations. However, current property tax revenues are not available for distribution until June. Therefore, the County Board has determined it needs to maintain a minimum level of unrestricted fund balance (committed, assigned, and unassigned) not less than 35 to 50 percent of the 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 has reduced unrestricted fund balance to a point below the minimum targeted level, as noted above, the replenishment will be funded by property taxes or transfers from other funds within a four-year period of time. At December 31, 2015, the unrestricted fund balance for the General Fund was at or above the minimum fund balance level.

12. Use of Estimates

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

E. Restatement of Fund Balance and Net Position

1. Change in Accounting Principles

During the year ended December 31, 2015, the County adopted new accounting guidance by implementing the provisions of GASB Statements 68, 71, and 82. GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, requires governments providing defined

1. Summary of Significant Accounting Policies

   E. Restatement of Fund Balance and Net Position

      1. Change in Accounting Principles (Continued)

benefit pensions to employees through pension plans administered through trusts to record their proportionate share of the net pension obligation as a liability on their financial statements along with related deferred outflows of resources, deferred inflows of resources, and pension expense. This statement also requires additional note disclosures and schedules in the required supplementary information.

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

GASB Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*, addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

GASB Statements 68 and 71 require the County to report its proportionate share of the PERA total employers' unfunded pension liability. As a result, beginning net position has been restated to record the County's net pension liability and related deferred outflows of resources, as described in Note 1.E.3.

      2. Prior Period Adjustment

The January 1, 2015, the fund balance of the Nursing Service Special Revenue Fund was decreased by $221,173 to correct a prior year understatement of a deferred inflow of resources - unavailable revenue. The effect of the restatement on fund balance is disclosed in Note 1.E.3.

1. Summary of Significant Accounting Policies

E. Restatement of Fund Balance and Net Position (Continued)

3. Restatement of Fund Balance/Net Position

Restatements of fund balance/net position are as follows:

	Governmental Activities	Nursing Service Special Revenue Fund
Net Position/Fund Balance, January 1, 2015, as previously reported	$ 54,963,051	$ 234,794
Change in accounting principles	(4,745,738)	-
Restatement of fund balance		
Adjustment for deferred inflows of resources	-	(221,173)
Net Position/Fund Balance, January 1, 2015, as restated	$ 50,217,313	$ 13,621

2. Stewardship, Compliance, and Accountability

A. Deficits in Equity Accounts

The Energy Assistance Special Revenue Fund had a deficit fund balance of $274 as of December 31, 2015. This deficit will be eliminated with future revenues and transfers if necessary.

B. Excess of Expenditures Over Budget

The following nonmajor governmental funds had expenditures in excess of budget at the department level for the year ended December 31, 2015.

	Expenditures	Budget	Excess
Ditch Special Revenue Fund			
Current			
Conservation of natural resources			
Ditch maintenance and repair	$ 45,115	$ 35,627	$ 9,488

2. Stewardship, Compliance, and Accountability

B. Excess of Expenditures Over Budget (Continued)

	Expenditures	Budget	Excess
Energy Assistance Special Revenue Fund			
Current			
Human services			
Administration	37,523	35,699	1,824
Nursing Service Special Revenue Fund			
Current			
Health			
Nursing service	1,555,970	1,521,289	34,681
Solid Waste Management Special Revenue Fund			
Current			
Sanitation			
Solid waste disposal	326,867	326,777	90
Household hazard waste	8,663	7,000	1,663
Capital outlay	110,145	76,430	33,715

C. Finance-Related Legal Violations

The County did not comply with Minnesota statutes requiring (a) sufficient collateral for all deposits exceeding federal depository insurance coverage, (b) documentation from the depository's board of directors or loan committee for the assignment of collateral, or (c) certifications from brokers acknowledging receipt of investment restrictions. The County has requested the required items from the depositories and/or brokers for future periods.

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Government-wide statement of net position		
Governmental activities		
Cash and pooled investments	$	10,433,387
Statement of fiduciary net position		
Cash and pooled investments		388,684
Total Cash and Investments	$	10,822,071

Deposits	$	6,078,593
Petty cash and change funds		14,036
Investments		4,729,442
Total Deposits, Cash on Hand, and Investments	$	10,822,071

a. Deposits

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

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

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. 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 follow state law, which requires that all deposits be insured or collateralized. As of December 31, 2015, $25,208 of the County's deposits were not covered by insurance or collateral and were exposed to custodial credit risk.

b. Investments

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

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

(2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;

(3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;

(4) bankers' acceptances of United States banks;

(5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

(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 investment policy does not specifically address this risk.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The County's investment policy does not specifically address this risk.

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities in the possession of an outside party. The County's investment policy does not specifically address this risk.

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the County's investment in a single issuer. The County's investment policy does not specifically address this risk.

The following table presents the County's deposit and investment balances at December 31, 2015, and information relating to potential risk.

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Investment Type	Credit Risk: Credit Rating	Credit Risk: Rating Agency	Concentration Risk: Over 5% of Portfolio	Interest Rate Risk: Maturity Date	Carrying (Fair) Value
U.S. government agency securities					
Federal National Mortgage Association	AA+	S&P		01/29/2022	$ 486,090
Federal National Mortgage Association	AA+	S&P		09/27/2027	500,620
Federal National Mortgage Association	AA+	S&P		10/29/2027	481,180
Federal National Mortgage Association	AA+	S&P		03/25/2033	962
Total Federal National Mortgage Association			31.06%		$ 1,468,852
Federal Farm Credit Bank	AA+	S&P	9.94%	10/24/2035	$ 469,970
Federal Home Loan Bank	AA+	S&P		08/28/2037	$ 277,887
Federal Home Loan Bank	AA+	S&P		02/14/2028	142,609
Total Federal Home Loan Bank			8.89%		$ 420,496
Federal Home Loan Mortgage Corporation	AA+	S&P	6.14%	09/13/2027	$ 290,322
Total U.S. government agency securities					$ 2,649,640
Revenue bonds					
Andover, MN, Taxable Abatement Bonds	AA+	S&P	6.41%	02/01/2031	$ 303,293
Augusta, GA, Urban Redevelopment Agency	Aa2	Moody’s	10.40%	10/01/2020	491,970
Total revenue bonds					$ 795,263
Negotiable certificates of deposit					
Leader Bank NA	N/A	NA	5.21%	10/21/2019	$ 246,533
Mizuho Bank USA	N/A	NA	<5%	01/21/2016	99,973
Sallie Mae Bank	N/A	NA	5.22%	11/13/2018	247,036
Total negotiable certificates of deposit					$ 593,542
Investment pools/mutual funds					
Wells Fargo 100% Treasury Money Market Fund	Aaa	Moody’s	N/A	N/A	$ 5,713
MAGIC Fund	N/R	N/A	N/A	N/A	685,284
Total investment pools/mutual funds					$ 690,997
Total investments					$ 4,729,442
Deposits					6,078,593
Petty cash and change funds					14,036
Total Cash and Investments					$ 10,822,071

N/A - Not applicable
N/R - Not rated
<5% - Concentration is less than 5% of investments

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2015, for Clearwater County's governmental activities are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Taxes	$ 131,408	$ -
Special assessments	107,843	50,135
Accounts	96,500	-
Accrued interest	38,185	-
Contracts	239,488	-
Due from other governments	4,560,281	-
Total	$ 5,173,705	$ 50,135

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. A new lease was entered into for a one-year period ending January 31, 2016, for $132,000, less a capital improvement escrow amount of $50,000. Sanford Health has the right to extend the term of the lease for four additional terms of one year.

3. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

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

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	$ 165,750	$ -	$ -	$ 165,750
Construction in progress	963,770	2,979,258	3,895,184	47,844
Total capital assets not depreciated	$ 1,129,520	$ 2,979,258	$ 3,895,184	$ 213,594
Capital assets depreciated				
Buildings and improvements	$ 9,109,767	$ 56,104	$ -	$ 9,165,871
Machinery, furniture, and equipment	6,575,482	403,296	425,578	6,553,200
Infrastructure	52,733,667	2,866,320	-	55,599,987
Total capital assets depreciated	$ 68,418,916	$ 3,325,720	$ 425,578	$ 71,319,058
Less: accumulated depreciation for				
Buildings and improvements	$ 6,133,867	$ 318,941	$ -	$ 6,452,808
Machinery, furniture, and equipment	4,831,104	349,269	407,300	4,773,073
Infrastructure	15,901,673	1,041,823	-	16,943,496
Total accumulated depreciation	$ 26,866,644	$ 1,710,033	$ 407,300	$ 28,169,377
Total capital assets depreciated, net	$ 41,552,272	$ 1,615,687	$ 18,278	$ 43,149,681
Governmental Activities Capital Assets, Net	$ 42,681,792	$ 4,594,945	$ 3,913,462	$ 43,363,275

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

Governmental Activities	
General government	$ 48,474
Public safety	210,152
Highways and streets, including depreciation of infrastructure assets	1,265,410
Health	139,825
Human services	22,772
Sanitation	16,068
Culture and recreation	3,948
Conservation of natural resources	3,384
Total Depreciation Expense - Governmental Activities	$ 1,710,033

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

1. Due To/From Other Funds

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

Receivable Fund	Payable Fund	Amount
General	Road and Bridge	$ 614
	Human Services	12,219
	Forfeited Tax Sale	90,332
	Nursing Services	2,536
Total Due to General Fund		$ 105,701
Road and Bridge	General	411
Total Due To/From Other Funds		$ 106,112

These balances reflect the interfund goods and services provided and not paid at year-end but expected to be paid in the subsequent year.

2. Interfund Transfers

Interfund transfers for the year ended December 31, 2015, consisted of the following:

Fund From	Fund To	Amount	
Road and Bridge	General	$ 73,116	Transfer cost allocation
Human Services	General	56,940	Transfer cost allocation
Forfeited Tax Sale	General	134,134	Transfer sale proceeds and cost allocation
Solid Waste Management	General	10,377	Transfer funds
Total Transfers		$ 274,567	

3. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Long-Term Debt

Bonds

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2015
General obligation bonds					
1999 G.O. Watershed Bonds	2019	$20,000 - $25,000	4.85 - 5.00	$ 445,000	$ 85,000

Debt payments for the above debt are being made from the Ditch Special Revenue Fund.

2. Debt Service Requirements

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

Year Ending December 31	General Obligation Bonds Principal	Interest
2016	$ 20,000	$ 3,750
2017	25,000	2,625
2018	20,000	1,500
2019	20,000	500
Total	$ 85,000	$ 8,375

3. Changes in Long-Term Liabilities

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
General obligation bonds	$ 110,000	$ -	$ 25,000	$ 85,000	$ 20,000
Compensated absences	800,827	548,291	531,570	817,548	488,422
Governmental Activities Long-Term Liabilities	$ 910,827	$ 548,291	$ 556,570	$ 902,548	$ 508,422

3. Detailed Notes on All Funds (Continued)

D. Deferred Outflows/Inflows of Resources

1. Deferred Outflows

Governmental funds did not report deferred outflows of resources for the year ended December 31, 2015.

2. Deferred Inflows

As of December 31, 2015, there were various components of unavailable revenue as follows:

Taxes	$	92,004
Special assessments		98,613
Intergovernmental		3,880,686
Miscellaneous		356,853
Total Unavailable Revenue	$	4,428,156

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

1. Plan Description

All full-time and certain part-time employees of Clearwater County are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Local Government Correctional Service Retirement Fund (the Public Employees Correctional Fund), which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with Minn. Stat. chs. 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

1. Plan Description (Continued)

General Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan, for which benefits vest after five years of credited service.

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

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

2. Benefits Provided

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

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

2. Benefits Provided (Continued)

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

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for General Employees Retirement Fund Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years of service and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For Public Employees Police and Fire Fund members, the annuity accrual rate is 3.0 percent of average salary for each year of service. For Public Employees Correctional Fund members, the annuity accrual rate is 1.9 percent of average salary for each year of service.

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

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans (Continued)

3. Contributions

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

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

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

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

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

General Employees Retirement Fund	$ 350,345
Public Employees Police and Fire Fund	77,245
Public Employees Correctional Fund	58,248

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

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans (Continued)

4. Pension Costs

General Employees Retirement Fund

At December 31, 2015, the County reported a liability of $4,140,834 for its proportionate share of the General Employees Retirement Fund's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the County's proportion was 0.0799 percent. It was 0.0928 percent measured as of June 30, 2014. The County recognized pension expense of $398,820 for its proportionate share of the General Employees Retirement Fund's pension expense.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ -	$ 208,768
Difference between projected and actual investment earnings	391,993	-
Changes in proportion	-	454,483
Contributions paid to PERA subsequent to the measurement date	178,173	-
Total	$ 570,166	$ 663,251

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

4. Pension Costs

General Employees Retirement Fund (Continued)

The $178,173 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	Pension Expense Amount
2016	$ (123,085)
2017	(123,085)
2018	(123,085)
2019	97,997

Public Employees Police and Fire Fund

At December 31, 2015, the County reported a liability of $556,755 for its proportionate share of the Public Employees Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the County's proportion was 0.049 percent. It was 0.055 percent measured as of June 30, 2014. The County recognized pension expense of $85,652 for its proportionate share of the Public Employees Police and Fire Fund's pension expense.

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

4. Pension Costs

Public Employees Police and Fire Fund (Continued)

The County also recognized $4,410 as revenue, which results in a reduction of the net pension liability, for its proportionate share of the State of Minnesota's on-behalf contribution to the Public Employees Police and Fire Fund. Legislation requires the State of Minnesota to contribute $9 million to the Public Employees Police and Fire Fund each year, starting in fiscal year 2014, until the plan is 90 percent funded.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ -	$ 90,287
Difference between projected and actual investment earnings	97,005	-
Changes in proportion	-	54,002
Contributions paid to PERA subsequent to the measurement date	39,128	-
Total	$ 136,133	$ 144,289

The $39,128 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

4. Pension Costs

Public Employees Police and Fire Fund (Continued)

Year Ended December 31	Pension Expense Amount
2016	$ (4,607)
2017	(4,607)
2018	(4,607)
2019	(4,607)
2020	(28,856)

Public Employees Correctional Fund

At December 31, 2015, the County reported a liability of $58,748 for its proportionate share of the Public Employees Correctional Fund's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the County's proportion was 0.38 percent. It was 0.41 percent measured as of June 30, 2014. The County recognized pension expense of $62,628 for its proportionate share of the Public Employees Correctional Fund's pension expense.

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

4. Pension Costs

Public Employees Correctional Fund (Continued)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ -	$ 22,492
Difference between projected and actual investment earnings	48,971	-
Changes in proportion	-	1,697
Contributions paid to PERA subsequent to the measurement date	30,206	-
Total	$ 79,177	$ 24,189

The $30,206 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	Pension Expense Amount
2016	$ 4,180
2017	4,180
2018	4,180
2019	12,242

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

4. Pension Costs (Continued)

Total Pension Expense

The total pension expense for all plans recognized by the County for the year ended December 31, 2015, was $547,100.

5. Actuarial Assumptions

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

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

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

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

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

5. Actuarial Assumptions (Continued)

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

The long-term expected rate of return on pension plan investments is 7.90 percent. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

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

6. Discount Rate

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

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans (Continued)

7. Pension Liability Sensitivity

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

	1% Decrease in Discount Rate (6.9%)	Discount Rate (7.9%)	1% Increase in Discount Rate (8.9%)
Proportionate share of the General Employees Retirement Fund net pension liability	$ 6,510,861	$ 4,140,834	$ 2,183,554
Public Employees Police and Fire Fund net pension liability	1,085,121	556,755	120,232
Public Employees Correctional Fund net pension liability	409,131	58,748	(221,700)

8. Pension Plan Fiduciary Net Position

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

9. Subsequent Changes

Subsequent to 2015, Clearwater County's net pension liability for each plan increased substantially. The increase in the net pension liability is offset by deferred outflows of resources, deferred inflows of resources, and pension expense.

4. Pension Plans and Other Postemployment Benefits (Continued)

B. Defined Contribution Pension Plan

Two employees of Clearwater County are covered by the Public Employees Defined Contribution Plan, a multiple-employer deferred compensation plan administered by PERA. The plan is established and administered in accordance with Minn. Stat. ch. 353D, which may be amended by the state legislature. The plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code, and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. For those qualified personnel who elect to participate, Minn. Stat. § 353D.03 specifies plan provisions, including the employee and employer contribution rates. An eligible elected official who decides to participate contributes 5.00 percent of salary, which is matched by the employer. Employee and employer contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2.00 percent of employer contributions and 0.25 percent of the assets in each member account annually.

Total contributions by dollar amount and percentage of covered payroll made by the County during the year ended December 31, 2015, were:

	Employee	Employer
Contribution amount	$ 1,297	$ 1,297
Percentage of covered payroll	5%	5%

C. Other Postemployment Benefits (OPEB)

Plan Description

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

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB) (Continued)

Funding Policy

The contribution requirements of the plan members and the County are established and may be amended by the Clearwater County Board of Commissioners. 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 2015, there were approximately 99 active participants in the plan and 4 retirees.

Annual OPEB Cost and Net OPEB Obligation

The County's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 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 accrued liabilities (or funding excess) over a period not to exceed 30 years.

The following table shows the components of the County's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the County's net OPEB obligation to the plan.

ARC	$ 57,464
Interest on net OPEB obligation	6,929
Adjustment to ARC	(9,735)
Annual OPEB cost	$ 54,658
Contributions during the year	(32,999)
Increase (Decrease) in net OPEB obligation	$ 21,659
Net OPEB Obligation - Beginning of Year	153,982
Net OPEB Obligation - End of Year	$ 175,641

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

Annual OPEB Cost and Net OPEB Obligation (Continued)

The County's annual OPEB cost for the year ended December 31, 2015, was $54,658. The percentage of annual OPEB cost contributed to the plan was 60.4 percent, and the net OPEB obligation for 2015 was $175,641. The County's annual OPEB cost; the percentage of annual OPEB cost contributed to the plan; and the net OPEB obligation for 2013, 2014, and 2015, was as follows:

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Percentage Contributed (%)	Net OPEB Obligation
December 31, 2013	$ 58,880	$ 45,468	77.2%	$ 126,237
December 31, 2014	55,223	27,478	49.8	153,982
December 31, 2015	54,658	32,999	60.4	175,641

Funded Status and Funding Progress

As of January 1, 2014, the most recent actuarial valuation date, the plan was 0.0 percent funded. The actuarial accrued liability for benefits was $447,159, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of $447,159. The covered payroll (annual payroll of active employees covered by the plan) was $4,310,595, and the ratio of the UAAL to the covered payroll was 10.4 percent.

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

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB) (Continued)

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit cost between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2014, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4.5 percent investment rate of return (net of investment expenses). The County currently does not prefund for this benefit. The annual health care cost trend is 7.5 percent initially, reduced by decrements to an ultimate rate of 5.0 percent over 10 years. Both rates included a 2.5 percent inflation assumption. The UAAL is being amortized as a level dollar amount over 30 years on a closed basis. The remaining amortization period at December 31, 2015, was 24 to 30 years, depending on base type.

5. Summary of Significant Contingencies and Other Items

A. Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. The County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Intergovernmental Trust (MCIT). The County is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. For other risk, the County carries commercial insurance. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

5. Summary of Significant Contingencies and Other Items

A. Risk Management (Continued)

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at $490,000 per claim in 2015 and $500,000 per claim in 2016. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

B. Contingent Liabilities

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

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

Enbridge, Inc., is currently challenging tax valuations for the years 2012 through 2017 through litigation, which may affect several Minnesota counties. For tax valuations for 2012, 2013, and 2014, these cases are pending judgement. The tax years of 2015, 2016, and 2017 are in the pre-trial stage. Any loss is dependent on the outcome of the lawsuit. The County may be subject to a loss up to $500,000 in future tax revenue.

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

C. Joint Ventures

Clearwater Economic Development Organization

The Clearwater Economic Development Organization was established in 1998 under the authority of the Joint Powers Act, pursuant to Minn. Stat. § 471.59, and includes Clearwater County; the cities of Bagley, Clearbrook, Gonvick, Leonard, and Shelvin; 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 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 Development Organization has no long-term debt. Financing is provided by appropriations from the members. Clearwater County, in an agent capacity, reports the cash transactions of the Development Organization as an agency fund on its financial statements. Clearwater County did not contribute to the Development Organization for the year ended December 31, 2015. Complete financial information can be obtained from the Clearwater County Auditor/Treasurer’s Office located at 213 Main Avenue North, Bagley, Minnesota 56621.

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

The HSEM Region 3 Emergency Managers Joint Powers Board was formed in 2007 under the authority of the Joint Powers Act, pursuant to Minn. Stat. § 471.59 and Minn. Stat. ch. 12. Members include Becker, Beltrami, Clay, Clearwater, Hubbard, Kittson, Lake of the Woods, Mahnomen, 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.

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

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

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 Ninth Avenue North, Moorhead, Minnesota 56560.

Joint County Natural Resources Board

The Joint County Natural Resources Board was formed in 1985 under authority of the Joint Powers Act, pursuant to Minn. Stat. § 471.59, and includes Aitkin, Beltrami, Clearwater, Koochiching, Lake of the Woods, Mahnomen, Marshall, and Roseau Counties.

The purpose of the Natural Resources Board is to gather information on and formulate polices 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 its respective County Board, as provided in the Natural Resources Board's bylaws.

In the event of dissolution of the Joint County Natural Resources Board, the net assets of the Natural Resources Board at that time shall be distributed to the respective member counties in proportion to the contribution of each. Clearwater County did not contribute to the Joint County Natural Resources Board for 2015.

The Natural Resources Board has no long-term debt. Financing is provided by appropriations from member counties. Complete financial information can be obtained from the Natural Resources Board's Treasurer, Box 808, Baudette, Minnesota 56623.

5. Summary of Significant Contingencies and Other Items

   C. Joint Ventures (Continued)

Mississippi Headwaters Board

The Mississippi Headwaters Board was established on February 22, 1980, under the authority of the Joint Powers Act, pursuant to Minn. Stat. § 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 shoreline 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. During 2015, Clearwater County contributed $1,500 to the Board. Cass County maintains the accounting records of the Board. Complete financial information can be obtained from the Mississippi Headwaters Board, Cass County Courthouse, Fourth Street and Minnesota Avenue, Walker, Minnesota 56484.

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 Minn. Stat. § 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 Community Health Service Board of Health, 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 Community Health Service Board of Health, 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.

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

North Country Community Health Service (Continued)

The Health Service has no long-term debt. Financing is provided by state and federal grants and appropriations from member counties. Clearwater County, in an agent capacity, reports the cash transactions of the Health Service as an agency fund on its financial statements. Clearwater County did not contribute to the Health Service for the year ended December 31, 2015. Complete financial information can be obtained from the Clearwater County Auditor/Treasurer's Office or the Health Service's office located at 212 Main Avenue North, Bagley, Minnesota 56621.

Northwest Emergency Communications Board

The Northwest Emergency Communications Board was formed in 2007 under the authority of the Joint Powers Act, pursuant to Minn. Stat. §§ 403.39 and 471.59. Members include Becker, Beltrami, Clay, Clearwater, Hubbard, Kittson, Lake of the Woods, Mahnomen, Marshall, Norman, Pennington, Polk, Red Lake, and Roseau Counties, the City of Moorhead; and the White Earth Reservation. 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 City Council member from the member City, appointed by their respective governing bodies, and one representative appointed by the Tribal Council from each participating tribal entity, 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 Emergency Communications Board for the year ended December 31, 2015. Complete financial information can be obtained from Headwaters Regional Development Commission, P. O. Box 906, Bemidji, Minnesota 56619.

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

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 Minn. Stat. § 471.59, and includes Beltrami, Clearwater, Marshall, Pennington, Polk, and Red Lake Counties. The purpose of the Board is to receive and expend funds for beaver damage control.

The Northwest Minnesota Six County Joint Powers Board is composed of one representative appointed by each County Board from the six counties. Each county also has one alternate appointed to the Board, and the Board may choose to have non-voting advisory members on the Board. In the event of dissolution, the net assets are to be distributed to the respective member counties in proportion to the contribution of each. Membership does not cause an additional financial benefit or burden to the counties.

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.

Northwest Service Cooperative

The Northwest Service Cooperative (NWSC) was established in February 1977, pursuant to Minn. Stat. §§ 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 square 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 is governed by a Board of Directors consisting of school board members elected at large by their peers, one city representative, with a maximum of three at-large appointees and three ex-officio superintendents. Adequate rates are charged so that the members do not experience additional benefit or burden. Clearwater County contributed $250 to the Cooperative for the year ended December 31, 2015. Complete financial information can be obtained from the Northwest Service Cooperative, 114 First Street West, Thief River Falls, Minnesota 56701.

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

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 Minn. Stat. § 471.59, and includes Becker, Beltrami, Clay, Clearwater, Hubbard, Kittson, Lake of the Woods, Mahnomen, 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 are to be distributed to the respective member counties in proportion to the contribution of each.

The Northwestern Counties Data Processing Security Association has no long-term debt. Financing is provided by state grants and appropriations from member counties when needed. Clearwater County did not contribute to the Association for the year ended December 31, 2015. Clearwater County, in an agent capacity, reports the cash transactions of the Association as an agency fund on its financial statements. Complete financial information can be obtained from the Clearwater County Auditor/Treasurer's Office, 213 North Main Avenue, Bagley, Minnesota 56621.

Northwest Minnesota Household Hazardous Waste Management Group

Beltrami, Cass, Clearwater, Kittson, Lake of the Woods, Marshall, Pennington, Polk, Red Lake, and Roseau Counties entered into a joint powers agreement, pursuant to Minn. Stat. § 471.59, for the purpose of cooperatively managing, handling, and transporting household hazardous waste; providing public education on safe waste management; and providing for the disposition of non-recyclable household hazardous waste.

The governing body of the Waste Management Group is composed of one County Commissioner from each of the member counties. Responsibility for budgeted expenditures is shared, with 50 percent divided on a population-ratio basis. In the event of dissolution of the Waste Management Group, the net position is to be divided among the member counties in the same proportion as their respective financial responsibilities.

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Northwest Minnesota Household Hazardous Waste Management Group (Continued)

The Waste Management Group has no long-term debt. Financing is provided by appropriations from the member counties when needed. Clearwater County paid an assessment of $5,880 to the Waste Management Group in 2015. Clearwater County, in an agent capacity, reports the cash transactions of the Waste Management Group as an agency fund on its financial statements. Separate financial information can be obtained from the Waste Management Group, P. O. Box 186, Bagley, Minnesota 56621.

Northwestern Minnesota Juvenile Center

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

Control of the Center is vested in the Northwestern Minnesota Juvenile Center Joint Powers Board, which is composed of at least one member appointed by each participating county, as provided in the Center's bylaws. At present, there are 13 directors: Beltrami, Cass, Hubbard, Pennington, and Roseau Counties have two directors each; the other member counties have one director each. In the event of dissolution, the net assets of the Center are to 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. 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 56601.

5. Summary of Significant Contingencies and Other Items

   C. Joint Ventures (Continued)

      Paul Bunyan Task Force

The Paul Bunyan Task Force was established July 16, 1992, under the authority of the Joint Powers Act, pursuant to Minn. Stat. § 471.59. Members in 2015 include Beltrami, Clearwater, Hubbard, and Mahnomen Counties; the Cities of Bemidji and Park Rapids; the Bureau of Indian Affairs; the Leech Lake Reservation; 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 Minn. Stat. § 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 Beltrami County Auditor-Treasurer, 701 Minnesota Avenue Northwest, Suite 220, Bemidji, Minnesota 56601.

PrimeWest County-Based Purchasing Initiative

The 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 Minn. Stat. § 471.59.

The purpose of this agreement is to plan and administer a multi-county, county-based purchasing program for medical assistance and general assistance medical care services and other health care programs as authorized by Minn. Stat. § 256B.692.

Control of the 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.

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

PrimeWest County-Based Purchasing Initiative (Continued)

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

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

D. Jointly-Governed Organizations

Clearwater County, in conjunction with other governmental entities and various private organizations, has formed the jointly-governed organizations listed below.

Lake Agassiz Regional Library

The Lake Agassiz Regional Library was formed pursuant to Minn. Stat. §§ 134.20 and 471.59, effective January 1, 1961, 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 Agassiz Regional Library Board, with 23 members with staggered terms made up of the following: one member appointed by each Board of County Commissioners who may be a member of the Board of Commissioners; one member appointed by each participating city; and one additional member appointed by each county and city for each 6,000 of population or major percentage (85 percent) thereof. In 2015, Clearwater County provided $93,345 in the form of an appropriation.

5. Summary of Significant Contingencies and Other Items

D. Jointly-Governed Organizations (Continued)

Minnesota Rural Counties Caucus

The Minnesota Rural Counties Caucus was established in 1997 and includes Aitkin, Becker, Beltrami, Big Stone, Clay, Clearwater, Cottonwood, Douglas, Grant, Itasca, Kittson, Koochiching, Lake of the Woods, Mahnomen, Marshall, McLeod, Mille Lacs, Morrison, Norman, Pennington, Polk, Pope, Red Lake, Renville, Roseau, Stevens, Todd, Traverse, Wadena, Watonwan, and Wilkin Counties. Control of the Caucus is vested in the Minnesota Rural Counties Caucus Executive Committee, which is composed of 12 appointees, each with an alternate, who are appointed annually by each respective County Board. Clearwater County's responsibility does not extend beyond making this appointment.

Red Lake Watershed District

The Red Lake Watershed District was formed pursuant to Minn. Stat. § 103D.201-.231, effective January 25, 1969, and includes land within Beltrami, Clearwater, Itasca, Koochiching, Mahnomen, Marshall, Pennington, Polk, Red Lake, and Roseau Counties. Control of the District is vested in the Red Lake Watershed District Board of Managers, which is composed of seven members having staggered terms of three years each, with two appointed by the Polk County Board and one each appointed by the County Boards of Beltrami, Clearwater, Marshall, Pennington, and Red Lake. Clearwater County's responsibility does not extend beyond making this appointment.

Wild Rice Watershed District

The Wild Rice Watershed District was established in 1969, pursuant to Minn. Stat. § 103D, and includes Becker, Clay, Clearwater, Mahnomen, Norman, and Polk Counties. The purpose of the Watershed District is to oversee watershed projects, conduct studies for future project planning, administration of legal drainage systems, issuance of applications and permits, public education on conservation issues, and dispute resolution. Control of the Watershed District is vested in the 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 Mahnomen County appoints two members.

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REQUIRED SUPPLEMENTARY INFORMATION

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CLEARWATER COUNTY
BAGLEY, MINNESOTA

EXHIBIT A-1

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

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 3,955,363	$ 3,955,363	$ 3,764,311	$ (191,052)
Licenses and permits	20,325	20,325	17,468	(2,857)
Intergovernmental	1,453,992	1,453,992	1,427,792	(26,200)
Charges for services	679,000	679,000	825,126	146,126
Fines and forfeits	5,100	5,100	790	(4,310)
Investment earnings	175,350	175,350	163,653	(11,697)
Miscellaneous	418,185	418,185	400,551	(17,634)
Total Revenues	**$ 6,707,315**	**$ 6,707,315**	**$ 6,599,691**	**$ (107,624)**
Expenditures				
Current				
General government				
Commissioners	$ 236,571	$ 236,571	$ 236,959	$ (388)
Courts	40,000	40,000	37,794	2,206
County auditor	464,449	464,449	423,348	41,101
Personnel	3,650	3,650	1,132	2,518
County treasurer	-	-	11,327	(11,327)
Software development	-	-	7,349	(7,349)
Accounting and auditing	27,000	27,000	16,010	10,990
Elections	7,000	7,000	6,494	506
Attorney	289,133	289,133	286,754	2,379
Recorder	301,138	301,138	307,990	(6,852)
County assessor	264,735	264,735	259,441	5,294
Building maintenance	279,793	279,793	267,598	12,195
Buildings and grounds	11,500	11,500	16,946	(5,446)
Management information systems	427,283	427,283	346,525	80,758
Veterans service officer	73,486	73,486	83,921	(10,435)
Safety control coordinator	1,500	1,500	650	850
Insurance	65,019	65,019	186,058	(121,039)
Motor pool	55,000	55,000	16,741	38,259
Other	22,700	22,700	38,926	(16,226)
Total general government	**$ 2,569,957**	**$ 2,569,957**	**$ 2,551,963**	**$ 17,994**

The notes to the required supplementary information are an integral part of this schedule.

EXHIBIT A-1
(Continued)

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

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Expenditures				
Current (Continued)				
Public safety				
Sheriff	$ 1,336,038	$ 1,336,038	$ 1,269,962	$ 66,076
Boat and water safety	3,350	3,350	2,996	354
Coroner	28,500	28,500	13,441	15,059
Enhanced 911 system	107,115	107,115	26,802	80,313
Electronic monitoring	14,000	14,000	-	14,000
Rural signing	15,020	15,020	21,079	(6,059)
Handgun permits	11,281	11,281	6,189	5,092
Radio jail project	28,400	28,400	8,225	20,175
DARE program	1,800	1,800	1,322	478
Law enforcement center	850,132	850,132	841,899	8,233
Snowmobile safety	3,670	3,670	302	3,368
Probation and parole	100,225	100,225	105,143	(4,918)
Sentence to serve	64,658	64,658	60,480	4,178
Law enforcement center canteen	25,000	25,000	17,859	7,141
Emergency services	34,131	34,131	24,817	9,314
Other public safety	9,305	9,305	7,942	1,363
Total public safety	**$ 2,632,625**	**$ 2,632,625**	**$ 2,408,458**	**$ 224,167**
Health				
Medical facilities management	$ 17,000	$ 17,000	$ 18,593	$ (1,593)
Hospice	20,000	20,000	20,000	-
Total health	**$ 37,000**	**$ 37,000**	**$ 38,593**	**$ (1,593)**
Culture and recreation				
Parks	$ 245,488	$ 245,488	$ 306,537	$ (61,049)
Historical society	15,000	15,000	15,000	-
Regional library	93,345	93,345	93,345	-
Snowmobile and ski trails	58,000	58,000	67,054	(9,054)
Total culture and recreation	**$ 411,833**	**$ 411,833**	**$ 481,936**	**$ (70,103)**

The notes to the required supplementary information are an integral part of this schedule.

CLEARWATER COUNTY
BAGLEY, MINNESOTA

EXHIBIT A-1
(Continued)

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

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget
Expenditures				
Current (Continued)				
Conservation of natural resources				
Water planning	$ 41,774	$ 41,774	$ 41,774	$ -
Wetlands administration	85,531	85,531	88,262	(2,731)
Extension	113,228	113,228	106,910	6,318
Soil survey	75,000	75,000	72,520	2,480
Predator and weed control	107,350	107,350	64,211	43,139
Environmental services	117,749	132,845	120,237	12,608
Aquatic invasive species	-	-	71,592	(71,592)
Other	668	668	3,003	(2,335)
Agricultural society	35,000	35,000	35,000	-
Soil and water conservation	69,360	69,360	69,360	-
Total conservation of natural resources	**$ 645,660**	**$ 660,756**	**$ 672,869**	**$ (12,113)**
Economic development				
Mississippi Headwaters Board	$ 1,500	$ 1,500	$ 1,500	$ -
Emerging Leader Program	500	500	-	500
Red River Valley Development	800	800	800	-
Total economic development	**$ 2,800**	**$ 2,800**	**$ 2,300**	**$ 500**
Capital outlay				
General government	$ 10,000	$ 10,000	$ 60,334	$ (50,334)
Public safety	30,000	30,000	43,316	(13,316)
Total capital outlay	**$ 40,000**	**$ 40,000**	**$ 103,650**	**$ (63,650)**
Total Expenditures	**$ 6,339,875**	**$ 6,354,971**	**$ 6,259,769**	**$ 95,202**
Excess of Revenues Over (Under) Expenditures	**$ 367,440**	**$ 352,344**	**$ 339,922**	**$ (12,422)**
Other Financing Sources (Uses)				
Transfers in	413,907	413,907	274,567	(139,340)
Net Change in Fund Balance	**$ 781,347**	**$ 766,251**	**$ 614,489**	**$ (151,762)**
Fund Balance - January 1	**3,338,258**	**3,338,258**	**3,338,258**	**-**
Fund Balance - December 31	**$ 4,119,605**	**$ 4,104,509**	**$ 3,952,747**	**$ (151,762)**

The notes to the required supplementary information are an integral part of this schedule.

CLEARWATER COUNTY
BAGLEY, MINNESOTA

EXHIBIT A-2

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

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 1,004,558	$ 1,038,243	$ 1,003,150	$ (35,093)
Intergovernmental	6,059,481	6,025,796	4,604,452	(1,421,344)
Charges for services	405,000	405,000	173,278	(231,722)
Miscellaneous	-	-	683	683
Total Revenues	**$ 7,469,039**	**$ 7,469,039**	**$ 5,781,563**	**$ (1,687,476)**
Expenditures				
Current				
Highways and streets				
Administration	$ 244,000	$ 244,000	$ 435,829	$ (191,829)
Maintenance	2,203,883	2,203,883	1,265,365	938,518
Construction	3,540,000	3,540,000	3,701,839	(161,839)
Equipment, maintenance, and shop	385,000	385,000	275,186	109,814
Materials for resale	-	-	30,172	(30,172)
Other	-	-	46,854	(46,854)
Total highways and streets	**$ 6,372,883**	**$ 6,372,883**	**$ 5,755,245**	**$ 617,638**
Capital outlay				
Highways and streets	260,000	260,000	228,344	31,656
Intergovernmental				
Highways and streets	-	-	214,441	(214,441)
Total Expenditures	**$ 6,632,883**	**$ 6,632,883**	**$ 6,198,030**	**$ 434,853**
Excess of Revenues Over (Under) Expenditures	**$ 836,156**	**$ 836,156**	**$ (416,467)**	**$ (1,252,623)**
Other Financing Sources (Uses)				
Transfers out	-	-	(73,116)	(73,116)
Net Change in Fund Balance	**$ 836,156**	**$ 836,156**	**$ (489,583)**	**$ (1,325,739)**
Fund Balance - January 1	**3,065,265**	**3,065,265**	**3,065,265**	**-**
Increase (decrease) in inventories	**-**	**-**	**(20,171)**	**(20,171)**
Fund Balance - December 31	**$ 3,901,421**	**$ 3,901,421**	**$ 2,555,511**	**$ (1,345,910)**

The notes to the required supplementary information are an integral part of this schedule.

CLEARWATER COUNTY
BAGLEY, MINNESOTA

EXHIBIT A-3

BUDGETARY COMPARISON SCHEDULE
HUMAN SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2015

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 1,158,391	$ 1,158,391	$ 1,114,088	$ (44,303)
Intergovernmental	2,310,157	2,310,157	2,065,893	(244,264)
Charges for services	240,100	240,100	163,631	(76,469)
Miscellaneous	187,338	187,338	220,362	33,024
Total Revenues	**$ 3,895,986**	**$ 3,895,986**	**$ 3,563,974**	**$ (332,012)**
Expenditures				
Current				
Human services				
Income maintenance	$ 1,478,699	$ 1,478,699	$ 1,446,426	$ 32,273
Social services	2,773,348	2,773,348	2,052,821	720,527
Total Expenditures	**$ 4,252,047**	**$ 4,252,047**	**$ 3,499,247**	**$ 752,800**
Excess of Revenues Over (Under) Expenditures	**$ (356,061)**	**$ (356,061)**	**$ 64,727**	**$ 420,788**
Other Financing Sources (Uses)				
Transfers out	-	-	(56,940)	(56,940)
Net Change in Fund Balance	**$ (356,061)**	**$ (356,061)**	**$ 7,787**	**$ 363,848**
Fund Balance - January 1	**2,902,222**	**2,902,222**	**2,902,222**	**-**
Fund Balance - December 31	**$ 2,546,161**	**$ 2,546,161**	**$ 2,910,009**	**$ 363,848**

The notes to the required supplementary information are an integral part of this schedule.

EXHIBIT A-4

SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2015

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
January 1, 2008	$ -	$ 362,050	$ 362,050	0.00%	$ 4,571,574	7.9%
January 1, 2011	-	490,151	490,151	0.00	4,954,261	9.9
January 1, 2014	-	447,159	447,159	0.00	4,310,595	10.4

The notes to the required supplementary information are an integral part of this schedule.

CLEARWATER COUNTY
BAGLEY, MINNESOTA

EXHIBIT A-5

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

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	Covered Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.0799%	$ 4,140,834	$ 4,693,208	88.23%	78.19%

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

CLEARWATER COUNTY
BAGLEY, MINNESOTA

EXHIBIT A-6

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

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b - a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
2015	$ 350,345	$ 350,345	$ -	$ 4,671,266	7.50%

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

CLEARWATER COUNTY
BAGLEY, MINNESOTA

EXHIBIT A-7

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

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	Covered Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.049%	$ 556,755	$ 451,688	123.26%	86.61%

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

CLEARWATER COUNTY
BAGLEY, MINNESOTA

EXHIBIT A-8

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

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b - a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
2015	$ 77,245	$ 77,245	$ -	$ 476,822	16.20%

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

CLEARWATER COUNTY
BAGLEY, MINNESOTA

EXHIBIT A-9

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

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	Covered Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.38%	$ 58,748	$ 681,052	8.63%	96.95%

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

CLEARWATER COUNTY
BAGLEY, MINNESOTA

EXHIBIT A-10

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

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b - a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
2015	$ 58,248	$ 58,248	$ -	$ 665,697	8.75%

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

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

1. Budgetary Information

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

On or before mid-June of each year, all departments and agencies submit requests for appropriations to the Auditor/Treasurer 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 heads may make transfers of appropriations within a department. Transfers of appropriations between departments require approval of the County Board. The legal level of budgetary control (the level at which expenditures may not legally exceed appropriations) is the department level.

2. Excess of Expenditures Over Budget

The following is a summary of the individual major funds that had expenditures in excess of budget for the year ended December 31, 2015:

	Expenditures	Final Budget	Excess
General Fund			
Current			
General government			
Commissioners	$ 236,959	$ 236,571	$ 388
County treasurer	11,327	-	11,327
Software development	7,349	-	7,349
Recorder	307,990	301,138	6,852
Buildings and grounds	16,946	11,500	5,446
Veterans service officer	83,921	73,486	10,435
Insurance	186,058	65,019	121,039
Other general government	38,926	22,700	16,226
Public safety			
Rural signing	21,079	15,020	6,059
Probation and parole	105,143	100,225	4,918

2. Excess of Expenditures Over Budget (Continued)

	Expenditures	Final Budget	Excess
General Fund			
Current (Continued)			
Health			
Medical facilities management	18,593	17,000	1,593
Culture and recreation			
Parks	306,537	245,488	61,049
Snowmobile and ski trails	67,054	58,000	9,054
Conservation of natural resources			
Wetlands administration	88,262	85,531	2,731
Aquatic invasive species	71,592	-	71,592
Conservation of natural resources other	3,003	668	2,335
Capital outlay			
General government	60,334	10,000	50,334
Public safety	43,316	30,000	13,316
Road and Bridge Fund			
Current			
Highways and streets			
Administration	435,829	244,000	191,829
Construction	3,701,839	3,540,000	161,839
Materials for sale	30,172	-	30,172
Other	46,854	-	46,854
Intergovernmental			
Highways and streets	214,441	-	214,441

3. Other Postemployment Benefits Funding Status

The County implemented the requirements of Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for the fiscal year ended December 31, 2009. See Note 4.C. to the financial statements for more information.

GASB Statement 45 requires a Schedule of Funding Progress - Other Postemployment Benefits for the three most recent valuations and accompanying notes to describe factors that significantly affect the trends in the amounts reported.

SUPPLEMENTARY INFORMATION

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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 restricted and assigned to the Energy Assistance Program.

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

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

The Solid Waste Management Special Revenue Fund is used to account for and report solid waste management operations, including landfill, 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 and assigned for 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

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2015

	Ditch	Energy Assistance
Assets		
Cash and pooled investments	$ 72,176	$ 335
Taxes receivable		
Delinquent	-	-
Special assessments receivable		
Delinquent	2,818	-
Noncurrent	50,135	-
Accounts receivable	-	-
Due from other governments	-	-
Contracts receivable	-	-
Total Assets	**$ 125,129**	**$ 335**
Liabilities, Deferred Inflows of Resources, and Fund Balances		
Liabilities		
Accounts payable	$ -	$ 609
Salaries payable	-	-
Due to other funds	-	-
Due to other governments	-	-
Total Liabilities	**$ -**	**$ 609**
Deferred Inflows of Resources		
Unavailable revenue	**$ 52,953**	**$ -**

Special Revenue Funds				
Forfeited Tax Sale	Nursing Service	Solid Waste Management	Unorganized Townships	Total
$ 1,065,870	$ 4,831	$ 341,686	$ 1,708	$ 1,486,606
-	-	6,386	-	6,386
-	-	54,890	-	57,708
-	-	-	-	50,135
-	69,112	-	-	69,112
-	284,494	-	-	284,494
239,488	-	-	-	239,488
$ 1,305,358	**$ 358,437**	**$ 402,962**	**$ 1,708**	**$ 2,193,929**
$ 1,379	$ 2,594	$ 10,883	$ -	$ 15,465
5,014	24,541	2,479	-	32,034
90,332	2,536	-	-	92,868
68,071	-	23,704	-	91,775
$ 164,796	**$ 29,671**	**$ 37,066**	**$ -**	**$ 232,142**
$ 176,244	**$ 180,609**	**$ 49,891**	**$ -**	**$ 459,697**

CLEARWATER COUNTY
BAGLEY, MINNESOTA

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2015

Liabilities, Deferred Inflows of Resources, and Fund Balances (Continued)	Ditch	Energy Assistance
Fund Balances		
Restricted for		
Debt service	$ 64,761	$ -
Conservation of natural resources	7,487	-
Memorial forest	-	-
Timber development	-	-
Assigned to	-	-
Sanitation	-	-
Health	-	-
Conservation of natural resources	-	-
Unorganized townships	-	-
Unassigned	(72)	(274)
Total Fund Balances	**$ 72,176**	**$ (274)**
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	**$ 125,129**	**$ 335**

EXHIBIT B-1
(Continued)

Special Revenue Funds				
Forfeited Tax Sale	**Nursing Service**	**Solid Waste Management**	**Unorganized Townships**	**Total**
$ -	$ -	$ -	$ -	$ 64,761
-	-	-	-	7,487
137,892	-	-	-	137,892
611,065	-	-	-	611,065
-	-			
-	-	316,005	-	316,005
-	148,157	-	-	148,157
215,361	-	-	-	215,361
-	-	-	1,708	1,708
-	-	-	-	(346)
$ 964,318	**$ 148,157**	**$ 316,005**	**$ 1,708**	**$ 1,502,090**
$ 1,305,358	**$ 358,437**	**$ 402,962**	**$ 1,708**	**$ 2,193,929**

CLEARWATER COUNTY
BAGLEY, MINNESOTA

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

	Ditch	Energy Assistance
Revenues		
Taxes	$ -	$ -
Special assessments	54,316	-
Licenses and permits	-	-
Intergovernmental	-	63,271
Charges for services	-	-
Gifts and contributions	-	-
Investment earnings	-	2
Miscellaneous	-	-
Total Revenues	**$ 54,316**	**$ 63,273**
Expenditures		
Current		
Highway and streets	$ -	$ -
Sanitation	-	-
Health	-	-
Human services	-	63,565
Conservation of natural resources	45,115	-
Capital outlay	-	-
Debt service		
Principal	25,000	-
Interest	4,875	-
Total Expenditures	**$ 74,990**	**$ 63,565**
Excess of Revenues Over (Under) Expenditures	**$ (20,674)**	**$ (292)**
Other Financing Sources (Uses)		
Transfers out	-	-
Net Change in Fund Balance	**$ (20,674)**	**$ (292)**
Fund Balance - January 1, as restated (Note 1.E.)	**92,850**	**18**
Fund Balance - December 31	**$ 72,176**	**$ (274)**

Special Revenue Funds				
Forfeited Tax Sale	**Nursing Service**	**Solid Waste Management**	**Unorganized Townships**	**Total**
$ -	$ -	$ 327,378	$ -	$ 327,378
-	-	468,573	-	522,889
560	-	300	37	897
66,537	286,244	125,911	615	542,578
3,074	1,353,920	24,111	-	1,381,105
-	30,242	-	-	30,242
-	-	-	-	2
426,659	20,100	14,939	-	461,698
$ 496,830	**$ 1,690,506**	**$ 961,212**	**$ 652**	**$ 3,266,789**
$ -	$ -	$ -	$ 857	$ 857
-	-	778,722	-	778,722
-	1,555,970	-	-	1,555,970
-	-	-	-	63,565
375,548	-	-	-	420,663
-	-	110,145	-	110,145
-	-	-	-	25,000
-	-	-	-	4,875
$ 375,548	**$ 1,555,970**	**$ 888,867**	**$ 857**	**$ 2,959,797**
$ 121,282	**$ 134,536**	**$ 72,345**	**$ (205)**	**$ 306,992**
(134,134)	-	(10,377)	-	(144,511)
$ (12,852)	**$ 134,536**	**$ 61,968**	**$ (205)**	**$ 162,481**
977,170	**13,621**	**254,037**	**1,913**	**1,339,609**
$ 964,318	**$ 148,157**	**$ 316,005**	**$ 1,708**	**$ 1,502,090**

CLEARWATER COUNTY
BAGLEY, MINNESOTA

EXHIBIT B-3

BUDGETARY COMPARISON SCHEDULE
DITCH SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2015

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Special assessments	**$ 58,093**	**$ 58,093**	**$ 54,316**	**$ (3,777)**
Expenditures				
Current				
Conservation of natural resources				
Administration	$ 456	$ 456	$ -	$ 456
Ditch maintenance and repair	35,627	35,627	45,115	(9,488)
Total conservation of natural resources	**$ 36,083**	**$ 36,083**	**$ 45,115**	**$ (9,032)**
Debt service				
Principal retirement	$ 25,000	$ 25,000	$ 25,000	$ -
Interest	4,875	4,875	4,875	-
Total debt service	**$ 29,875**	**$ 29,875**	**$ 29,875**	**$ -**
Total Expenditures	**$ 65,958**	**$ 65,958**	**$ 74,990**	**$ (9,032)**
Net Change in Fund Balance	**$ (7,865)**	**$ (7,865)**	**$ (20,674)**	**$ (12,809)**
Fund Balance - January 1	**92,850**	**92,850**	**92,850**	**-**
Fund Balance - December 31	**$ 84,985**	**$ 84,985**	**$ 72,176**	**$ (12,809)**

CLEARWATER COUNTY
BAGLEY, MINNESOTA

EXHIBIT B-4

BUDGETARY COMPARISON SCHEDULE
ENERGY ASSISTANCE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2015

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Intergovernmental	$ 85,219	$ 85,219	$ 63,271	$ (21,948)
Investment earnings	-	-	2	2
Total Revenues	**$ 85,219**	**$ 85,219**	**$ 63,273**	**$ (21,946)**
Expenditures				
Current				
Human services				
Administration	$ 35,699	$ 35,699	$ 37,523	$ (1,824)
Energy assistance	49,520	49,520	26,042	23,478
Total Expenditures	**$ 85,219**	**$ 85,219**	**$ 63,565**	**$ 21,654**
Net Change in Fund Balance	**$ -**	**$ -**	**$ (292)**	**$ (292)**
Fund Balance - January 1	**18**	**18**	**18**	**-**
Fund Balance - December 31	**$ 18**	**$ 18**	**$ (274)**	**$ (292)**

CLEARWATER COUNTY
BAGLEY, MINNESOTA

EXHIBIT B-5

BUDGETARY COMPARISON SCHEDULE
FORFEITED TAX SALE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2015

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Licenses and permits	$ 700	$ 700	$ 560	$ (140)
Intergovernmental	70,655	70,655	66,537	(4,118)
Charges for services	2,480	2,480	3,074	594
Miscellaneous	452,750	452,750	426,659	(26,091)
Total Revenues	**$ 526,585**	**$ 526,585**	**$ 496,830**	**$ (29,755)**
Expenditures				
Current				
Conservation of natural resources				
Forfeited land	$ 559,775	$ 559,775	$ 241,163	$ 318,612
Timber development	215,428	215,428	71,935	143,493
Land management	56,655	56,655	50,182	6,473
Forest access road	16,000	16,000	12,268	3,732
Total Expenditures	**$ 847,858**	**$ 847,858**	**$ 375,548**	**$ 472,310**
Excess of Revenues Over (Under) Expenditures	**$ (321,273)**	**$ (321,273)**	**$ 121,282**	**$ 442,555**
Other Financing Sources (Uses)				
Transfers out	(42,000)	(42,000)	(134,134)	(92,134)
Net Change in Fund Balance	**$ (363,273)**	**$ (363,273)**	**$ (12,852)**	**$ 350,421**
Fund Balance - January 1	**977,170**	**977,170**	**977,170**	**-**
Fund Balance - December 31	**$ 613,897**	**$ 613,897**	**$ 964,318**	**$ 350,421**

CLEARWATER COUNTY
BAGLEY, MINNESOTA

EXHIBIT B-6

BUDGETARY COMPARISON SCHEDULE
NURSING SERVICE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2015

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Intergovernmental	$ 181,406	$ 181,406	$ 286,244	$ 104,838
Charges for services	1,369,842	1,369,842	1,353,920	(15,922)
Gifts and contributions	10,400	10,400	30,242	19,842
Miscellaneous	3,216	3,216	20,100	16,884
Total Revenues	**$ 1,564,864**	**$ 1,564,864**	**$ 1,690,506**	**$ 125,642**
Expenditures				
Current				
Health				
Nursing service	1,521,289	1,521,289	1,555,970	(34,681)
Net Change in Fund Balance	**$ 43,575**	**$ 43,575**	**$ 134,536**	**$ 90,961**
Fund Balance - January 1, as restated (Note 1.E.)	**13,621**	**13,621**	**13,621**	**-**
Fund Balance - December 31	**$ 57,196**	**$ 57,196**	**$ 148,157**	**$ 90,961**

CLEARWATER COUNTY
BAGLEY, MINNESOTA

EXHIBIT B-7

BUDGETARY COMPARISON SCHEDULE
SOLID WASTE MANAGEMNENT SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2015

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 370,350	$ 370,350	$ 327,378	$ (42,972)
Special assessments	452,650	452,650	468,573	15,923
Licenses and permits	300	300	300	-
Intergovernmental	55,000	55,000	125,911	70,911
Charges for services	15,000	15,000	24,111	9,111
Miscellaneous	600	600	14,939	14,339
Total Revenues	**$ 893,900**	**$ 893,900**	**$ 961,212**	**$ 67,312**
Expenditures				
Current				
Sanitation				
Demolition landfill	$ 128,340	$ 161,940	$ 80,582	$ 81,358
Solid waste disposal	330,827	326,777	326,867	(90)
Solid waste collection	316,522	313,522	295,256	18,266
Recycling	80,787	81,077	67,354	13,723
Household hazard waste	-	7,000	8,663	(1,663)
Total sanitation	**$ 856,476**	**$ 890,316**	**$ 778,722**	**$ 111,594**
Capital outlay	-	76,430	110,145	(33,715)
Total Expenditures	856,476	966,746	888,867	77,879
Excess of Revenues Over (Under) Expenditures	**$ 37,424**	**$ (72,846)**	**$ 72,345**	**$ 145,191**
Other Financing Sources (Uses)				
Transfers out	-	(9,500)	(10,377)	(877)
Net Change in Fund Balance	**$ 37,424**	**$ (82,346)**	**$ 61,968**	**$ 144,314**
Fund Balance - January 1	**254,037**	**254,037**	**254,037**	**-**
Fund Balance - December 31	**$ 291,461**	**$ 171,691**	**$ 316,005**	**$ 144,314**

CLEARWATER COUNTY
BAGLEY, MINNESOTA

EXHIBIT B-8

BUDGETARY COMPARISON SCHEDULE
UNORGANIZED TOWNSHIPS SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2015

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
License and permits	$ -	$ -	$ 37	$ 37
Intergovernmental	492	492	615	123
Total Revenues	**$ 492**	**$ 492**	**$ 652**	**$ 160**
Expenditures				
Current				
Highways and streets				
Township roads	1,400	1,400	857	543
Net Change in Fund Balance	**$ (908)**	**$ (908)**	**$ (205)**	**$ 703**
Fund Balance - January 1	**1,913**	**1,913**	**1,913**	**-**
Fund Balance - December 31	**$ 1,005**	**$ 1,005**	**$ 1,708**	**$ 703**

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FIDUCIARY FUNDS

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CLEARWATER COUNTY
BAGLEY, MINNESOTA

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 the 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 a 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 to towns and cities.

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CLEARWATER COUNTY
BAGLEY, MINNESOTA

EXHIBIT C-1

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

	Balance January 1	Additions	Deductions	Balance December 31
CLEARWATER COLLABORATIVE				
Assets				
Cash and pooled investments	$ 38,420	$ 93,906	$ 72,256	$ 60,070
Liabilities				
Due to other governments	$ 38,420	$ 93,906	$ 72,256	$ 60,070
COUNTY-WIDE ECONOMIC DEVELOPMENT				
Assets				
Cash and pooled investments	$ 1,387	$ -	$ -	$ 1,387
Liabilities				
Due to other governments	$ 1,387	$ -	$ -	$ 1,387
NORTH COUNTRY COMMUNITY HEALTH SERVICE				
Assets				
Cash and pooled investments	$ 106,311	$ 2,044,122	$ 2,031,015	$ 119,418
Liabilities				
Due to other governments	$ 106,311	$ 2,044,122	$ 2,031,015	$ 119,418

EXHIBIT C-1
(Continued)

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

	Balance January 1	Additions	Deductions	Balance December 31
NORTHWEST COUNTIES DATA PROCESSING SECURITY ASSOCIATION				
Assets				
Cash and pooled investments	$ 23,809	$ -	$ 2,033	$ 21,776
Liabilities				
Due to other governments	$ 23,809	$ -	$ 2,033	$ 21,776
NORTHWESTERN MINNESOTA HOUSEHOLD HAZARDOUS WASTE MANAGEMENT GROUP				
Assets				
Cash and pooled investments	$ 33,248	$ 206,757	$ 169,953	$ 70,052
Liabilities				
Due to other governments	$ 33,248	$ 206,757	$ 169,953	$ 70,052
SCHOOL DISTRICTS				
Assets				
Cash and pooled investments	$ -	$ 2,656,048	$ 2,656,048	$ -
Liabilities				
Due to other governments	$ -	$ 2,656,048	$ 2,656,048	$ -

CLEARWATER COUNTY
BAGLEY, MINNESOTA

EXHIBIT C-1
(Continued)

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

	Balance January 1	Additions	Deductions	Balance December 31
STATE				
Assets				
Cash and pooled investments	$ 2,311	$ 3,501,262	$ 3,499,996	$ 3,577
Liabilities				
Due to other governments	$ 2,311	$ 3,501,262	$ 3,499,996	$ 3,577
TAXES AND PENALTIES				
Assets				
Cash and pooled investments	$ 145,106	$ 16,676,963	$ 16,711,054	$ 111,015
Liabilities				
Due to other governments	$ 145,106	$ 16,676,963	$ 16,711,054	$ 111,015
TOWNS AND CITIES				
Assets				
Cash and pooled investments	$ (10,872)	$ 2,799,695	$ 2,787,434	$ 1,389
Liabilities				
Due to other governments	$ (10,872)	$ 2,799,695	$ 2,787,434	$ 1,389

CLEARWATER COUNTY
BAGLEY, MINNESOTA

EXHIBIT C-1
(Continued)

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

	Balance January 1	Additions	Deductions	Balance December 31
TOTAL ALL AGENCY FUNDS				
Assets				
Cash and pooled investments	$ 339,720	$ 27,978,753	$ 27,929,789	$ 388,684
Liabilities				
Due to other governments	$ 339,720	$ 27,978,753	$ 27,929,789	$ 388,684

OTHER SCHEDULES

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CLEARWATER COUNTY
BAGLEY, MINNESOTA

EXHIBIT D-1

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

Appropriations and Shared Revenue		
State		
Highway users tax	$	1,704,100
County program aid		753,882
Market value credit - agricultural		206,724
PERA rate reimbursement		21,917
Disparity reduction aid		48,901
Police aid		63,140
Aquatic invasive species		100,104
SCORE		69,692
Enhanced-911		79,520
Total appropriations and shared revenue	**$**	**3,047,980**
Reimbursement for Services		
State		
Minnesota Department of Human Services	**$**	**161,225**
Local		
Local contributions	$	30,643
Payments in lieu of taxes		311,061
Total local	**$**	**341,704**
Total reimbursement for services	**$**	**502,929**
Grants		
State		
Minnesota Department/Board of		
Corrections	$	33,335
Public Safety		6,466
Transportation		6,199
Health		51,578
Natural Resources		86,112
Human Services		861,811
Water and Soil Resources		92,270
Veterans Affairs		7,500
Peace Officer Standards and Training		3,332
Total state	**$**	**1,148,603**

CLEARWATER COUNTY
BAGLEY, MINNESOTA

EXHIBIT D-1
(Continued)

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

Grants (Continued)		
Federal		
Department of		
Agriculture	$	128,679
Transportation		2,728,089
Health and Human Services		1,063,427
Homeland Security		21,008
Total federal	**$**	**3,941,203**
Total state and federal grants	**$**	**5,089,806**
Total Intergovernmental Revenue	**$**	**8,640,715**

CLEARWATER COUNTY
BAGLEY, MINNESOTA

EXHIBIT D-2

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

Federal Grantor Pass-Through Agency Program or Cluster Title	Federal CFDA Number	Pass-Through Grant Numbers	Expenditures
U.S. Department of Agriculture			
Passed Through Minnesota Department of Human Services			
SNAP Cluster			
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	15152MN10152514	**$ 128,679**
U.S. Department of Transportation			
Passed Through Minnesota Department of Transportation			
Highway Planning and Construction Cluster			
Highway Planning and Construction	20.205	00015	**$ 2,728,089**
U.S. Department of Health and Human Services			
Passed Through Northwest Area Agency on Aging			
Aging Cluster			
Special Programs for the Aging, Title III, Part B, Grants for Supportive Services and Senior Centers	93.044	Not Provided	$ 2,000
Passed Through North Country Community Health Services			
Public Health Emergency Preparedness	93.069	Not Provided	17,183
Immunization Cooperative Agreements	93.268	Not Provided	1,054
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	93.505	D89NC23539	45,255
TANF Cluster			
Temporary Assistance for Needy Families	93.558	2015G996115	22,825
(Total Temporary Assistance for Needy Families CFDA 93.558 $145,191)			
Maternal and Child Health Services Block Grant to the States	93.994	B04MC28107	18,371
Passed Through Minnesota Department of Human Services			
Promoting Safe and Stable Families	93.556	1401MNFPSS	188
TANF Cluster			
Temporary Assistance for Needy Families	93.558	1502MNTANF	122,366
(Total Temporary Assistance for Needy Families CFDA 93.558 $145,191)			
Child Support Enforcement	93.563	1504MN4005	195,299
Refugee and Entrant Assistance - State Administered Programs	93.566	1501MNRCMA	199
CCDF Cluster			
Child Care and Development Block Grant	93.575	G1501MNCCDF	2,139
Community-Based Child Abuse Prevention Grants	93.590	1302MNFRPG	7,370
Stephanie Tubbs Jones Child Welfare Services Program	93.645	1401MNCWSS	124
Foster Care - Title IV-E	93.658	1501MNFOST	108,830
Social Services Block Grant	93.667	1501MNSOSR	89,619
Chafee Foster Care Independence Program	93.674	1401MN1420	1,000
Children's Health Insurance Program	93.767	1405MN5021	59
Medicaid Cluster			
Medical Assistance Program	93.778	1505MN5ADM	366,275

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

EXHIBIT D-2
(Continued)

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

Federal Grantor Pass-Through Agency Program or Cluster Title	Federal CFDA Number	Pass-Through Grant Numbers	Expenditures
U.S. Department of Health and Human Services (Continued)			
Passed Through Minnesota Department of Commerce			
Low-Income Home Energy Assistance	93.568	Not provided	63,271
Total U.S. Department of Health and Human Services			**$ 1,063,427**
U.S. Department of Homeland Security			
Passed Through Minnesota Department of Natural Resources			
Boating Safety Financial Assistance	97.012	FEG-120814	$ 4,302
Passed Through Minnesota Department of Public Safety			
Emergency Management Performance Grants	97.042	F-EMPG-2015-CLRWTRCO-1152	16,706
Total U.S. Department of Homeland Security			**$ 21,008**
Total Federal Awards			**$ 3,941,203**

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

Totals by Cluster

Total expenditures for SNAP Cluster	$ 128,679
Total expenditures for Highway Planning and Construction Cluster	2,728,089
Total expenditures for Aging Cluster	2,000
Total expenditures for TANF Cluster	145,191
Total expenditures for CCDF Cluster	2,139
Total expenditures for Medicaid Cluster	366,275

CLEARWATER COUNTY
BAGLEY, MINNESOTA

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

1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by Clearwater County. The County's reporting entity is defined in Note 1 to the financial statements.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Clearwater County under programs of the federal government for the year ended December 31, 2015. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of Clearwater County, it is not intended to and does not present the financial position or changes in net position of Clearwater County.

3. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Clearwater County has elected to not use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

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Management and Compliance Section

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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
Bagley, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Clearwater County, Minnesota, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated January 3, 2019.

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.

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. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other items that we consider to be significant deficiencies.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2015-001, 2015-002, 2015-008, and 2015-012 to be material weaknesses and items 1996-005, 2007-001, 2015-003 through 2015-007, and 2015-009 through 2015-011 to be significant deficiencies.

Compliance and Other Matters

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

Minnesota Legal Compliance

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

In connection with our audit, nothing came to our attention that caused us to believe that Clearwater County failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Counties*, except as described in the Schedule of Findings and Questioned Costs as items 2015-014 through 2015-018. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the County's noncompliance with the above referenced provisions.

Other Matter

Included in the Schedule of Findings and Questioned Costs is a management practices comment. We believe this recommendation to be of benefit to the County, and it is reported for that purpose.

Clearwater County's Response to Findings

Clearwater County's responses to the internal control, legal compliance, and management practices findings identified in our audit are described in the Corrective Action Plan. 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.

/s/Julie Blaha

JULIE BLAHA
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

January 3, 2019

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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
Bagley, Minnesota

Report on Compliance for the 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 program for the year ended December 31, 2015. Clearwater County's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

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

Auditor's Responsibility
Our responsibility is to express an opinion on compliance for Clearwater County's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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 the major federal program. However, our audit does not provide a legal determination of the County's compliance with those requirements.

Basis for Qualified Opinion on Highway Planning and Construction Cluster (CFDA No. 20.205)

As described in the accompanying Schedule of Findings and Questioned Costs, Clearwater County did not comply with requirements regarding CFDA No. 20.205 Highway Planning and Construction Cluster as described in finding number 2015-013 for Procurement, Suspension, and Debarment. Compliance with such requirements is necessary, in our opinion, for the County to comply with the requirements applicable to that program.

Qualified Opinion on Highway Planning and Construction Cluster (CFDA No. 20.205)

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, 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 the Highway Planning and Construction Cluster for the year ended December 31, 2015.

Clearwater County's response to the noncompliance finding identified in our audit is described in the accompanying Corrective Action Plan. Clearwater County's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph 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. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a material weakness.

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. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2015-013 to be a material weakness.

Clearwater County's response to the internal control over compliance finding identified in our audit is described in the accompanying Corrective Action Plan. Clearwater County's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Purpose of This Report

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

/s/Julie Blaha	*/s/Greg Hierlinger*
JULIE BLAHA STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

January 3, 2019

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CLEARWATER COUNTY
BAGLEY, MINNESOTA

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

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: **Unmodified**

Internal control over financial reporting:
- Material weaknesses identified? **Yes**
- Significant deficiencies identified? **Yes**

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

Federal Awards

Internal control over major program:
- Material weaknesses identified? **Yes**
- Significant deficiencies identified? **None reported**

Type of auditor's report issued on compliance for major program: **Qualified**

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? **Yes**

The major federal program is:

Highway Planning and Construction Cluster	CFDA No. 20.205

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

Clearwater County qualified as a low-risk auditee? **Yes**

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding Number 1996-005

Segregation of Duties

Criteria: Management is responsible for establishing and maintaining internal control. Adequate segregation of duties is a key internal control in preventing and detecting errors or irregularities. To protect County assets, proper segregation of the record-keeping, custody, and authorization functions should be in place; and, where management decides segregation of duties may not be cost effective, compensating controls should be in place.

Condition: The limited number of personnel within several Clearwater County offices results in a lack of segregation of accounting duties necessary to ensure adequate internal accounting control. The smaller offices that collect fees, including the Jail, generally have one staff person who is responsible for billing, collecting, recording, and depositing receipts, as well as reconciling bank accounts.

Context: This is not unusual in operations the size of Clearwater County; however, the County's management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an internal control point of view.

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

Cause: Due to limited resources, the County informed us that it is impractical to hire enough staff to achieve a desirable level of segregation of duties in every department.

Recommendation: We recommend Clearwater County's elected officials and management be mindful that limited staffing increases the risks in safeguarding the County's assets and the proper recording of its financial activity and, where possible, implement oversight procedures to ensure that internal control policies and procedures are being followed by staff.

View of Responsible Official: Concur

Finding Number 2007-001

Documenting and Monitoring Internal Controls

Criteria: County management is responsible for developing and monitoring its internal controls. An essential element of monitoring controls includes documenting the County's accounting policies and procedures and performing a risk assessment of existing controls over significant functions of the accounting system used to produce financial information for members of the County Board, management, and for external financial reporting. Written policies and procedures should exist to ensure the County's practices are followed as intended by management. The risk assessment is intended to determine if the internal controls established by management are still effective or if changes are needed to maintain a sound internal control structure. Changes may be necessary due to such things as organizational restructuring, updates to information systems, or changes to services being provided. Significant functions to be addressed would include areas such as cash and investment activities; major funding sources, including taxes, intergovernmental revenues, and charges for services; expenditure processing, including new vendor set-up; payroll; capital assets; and information technology.

Condition: The County has documented policies relating to capital assets, fund balance, credit cards, budgeting, purchasing, and employment. The County also has an investment policy, but it does not accurately reflect investment custodial credit risk, interest rate risk, credit risk, and concentration of credit risk as defined by accounting standards. The County does not have formal risk assessment and monitoring procedures in place to determine if the internal controls established by County management are still effective or if changes are needed to maintain a sound internal control structure.

Context: While internal controls may be established, it is not uncommon in operations the size of Clearwater County to fail to periodically review those controls. Monitoring of internal controls is necessary to determine controls are in place and operating effectively.

Effect: Without comprehensive and current accounting policies and procedures over all significant functions, and including formal risk assessment and monitoring procedures, there is an increased risk that the County's practices may not be followed as intended by management, employees may not understand the purpose of internal controls, and errors or irregularities may not be prevented or detected timely.

Cause: The County has not formalized its process for assessing risk and monitoring controls.

Recommendation: We recommend County management continue its efforts to update and document key internal controls in its significant accounting functions. The County should correct its investment policy to conform with accounting standards. We further recommend that a formal plan be developed to assess and monitor the significant internal controls on a regular basis, no less than annually. The monitoring should be documented to show the results of the review, changes required, and who performed the work.

View of Responsible Official: Concur

ITEMS ARISING THIS YEAR

Finding Number 2015-001

Prior Period Adjustment

Criteria: 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 of the financial statements on a timely basis. Auditing standards identify one indication of a material weakness in internal control is the restatement of previously issued financial statements to reflect the correction of a material misstatement due to error.

Condition: A material prior period adjustment was identified that resulted in significant changes to the County's financial statements. The December 31, 2014, unavailable revenue in the Nursing Services Special Revenue Fund was understated as a result of recording all revenue as being received within 60 days.

Context: The need for prior period adjustments can raise doubts as to the reliability of the County's financial information being presented.

Effect: The January 1, 2015, fund balance of the Nursing Services Special Revenue Fund was restated (decreased) by $221,173.

Cause: The County did not report a deferred inflow in the 2014 Nursing Service Special Revenue Fund.

Recommendation: We recommend County staff improve their financial statement closing procedures to ensure they have accurate and complete information considered necessary to fairly state the County's financial statements in accordance with generally accepted accounting principles (GAAP).

View of Responsible Official: Concur

Finding Number 2015-002

Audit Adjustments

Criteria: 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 of the financial statements on a timely basis. Auditing standards define a material weakness as a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Condition: Material audit adjustments were identified that resulted in significant changes to the County's financial statements. Some of these adjustments are identified in the Forfeited Tax Sale Special Revenue Fund finding 2015-012. The County provided its originally prepared 2015 financial report as the County's official record along with its general ledger and other supporting schedules used in the preparation of that report.

Context: The inability to detect significant misstatements in the financial statements increases the likelihood that the financial statements would not be fairly presented. The adjustments were found in the audit; however, independent external auditors cannot be considered part of the County's internal control.

Effect: The following audit adjustments needed to be recorded for December 31, 2015:

- An adjustment of $947,283 was required in the Road and Bridge Special Revenue Fund to increase the deferred inflows of resources for activity relating to the highway allotments not collected within 60 days.

- The Nursing Service Special Revenue Fund required an adjustment of $180,609 to increase unavailable revenue and decrease charges for services for collections received after 60 days.

Cause: This activity was overlooked by staff when financial statement information was prepared.

Recommendation: We recommend County staff improve their procedures over financial reporting to include review of balances, disclosures, and supporting documentation by a qualified individual to ensure the information is complete and accurate so the County's financial statements are fairly presented in accordance with GAAP.

View of Responsible Official: Concur

Finding Number 2015-003

<u>Financial Statement Disclosures</u>

Criteria: Reporting in accordance with GAAP requires certain elements to be included in the financial report.

Condition: The following presentations and disclosures in the originally prepared 2015 financial report provided by the County for this audit were either not reported or were not reported correctly:

- The investment disclosures for interest rate, credit, custodial credit for investments, and concentration risk stated the County had policies relating to these risks, but review of the County investment policy identified these risks are not addressed.

- The custodial credit risk disclosure for investments indicated $4,044,158 may be subjected to custodial credit risk. The County provided evidence that all investments were covered by Securities Investor Protection Corporation (SIPC) and excess SIPC coverage; therefore, no investments were subject to custodial credit risk.

- There was no disclosure regarding the negative fund balance for the Energy Assistance Special Revenue Fund.

- For the Public Employees Police and Fire Pension Plan, there was no disclosure regarding the State of Minnesota's on-behalf contribution.

- There was no disclosure of total pension expense for all pension plans.

- Intergovernmental revenue was not properly reported in the schedule of intergovernmental revenue. Shared revenues were overstated by $877,468; reimbursements for services were overstated by $607,256; state grants were understated by $665,559; and federal grants were overstated by $83,880.

- Unearned revenue for camping fees collected when the site is reserved and for land lease amounts collected prior to the year of the lease were not recorded. The County chose to not correct this.

- Clearwater County acts as a fiscal host for the North Country Community Health Service and the Northwestern Minnesota Household Hazardous Waste Management Group. The pension data used for reporting purposes includes employees of both these separate entities. Adjustments are needed to remove the

North Country Community Health Service and the Northwestern Minnesota Household Hazardous Waste Management Group employees from the General Employees Retirement Fund (GERF) data to arrive at the correct amounts to show for Clearwater County.

Context: The financial report provided by the County for this audit was originally prepared/audited by another auditor.

Effect: The indicated presentations and disclosures in the previously issued financial report for the year ended December 31, 2015, are not in accordance with GAAP.

Cause: The County did not have an adequate process in place to review the financial report before it was issued.

Recommendation: We recommend the County develop and document a process to review the financial report before the report is issued. Documentation of the review should be maintained on file.

View of Responsible Official: Acknowledged

Finding Number 2015-004

General Ledger System Security Controls

Criteria: Internal controls should provide adequate segregation of functions and responsibilities so no one person has duties that would allow for the perpetration and concealment of material irregularities.

Condition: Three County staff assigned access to the financial system's user maintenance function also have access to general ledger accounting functions. This allows for unlimited access to make changes to the accounting records.

Context: The County has the ability to implement controls and/or limit access to financial system functions.

Effect: Inadequate segregation of duties increases the risk errors or irregularities will not be detected timely.

Cause: The County was not aware of the capabilities of the user maintenance function.

Recommendation: We recommend personnel assigned access to the financial system user maintenance function be segregated from personnel assigned access to the general ledger accounting functions.

View of Responsible Official: Concur

Finding Number 2015-005

Payroll Internal Controls

Criteria: Management is responsible for establishing and maintaining internal control over various accounting cycles, including payroll. Internal controls should be designed to provide for an adequate segregation of duties so no one individual handles a transaction from inception to completion.

Condition: The following items were noted during the review of the County's payroll internal controls:

- Payroll master file maintenance changes, including pay rate changes and new employee entry, are not being monitored by someone independent of the payroll process.
- Three of 40 time sheets tested were not properly reviewed and approved by the department head or other appropriate personnel. One of 40 time sheets tested did not agree with the information entered into the Paymate payroll system.
- Time entered into the payroll system is not being reviewed by an individual separate from data entry to verify the information entered is accurate and complete.
- The individual preparing the Public Employees Retirement Association (PERA) withholdings report submitted to PERA is also the individual who creates and completes the electronic funds transfer for contributions to PERA without any review or approval from someone independent of the contributions transmission reports.

Context: It is not unusual for organizations the size of Clearwater County to lack the proper segregation of duties.

Effect: There is an increased risk errors or irregularities will not be detected in a timely manner.

Cause: The County has not established procedures for review and approval.

Recommendation: We recommend internal controls be implemented to ensure that payroll processes are segregated to the extent possible. When procedures cannot be segregated, we recommend a person independent of the payroll process document review and approval of payroll data entry, payroll master file maintenance changes, and PERA submissions in a timely manner. We also recommend the County follow its procedures for all time sheets to be reviewed and approved by the department head or appropriate personnel.

View of Responsible Official: Concur

Finding Number 2015-006

Journal Entries

Criteria: Management is responsible for establishing and maintaining internal controls and for the accuracy and completeness of all financial records and related information, including but not limited to, the controls over initiating, authorizing, recording, and processing journal entries in the general ledger system.

Condition: Journal entries entered into the general ledger system are not being reviewed and approved.

Context: Clearwater County uses journal entries to make adjustments to the financial records for purposes such as corrections, transfers, tax distribution, and various other items.

Effect: There is an increased risk errors or irregularities will not be detected in a timely manner.

Cause: The County has not developed procedures for review and approval of journal entries.

Recommendation: We recommend a procedure be established to require review and approval of journal entries by someone other than the person making the journal entries. This person should obtain an understanding of the journal entry and its purpose before approval. The approval could be documented by signature on a journal entry form or a printed copy of the journal entry made.

View of Responsible Official: Acknowledged

Finding Number 2015-007

Disbursement Internal Controls

Criteria: Management is responsible for establishing and maintaining internal control over the various accounting cycles, including the processing of disbursements. Internal controls should be designed to provide for an adequate segregation of duties so no one individual handles a transaction from inception to completion.

Condition: The following items were noted during testing of disbursements:

- The County's procedures indicate that disbursements are to be approved by the department head or designee. Four of 25 disbursements tested were not approved prior to input into the IFS general ledger system. Three of these were from the Public Health Department and one was from the Human Services Department.

- The Deputy Auditor performs the comparison of the audit list total to the warrant register total and also enters disbursements. The Auditor/Treasurer reviews the warrant list. This review is not being documented and dated.

- Personnel responsible for adding a new vendor or changing existing vendor files are also responsible for processing payments to vendors. No procedures were established to have personnel independent of the vendor payment process review a listing of new, or changes to, vendors.

Context: Proper approval by a supervisor who has oversight responsibility is an important function in ensuring amounts are accurate and authorized. The County has the ability to implement controls and/or limit access to the vendor set up function.

Effect: Lack of review, approval, and segregation of duties increases the risk that an improper payment will be made with County funds and errors or irregularities will not be detected in a timely manner.

Cause: The County did not have any vendor review procedures established. Also, the County was unaware that it should document the review and approval of the warrant list.

Recommendation: We recommend all disbursements have an appropriate approval documented prior to entry into the IFS general ledger system. We also recommend duties of personnel who have the ability to process payments be segregated from the duties of personnel who have the ability to add new vendors or change existing vendor files. If this segregation is not feasible, we recommend personnel independent of the vendor payment process review new vendors or changes to existing vendors.

View of Responsible Official: Concur

Finding Number 2015-008

Capital Assets

Criteria: The County is required by GAAP to account for and depreciate its capital assets over their estimated useful lives. Specifically, Governmental Accounting Standards Board Statement 34 (GASB 34) requires governments to include capital assets on the statement of net position and to report depreciation expense for those assets on the statement of activities. A capital asset policy should be adopted that defines the County's accounting policies over capital assets, such as capitalization thresholds, useful lives, and depreciation methods.

Condition: The following deficiencies related to capital assets were noted:

- The County regularly reports infrastructure incorrectly during construction of assets. While construction is ongoing, the County includes construction additions in both construction in progress and in infrastructure. During this time, beginning net position is overstated for the double counting of assets, and infrastructure is erroneously depreciated prior to asset completion. Then, in the year of completion, the County reduces the construction in progress for an amount larger than the addition to infrastructure, since infrastructure has already been increased in prior years.

- When the County Auditor and Treasurer's offices were combined, the assets were deleted from the two separate offices and added to the new combined office in the capital asset system. For financial reporting, however, additions were recognized, despite no new assets actually being acquired, and deletions were not recognized, thereby erroneously overstating total assets.

- The County disposed of assets and properly reflected those disposals in the capital asset system; however, those disposals were not always reflected in the financial statements.

- An asset purchased in 2014, properly reported in the capital asset system and in the financial statements, was erroneously added again and reported in the financial statements in the subsequent year.

- The County Board has a capital assets policy; however, the policy does not provide requirements or guidance to determine estimated useful lives or use of salvage values.

Context: Estimated useful lives are not consistently used in calculating depreciation of the County's capital assets. Salvage value amounts are not consistently considered in the calculation of depreciation amounts.

Effect: The County's financial statements contain errors. Beginning infrastructure and equipment are overstated by $804,059 and $216,487, respectively. The completion of larger projects reduced the infrastructure difference to $242,351 by year-end. Over-deleting equipment during the year reduced that difference to $29,475 by year-end.

Cause: The County does not have a process to ensure the capital asset system reconciles to financial reporting. There is no clear guidance regarding infrastructure capitalization, useful lives, or salvage value.

Recommendation: We recommend the County implement a process to reconcile the capital assets system to financial reporting to ensure accuracy. The County Board should approve a capital asset policy that includes guidance for infrastructure capitalization, useful lives, and salvage values. The County should properly account for infrastructure during the period of construction.

View of Responsible Official: Concur

Finding Number 2015-009

<u>Departmental Checking Accounts</u>

Criteria: Receipt and disbursement of funds should be centralized in the Auditor/Treasurer's Office whenever possible to allow for better control over all County funds. County departments should deposit funds directly with the Auditor/Treasurer, and disbursements should be issued through a centralized disbursement process in the County Auditor/Treasurer's Office. Minnesota Statutes Section 384.13 requires that all County checks be signed by the Board Chair, the County Auditor, and the County Treasurer.

Condition: The Recorder, Sheriff, Jail, and Parks Departments each have separate checking accounts that are not under the control of the County Auditor/Treasurer.

Context: The balances in these accounts totaled $40,555 at December 31, 2015.

Effect: There is an increased risk errors or irregularities in these accounts will not be detected in a timely manner.

Cause: These accounts have been active for many years and were opened for various reasons.

Recommendation: We recommend the County re-evaluate the need for departmental checking accounts and close any that are not necessary. All County checks need to comply with Minn. Stat. § 384.13.

View of Responsible Official: Concur

Finding Number 2015-010

<u>Bank Reconciliations</u>

Criteria: Internal controls should provide reasonable assurance material errors will be prevented, or detected and corrected, in a timely manner.

Condition: Bank reconciliations are performed by the Senior Deputy Treasurer, but there was no documentation evidencing review of the reconciliations.

Context: The Senior Deputy Treasurer is responsible for or participates in many cash functions.

Effect: There is an increased risk errors or irregularities will not be detected in a timely manner.

Cause: The County Auditor/Treasurer indicated the review was being performed, but it was not documented.

Recommendation: We recommend bank reconciliations be documented as reviewed and approved by an individual independent of preparation in a timely manner.

View of Responsible Official: Concur

Finding Number 2015-011

Fund Balance Reporting

Criteria: Governments are required to report amounts in the appropriate fund balance classifications, in accordance with GASB 54, by applying their accounting policies to determine whether restricted, committed, assigned, or unassigned resources are considered to have been spent. Resources identified to be used for specific purposes pursuant to constraints imposed by formal action of the County Board should be reported as committed fund balance.

Condition: The County reported committed fund balances in the General Fund and in the Road and Bridge, Human Services, Forfeited Tax Sale, and Solid Waste Special Revenue Funds for which County Board resolutions could not be located. In addition, the County did not account for a restriction for child protection services in the Human Services Special Revenue Fund.

Context: The County has a fund balance policy that establishes specific guidelines for the County to use to classify fund balances into categories based primarily on the extent to which the County is bound to honor constraints on the specific purposes for which amounts can be spent. The policy also states the County Auditor shall annually prepare the status of fund balances in relation to the policy for presentation to the County Board in conjunction with the development of the annual budget.

Effect: Significant reclassifications of fund balance were required in the General Fund and in the Road and Bridge, Human Services, Forfeited Tax Sale, and Solid Waste Special Revenue Funds to adjust committed, assigned, and unassigned fund balance.

Cause: The classification was carried over from designations of fund balance in pre-GASB 54 financial statements.

Recommendation: We recommend the County develop procedures to ensure all fund balance commitments comply with GASB 54 requirements and that the calculation of committed fund balances complies with the County Board resolution. Although the purpose of commitments are required to be approved by the Board prior to year-end, the amounts of the commitments can be determined at a later date.

View of Responsible Official: Acknowledged

Finding Number 2015-012

<u>Forfeited Tax Sale Special Revenue Fund</u>

Criteria: Receivables and revenues should be recognized in the accounting period in which they become available and measurable. Payables and expenditures should be recognized in the accounting period in which the liability is incurred, if measurable, except for long-term liabilities, which should be recognized when due.

Condition: The following items were identified in the Forfeited Tax Sale Special Revenue Fund:

- When a timber sale occurs, the County appropriately records the County portion as revenue earned in the Forfeited Tax Sale Special Revenue Fund. In the following year, when the fund distributes amounts owed to other funds and taxing districts, the Forfeited Tax Sale Special Revenue Fund's portion is inappropriately recorded as revenue again in the fund and offset by an expenditure.

- The County did not record liabilities for timber sales collected or expected to be collected for other taxing districts, but instead recorded amounts as miscellaneous revenue. This issue also occurred in the prior year, causing an error in beginning fund balance and current year expenditures.

- For timber sales conducted through a line of credit, the County is not recording the remaining active sale balance due that has not been paid. In addition, logger overruns are not recorded as receivables at year-end.

Context: The County made only the amount of adjustments needed for financial reporting so that the fund was not materially misstated at year-end.

Effect: The following corrected and uncorrected errors, which are material in total, were noted in the fund:

- Revenues and expenditures were overstated by $104,938 for revenue that was earned and available in the prior year but recorded again in the process of distributing amounts to other funds and taxing districts.

- Due to other governments was understated and miscellaneous revenue was overstated by $110,722 for amounts due to other taxing districts for current and future year timber sale collections. The similar prior year error caused beginning fund balance and current year expenditures to be overstated by $104,938.

- Receivables and deferred inflows of resources - unavailable revenue were understated by $28,904 for active timber sales conducted through a line of credit and overruns billed prior to year-end.

Cause: There was a lack of understanding of the accounting required for timber sales, and portions of the County's process for recording timber sales utilizes cash basis accounting.

Recommendation: We recommend the County gain an understanding of the accounting required for timber sales and ensure all receivables, liabilities, revenues and expenditures are properly recorded.

View of Responsible Official: Concur

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

<u>ITEM ARISING THIS YEAR</u>

Finding Number 2015-013

<u>Uniform Guidance Written Procurement Policies and Procedures</u>

Program: U.S. Department of Transportation's Highway Planning and Construction Cluster (CFDA No. 20.205), Award No. 00015, 2015

Pass-Through Agency: Minnesota Department of Transportation

Criteria: Title 2 U.S. *Code of Federal Regulations* § 200.318 states that the non-federal entity must use its own documented procurement procedures which reflect applicable state, local, and tribal laws and regulations, provided that the procurements conform with applicable federal law and the standards identified in this regulation. The Uniform Guidance provides for a grace period for implementation of the new procurement standards provided that election is documented with the choice to use previous procurement standards.

Condition: For 2015, the County's written purchasing policy did not have the required components of a procurement policy in accordance with Title 2 U.S. *Code of Federal Regulations* § 200.318, including provisions for written standards of conduct and suspension and debarment. The County also had not enacted the waiver offered by the Uniform Guidance for implementation of the new procurement standards.

Questioned Costs: Not applicable.

Context: This issue was discovered during the audit of the major federal program; however, it impacts federal programs County-wide. Written policies that reflect the specific components of federal regulations improve controls to help ensure compliance with federal award requirements. The County did adopt procurement policies in October 2017; however, additional information related to the Uniform Guidance will need to be added.

Effect: Noncompliance with federal program requirements. Additionally, the lack of written policies and procedures that reflect the Uniform Guidance procurement requirements could increase the risk of noncompliance with other federal program requirements.

Cause: The County was not aware of the Uniform Guidance requirements.

Recommendation: We recommend the County further develop and implement policies that include the specific components of the Uniform Guidance requirements in written procurement policies and procedures.

View of Responsible Official: Concur

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

ITEMS ARISING THIS YEAR

Finding Number 2015-014

Acceptance of Donations

Criteria: Minnesota Statutes Section 465.03 states that, "[a]ny city, county, school district, or town may accept a grant or devise of real or personal property and maintain such property for the benefit of its citizens in accordance with the terms prescribed by the donor. Every such acceptance shall be by resolution of the governing body, adopted by a two-thirds majority of its members, expressing such terms in full."

Condition: In 2015, the County received various monetary donations totaling $8,824. Documentation of acceptance by the County Board could not be located for the monetary donations receipted by the County.

Context: Donations were received by the County in the Veterans Service, County Citizens for a Violence Free Community, DARE, Extension, and Nursing Service departments.

Effect: Noncompliance with Minn. Stat. § 465.03.

Cause: The County indicated they were not aware of the statute and would look into a process for accepting gifts.

Recommendation: We recommend the County establish procedures to ensure that only the County Board accepts donations and the terms prescribed by the donor.

View of Responsible Official: Concur

Finding Number 2015-015

Prompt Payment of Invoices

Criteria: Pursuant to Minn. Stat. § 471.425, Clearwater County is required to make payment on vendor invoices according to the terms of the contract, or within 35 days of the completed delivery of the goods or services or the receipt of the invoice, whichever is later. For bills paid after the time period set by contract or the standard payment period, the government entity must calculate and pay interest as required.

Condition: Four of 25 invoices tested for compliance with the prompt payment statute were not paid within 35 days, and interest was not calculated or paid.

Context: Payments not made timely could also be an indicator of other issues, such as poor procedural controls, poor internal controls, or cash flow problems.

Effect: Making payment on invoices after 35 days of the completed delivery of the goods or services or the receipt of the invoice, whichever is later, is in noncompliance with Minnesota law.

Cause: Three of the four payments were not made until after receiving funds from the State of Minnesota. One of the payments related to the Soil and Water Conservation District, and the County is not sure why the payment was made late.

Recommendation: We recommend the County make payments on vendor invoices in accordance with Minn. Stat. § 471.425.

View of Responsible Official: Concur

Finding Number 2015-016

Insufficient Collateral

Criteria: Government entities are required by Minn. Stat. § 118A.03, subd. 3, to obtain collateral to secure deposits to the extent funds on deposit exceed available federal deposit insurance at the close of the financial institution's banking day. The market value of the collateral pledged should be at least ten percent more than the uninsured and unbonded amount on deposit, unless the collateral is an irrevocable letter of credit issued by Federal Home Loan Banks, which requires an amount at least equal to the amount on deposit.

Condition: The County had deposits at Northern State Bank that were not adequately covered by federal deposit insurance or collateral on December 31, 2015.

Context: Deposits in excess of insurance and collateral coverage were $25,208 on December 31, 2015.

Effect: When a County has insufficient collateral with a bank, the County may not receive all deposits in the event of bank default.

Cause: The County indicated monthly collateral statements are received, but not always monitored to ensure there is sufficient collateral coverage.

Recommendation: We recommend the County establish procedures to monitor all County deposits to determine whether there is adequate collateral pledged to secure deposits in accordance with Minn. Stat. § 118A.03.

View of Responsible Official: Concur

Finding Number 2015-017

Collateral Assignment

Criteria: Minnesota Statutes Section 118A.03, subd. 4, states that, "[a]ny collateral pledged shall be accompanied by a written assignment to the government entity from the financial institution. The written assignment shall recite that, upon default, the financial institution shall release to the government entity on demand, free of exchange or any other charges, the collateral pledged." Finally, to be enforceable under federal law (12 U.S.C. § 1823(e)), this written assignment must be approved by the depository's board of directors or loan committee and must be an official record of the depository.

Condition: The County has no documentation that the written assignment of collateral pledged by Northern State Bank was approved by the depository's board of directors or loan committee and that the assignment was an official record of the depository.

Context: Collateral assignments need official depository approval to be enforceable.

Effect: Without an approved written assignment of the pledged collateral, the County does not have a perfected security interest in the pledged collateral.

Cause: The County was unaware of this requirement.

Recommendation: We recommend the County require that its depositories provide documentation of approval by each bank's board of directors or loan committee for the written assignment of all collateral pledged.

View of Responsible Official: Concur

Finding Number 2015-018

<u>Broker Certification</u>

Criteria: Minnesota Statutes Section 118A.04, subd. 9, states:

> (a) For the purpose of this section and section 118A.05, the term "broker" means a broker-dealer, broker, or agent of a government entity, who transfers, purchases, sells, or obtains securities for, or on behalf of, a government entity.
> (b) Prior to completing an initial transaction with a broker, a government entity shall provide annually to the broker a written statement of investment restrictions which shall include a provision that all future investments are to be made in accordance with Minnesota Statutes governing the investment of public funds.
> (c) A broker must acknowledge annually receipt of the statement of investment restrictions in writing and agree to handle the government entity's account in accordance with these restrictions. A government entity may not enter into a transaction with a broker until the broker has provided this written agreement to the government entity.

Condition: The County did not obtain broker certifications from the two entities acting as brokers in accordance with Minn. Stat. § 118A.04.

Context: Broker certifications are used to help ensure that investment brokers being used are familiar with deposit and investment legal requirements applicable to the County and that the broker only makes investments that are in compliance with legal requirements and the County investment policy.

Effect: The County is not in compliance with Minn. Stat. § 118A.04.

Cause: The County was not aware of the statutory requirements.

Recommendation: We recommend the County require every entity acting as a broker sign a broker certification form.

View of Responsible Official: Concur

B. MANAGEMENT PRACTICES

ITEM ARISING THIS YEAR

Finding Number 2015-019

Budget Deficiencies

Criteria: GAAP and the County Financial Accounting and Reporting Standards (COFARS) recommend that expenditure estimates and the annual budget be appropriated to the various operational entities within the County and that line-item budget detail by fund be available. Good budget accounting requires: (1) an annual budget adopted by every governmental unit; (2) an accounting system that provides the basis for appropriate budgetary control; and (3) a common technology and classification used consistently throughout the budgets, accounts, and financial reports of each fund. The County Board should adopt an accurate budget, and it should be followed by the County. The adopted budget should be designed so that comparisons can be made between actual amounts and budget amounts. Any amendments to the budget should be approved and documented in the official minutes.

Condition: The County did not enter the Board-approved budget for the Human Services and Road and Bridge Special Revenue Funds into the County's financial system (IFS).

Context: The budget for the Human Services and Road and Bridge Special Revenue Funds are passed on a separate motion from the Board of County Commissioners and are not being input into the IFS.

Effect: Budgets for the Human Services and Road and Bridge Special Revenue Funds were not readily available within the general ledger for comparison or other monitoring activities that are expected to be performed by management and the Board of County Commissioners.

Cause: The County does not have a formal process to ensure all funds have a budget entered in the IFS.

Recommendation: We recommend the County implement procedures to improve budgetary accounting, which should include entering all approved budgets in the IFS.

View of Responsible Official: Concur

V. PREVIOUSLY REPORTED ITEM RESOLVED

2010-001 Deficit Cash Balances

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ALLEN L. PAULSON

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REPRESENTATION OF CLEARWATER COUNTY
BAGLEY, MINNESOTA

CORRECTIVE ACTION PLAN

Finding Number: 1996-005
Finding Title: Segregation of Duties

Name of Contact Person Responsible for Corrective Action:
Allen Paulson, County Auditor/Treasurer

Corrective Action Planned:
Due to the limited number of people employed by Clearwater County, it is not possible to segregate duties sufficiently as to eliminate all internal control risk. The County Auditor, through external sources and vendors, continues to make every effort to educate Department Heads on the value of maintaining internal controls and encourages the cross-training of existing employees.

Anticipated Completion Date:
None, this is an ongoing task with no completion date.

Finding Number: 2007-001
Finding Title: Documenting and Monitoring Internal Controls

Name of Contact Person Responsible for Corrective Action:
Allen Paulson, County Auditor/Treasurer

Corrective Action Planned:
The County will continue to assess and improve its inventory and asset management procedures. The County will review the internal control policies to determine which require updating and which new policies are needed.

Anticipated Completion Date:
This is an ongoing task with no completion date.

Finding Number: 2015-001
Finding Title: Prior Period Adjustment

Name of Contact Person Responsible for Corrective Action:
Allen Paulson, County Auditor/Treasurer

Corrective Action Planned:
We will improve our financial statement procedures to ensure that we have accurate information necessary to fairly state the County's financial statements.

Anticipated Completion Date:
Done 2018

Finding Number: 2015-002
Finding Title: Audit Adjustments

Name of Contact Person Responsible for Corrective Action:
Allen Paulson, County Auditor/Treasurer

Corrective Action Planned:
We have created a process so that unaudited financial information will receive greater scrutiny by staff prior to being given to outside auditors and audited financial statements will be reviewed before being approved for release.

Anticipated Completion Date:
Done 2018

Finding Number: 2015-003
Finding Title: Financial Statement Disclosures

Name of Contact Person Responsible for Corrective Action:
Allen Paulson, County Auditor/Treasurer

Corrective Action Planned:
The County has created steps so that the audited financial statements will be reviewed closely before being released.

Anticipated Completion Date:
Done 2018

Finding Number: 2015-004
Finding Title: General Ledger System Security Controls

Name of Contact Person Responsible for Corrective Action:
Allen Paulson, County Auditor/Treasurer

Corrective Action Planned:
We have segregated staff to limit access to the financial maintenance functions from personnel assigned access to the general ledger accounting functions.

Anticipated Completion Date:
Done 2018

Finding Number: 2015-005
Finding Title: Payroll Internal Controls

Name of Contact Person Responsible for Corrective Action:
Allen Paulson, County Auditor/Treasurer

Corrective Action Planned:
The County will continue the procedures that all time cards are to be signed by employees and then reviewed and signed by Department Heads and Supervisors. Department Heads will submit their time cards with hours worked to the Auditor for his signature. Internal controls were implemented to ensure that payroll processes are segregated and County Auditor will review and approve payroll data entry, master file maintenance changes and PERA submissions for each payroll.

Anticipated Completion Date:
Done 2018

Finding Number: 2015-006
Finding Title: Journal Entries

Name of Contact Person Responsible for Corrective Action:
Allen Paulson, County Auditor/Treasurer

Corrective Action Planned:
Journal entries will be reviewed and approved by County Auditor/Treasurer before being entered into the general ledger. This approval will be documented by a signature on a journal entry form.

Anticipated Completion Date:
Done 2018

Finding Number: 2015-007
Finding Title: Disbursement Internal Controls

Name of Contact Person Responsible for Corrective Action:
Allen Paulson, County Auditor/Treasurer

Corrective Action Planned:
We have segregated the duties to limit access to vendor setups and County Auditor reviews and signs off on the vendor payment process by reviewing new vendors or changes to existing vendors monthly.

Anticipated Completion Date:
Done 2018

Finding Number: 2015-008
Finding Title: Capital Assets

Name of Contact Person Responsible for Corrective Action:
Allen Paulson, County Auditor/Treasurer
Dan Suave, County Engineer

Corrective Action Planned:
Clearwater County will develop a capital asset policy that includes guidance for infrastructure capitalization, useful lives and salvage value.

Anticipated Completion Date:
By year end 2019

Finding Number: 2015-009
Finding Title: Departmental Checking Accounts

Name of Contact Person Responsible for Corrective Action:
Allen Paulson, County Auditor/Treasurer
Brenda Knable, County Recorder
Darin Halvorson, County Sheriff
Kim Christianson, Park Manager

Corrective Action Planned:
The County will review and evaluate the need for departmental checking accounts and comply with MN Statute 384.13. Auditor's staff will review reconciliations for each account.

Anticipated Completion Date:
On going

Finding Number: 2015-010
Finding Title: Bank Reconciliations

Name of Contact Person Responsible for Corrective Action:
Allen Paulson, County Auditor/Treasurer

Corrective Action Planned:
Auditor will review and approve reconciliations with signature monthly.

Anticipated Completion Date:
Done 2018

Finding Number: 2015-011
Finding Title: Fund Balance Reporting

Name of Contact Person Responsible for Corrective Action:
Allen Paulson, County Auditor/Treasurer

Corrective Action Planned:
County will develop procedures to ensure all fund balance commitments and restrictions comply with GASB 54 requirements.

Anticipated Completion Date:
These procedures started in 2017 and will continue on an annual basis.

Finding Number: 2015-012
Finding Title: Forfeited Tax Sale Special Revenue Fund

Name of Contact Person Responsible for Corrective Action:

Allen Paulson, County Auditor/Treasurer
Bruce Cox, County Land Commission

Corrective Action Planned:
The County Auditor Staff will work closely with the Land Commissioner and his Administrator Secretary to ensure they gain an understanding of the accounting requirements for timber sales and ensure all receivables, liabilities, revenues and expenditures are properly recorded.

Anticipated Completion Date:
Staff began correcting this in 2018 and will continue till complete.

Finding Number: 2015-013
Finding Title: Uniform Guidance Written Procurement Policies and Procedures
Program: Highway Planning and Construction Cluster (CFDA No. 20-205)

Name of Contact Person Responsible for Corrective Action:
Allen Paulson, County Auditor/Treasurer
Dan Suave, County Engineer
Jamie Halvorson, Director of Human Services

Corrective Action Planned:
The County will implement policies that include the specific components of the Uniform Guidance requirements in procurement policies and procedures.

Anticipated Completion Date:
September 2019

Finding Number: 2015-014
Finding Title: Acceptance of Donations

Name of Contact Person Responsible for Corrective Action:
Allen Paulson, County Auditor/Treasurer

Corrective Action Planned:
A form listing donations and any conditions will be developed for County departments to list donations to be approved by County Board.

Anticipated Completion Date:
March 31, 2019

Finding Number: 2015-015
Finding Title: Prompt Payment of Invoices

Name of Contact Person Responsible for Corrective Action:
Allen Paulson, County Auditor/Treasurer

Corrective Action Planned:
Departments will be reminded that invoices need to be submitted by the second and third Friday of each month so payments on vendor invoices are paid in accordance with Minn. Statute 471.425.

Anticipated Completion Date:
Done 2018

Finding Number: 2015-016
Finding Title: Insufficient Collateral

Name of Contact Person Responsible for Corrective Action:
Allen Paulson, County Auditor/Treasurer

Corrective Action Planned:
Deputy Treasurer will monitor all County deposits monthly to determine whether there is adequate collateral pledged to secure deposits in accordance with Minn. Statute 118A.03.

Anticipated Completion Date:
Done 2018

Finding Number: 2015-017
Finding Title: Collateral Assignment

Name of Contact Person Responsible for Corrective Action:
Allen Paulson, County Auditor/Treasurer

Corrective Action Planned:
County will require documentation of collateral pledged by Bank's Board of Directors.

Anticipated Completion Date:
Done 2018

Finding Number: 2015-018
Finding Title: Broker Certification

Name of Contact Person Responsible for Corrective Action:
Allen Paulson, County Auditor/Treasurer

Corrective Action Planned:
The County will continue to require a signed Broker Certification Form for every entity.

Anticipated Completion Date:
Done 2018

Finding Number: 2015-019
Finding Title: Budget Deficiencies

Name of Contact Person Responsible for Corrective Action:
Allen Paulson, County Auditor/Treasurer

Corrective Action Planned:
The Budgets for Human Services and Road and Bridge will be entered into the IFS system.

Anticipated Completion Date:
Done 2018

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AUDITOR-TREASURER

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REPRESENTATION OF CLEARWATER COUNTY
BAGLEY, MINNESOTA

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2015

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 Previously Reported: 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.

Status: Not Corrected. The County Board and management are aware of segregation of duties and internal control weakness with a limited number of staff. However, steps are taken to make sure staff are cross trained and duties/responsibilities are shared. County Board continues to implement oversight procedures and monitors those procedures.

Was corrective action taken significantly different than the action previously reported?
Yes _______ No ___X___

Finding Number: 2007-001
Finding Title: Internal Controls

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

Summary of Corrective Action Previously Reported: The Clearwater County Board and Department heads are aware of the internal control over financial reporting, operation, and compliance. They are working on implementing new policies and procedures relevant to internal control and safeguarding of assets.

Status: Not Corrected. County Board and management continues to implement oversight procedures and monitors those procedures for effective internal controls.

Was corrective action taken significantly different than the action previously reported?
Yes _______ No ___X___

Finding Number: 2010-001
Finding Title: Deficit Cash Balances

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

Summary of Corrective Action Previously Reported: The Nursing Service Director is working on methods to reduce costs and collect outstanding accounts receivable.

Status: Fully Corrected. Corrective action was taken.
Was corrective action taken significantly different than the action previously reported?
Yes _______ No ___X___