STATE OF MINNESOTA
Office of the State Auditor

Rebecca Otto
State Auditor

KOOCHICHING COUNTY
INTERNATIONAL FALLS, 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.

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KOOCHICHING COUNTY
INTERNATIONAL FALLS, MINNESOTA

Year Ended December 31, 2015

Audit Practice Division
Office of the State Auditor
State of Minnesota

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KOOCHICHING COUNTY
INTERNATIONAL FALLS, MINNESOTA

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Introductory Section

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KOOCHICHING COUNTY
INTERNATIONAL FALLS, MINNESOTA

ORGANIZATION SCHEDULE
2015

Office	Name	To
Commissioners		
1st District	Wade Pavleck[1]	January 2019
2nd District	Kevin Adee	January 2019
3rd District	Brian McBride	January 2017
4th District	Vacant[2]	January 2019
5th District	Wayne Skoe	January 2017
Officers		
Elected		
Attorney	Jeff Naglosky	January 2019
Auditor/Treasurer	Robert Peterson	January 2019
Recorder	Pamela Rooney	January 2019
Sheriff	Perryn Hedlund	January 2019
Appointed		
Administration Director	Teresa Briggs	Indefinite
Assessor	Len Peterson	December 2016
Public Health/Human Services Director	Kathy LaFrance	Indefinite
Highway Engineer	Joseph Sutherland	April 2017
Medical Examiner	Thomas Uncini, M.D.	January 2018
Surveyor	Robert Murray	January 2018
Veterans Service Officer	Candace Ritch	November 2017

[1]Chair
[2]Filled by Ron Norby in May 2016.

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Financial Section

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Koochiching County
International Falls, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Koochiching County, Minnesota, as of and for the year ended December 31, 2015, including the Housing and Redevelopment Authority (HRA) of Koochiching County as of and for the year ended June 30, 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 did not audit the financial statements of the HRA of Koochiching County, the discretely presented component unit. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the HRA of Koochiching County, is based solely on the report of the other auditors. We also did not audit the financial statements of the International Falls - Koochiching County Airport Commission for the year ended December 31, 2015, in which Koochiching County has an equity interest. The Airport Commission is a joint venture discussed in Note 6.B. to the financial statements. The County's investment in the Airport Commission is accounted for by the equity method of accounting and represents the $4,564,412 investment in joint venture. The financial statements of the Airport

Commission were audited by other auditors, whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amount included as an investment in joint venture, is based solely on the report of other auditors. 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, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Koochiching County as of December 31, 2015, including the HRA of Koochiching County as of June 30, 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 Koochiching 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 June 19, 2018, on our consideration of Koochiching 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 Koochiching 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 Koochiching County's internal control over financial reporting and compliance. It does not include the HRA of Koochiching County or the International Falls - Koochiching County Airport Commission joint venture, which were audited by other auditors.

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 Koochiching 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* (Uniform Guidance), 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/Rebecca Otto	*/s/Greg Hierlinger*
REBECCA OTTO STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

June 19, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

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KOOCHICHING COUNTY BOARD OF COMMISSIONERS
715 4th Street
INTERNATIONAL FALLS, MN 56649

KOOCHICHING COUNTY
INTERNATIONAL FALLS, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2015
(Unaudited)

Koochiching County's Management's Discussion and Analysis (MD&A) provides an overview of County financial activities for the fiscal year ended December 31, 2015. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with Koochiching County's financial statements and the notes to the financial statements. All amounts, unless otherwise indicated, are expressed in whole dollars.

FINANCIAL HIGHLIGHTS

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

The total net position of governmental activities is $93,347,511, of which $73,301,389 is the net investment in capital assets, $2,373,467 is restricted for specific purposes, and $17,672,655 is unrestricted. The total net position increased by $3,306,440 for the year ended December 31, 2015, after restatement for Governmental Accounting Standards Board (GASB) Statements 68 and 71 and for prior period adjustments. Additional information about the restatements can be found in Note 1.E. to the financial statements. This increase in net position is due mainly to an increase in highway infrastructure assets.

At the close of 2015, the County's governmental funds reported combined ending fund balances of $14,656,997, a decrease of $3,620,669 from the prior year. Of the total fund balances amount, $382,750 is nonspendable, $1,160,232 is legally or contractually restricted, and $8,340,732 is assigned for specific purposes. 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 Koochiching 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.

Administration Office: Phone: 218-283-1152; jenny.herman@co.koochiching.mn.us

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, deferred outflows of resources, liabilities, and deferred inflows of resources using the accrual basis of accounting, which is similar to the accounting used by most private-sector businesses. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The *Statement of Net Position* presents information on all of the County's assets, 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).

Both of these government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (governmental activities). The governmental activities of the County include general government, public safety, highways and streets, sanitation, human services, health, culture and recreation, conservation of natural resources, and economic development.

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

Fund-Level 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. Koochiching 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 financial decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

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

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

Governmental fund financial statements can be found as Exhibits 3 through 6 of this report.

Fiduciary funds. Fiduciary funds are used to account for assets held by the County as an agent for individuals, private organizations, or other governments. Koochiching County's fiduciary funds consist of 26 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. The fiduciary fund financial statement can be found as Exhibit 7 of this report.

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 29 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, other post-employment benefits schedules, pension-related schedules, a schedule of intergovernmental revenue, and a schedule of expenditures of federal awards.

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 $93,347,511 at the close of 2015. The largest portion of the County's net position (78.5 percent) reflects its net investment in capital assets (land and right-of-way, construction in progress, infrastructure, buildings and improvements, and machinery and equipment). The continuous increase in net position is the result of the annual capitalization of infrastructure as required by the GASB. It should be noted that these assets are not available for future spending. Approximately 2.5 percent of the County's net position is restricted, and 18.9 percent of the County's net position is unrestricted. The unrestricted net position amount of $17,672,655, 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 $10,971,656, from the prior year, primarily as a result of completion of road and bridge construction projects financed by state and federal funds. Total liabilities increased by $7,902,131 from the prior year, mainly due to the addition of the net pension liability. The combination resulted in an increased net position of $3,306,440, or 3.7 percent, from the prior year, after the restatement for GASB Statements 68 and 71 and prior period adjustments.

Table A-1
Governmental Net Position

	2015	2014
Assets		
Current and other assets	$ 30,346,114	$ 28,292,984
Capital assets	75,686,389	66,767,863
Total Assets	$ 106,032,503	$ 95,060,847
Deferred Outflows of Resources		
Deferred pension outflows	$ 911,950	$ -
Liabilities		
Long-term liabilities outstanding	$ 8,686,165	$ 3,440,144
Other liabilities	4,095,034	1,438,924
Total Liabilities	$ 12,781,199	$ 4,879,068
Deferred Inflows of Resources		
Deferred pension inflows	$ 815,743	$ -
Net Position		
Net investment in capital assets	$ 73,301,389	$ 64,156,863
Restricted	2,373,467	8,555,688
Unrestricted	17,672,655	17,469,228
Total Net Position, as reported	$ 93,347,511	$ 90,181,779
Change in accounting principle*		(5,328,475)
Prior period adjustments**		5,187,767
Total Net Position, as restated		$ 90,041,071

*This is the first year the County implemented the new pension accounting and financial reporting standards in GASB Statements 68 and 71. The County had to make a prior year change in accounting principles to record the County's net pension liability and related deferred outflows of resources and deferred inflows of resources.

**The January 1, 2015, governmental activities' net position was increased to correct prior year errors.

Governmental Activities

Table A-2
Changes in Net Position

	2015	2014
Revenues		
Program revenues		
Fees, charges, fines, and other	$ 5,092,114	$ 5,792,701
Operating grants and contributions	10,425,189	6,295,142
Capital grants and contributions	810,602	4,022,562
General revenues		
Property taxes	4,121,449	4,081,846
Payments in lieu of tax	2,383,660	2,174,810
Grants and contributions not restricted to specific programs	997,619	995,999
Investment earnings	182,998	24,478
Miscellaneous	173,879	104,432
Total Revenues	$ 24,187,510	$ 23,491,970
Expenses		
General government	$ 3,254,909	$ 3,267,200
Public safety	2,775,786	2,955,679
Highways and streets	4,884,389	4,381,239
Sanitation	1,337,526	1,618,783
Human services	4,280,420	4,393,594
Health	707,980	745,402
Culture and recreation	249,511	152,234
Conservation of natural resources	1,484,932	2,192,420
Economic development	1,880,342	1,176,219
Interest	25,275	27,516
Total Expenses	$ 20,881,070	$ 20,910,286
Increase (Decrease) in Net Position	$ 3,306,440	$ 2,581,684
Net Position, January 1, as restated (Note 1.E.)*	90,041,071	87,600,095
Net Position, December 31	$ 93,347,511	$ 90,181,779

*This is the first year the County implemented the new pension accounting and financial reporting standards in GASB Statements 68 and 71. The County had to make a prior year change in accounting principles to record the County's net pension liability and related deferred outflows of resources and deferred inflows of resources. In addition, beginning net position was restated to reflect adjustments for prior year errors.

Figure A-3
Revenues by Source for Fiscal Year 2015

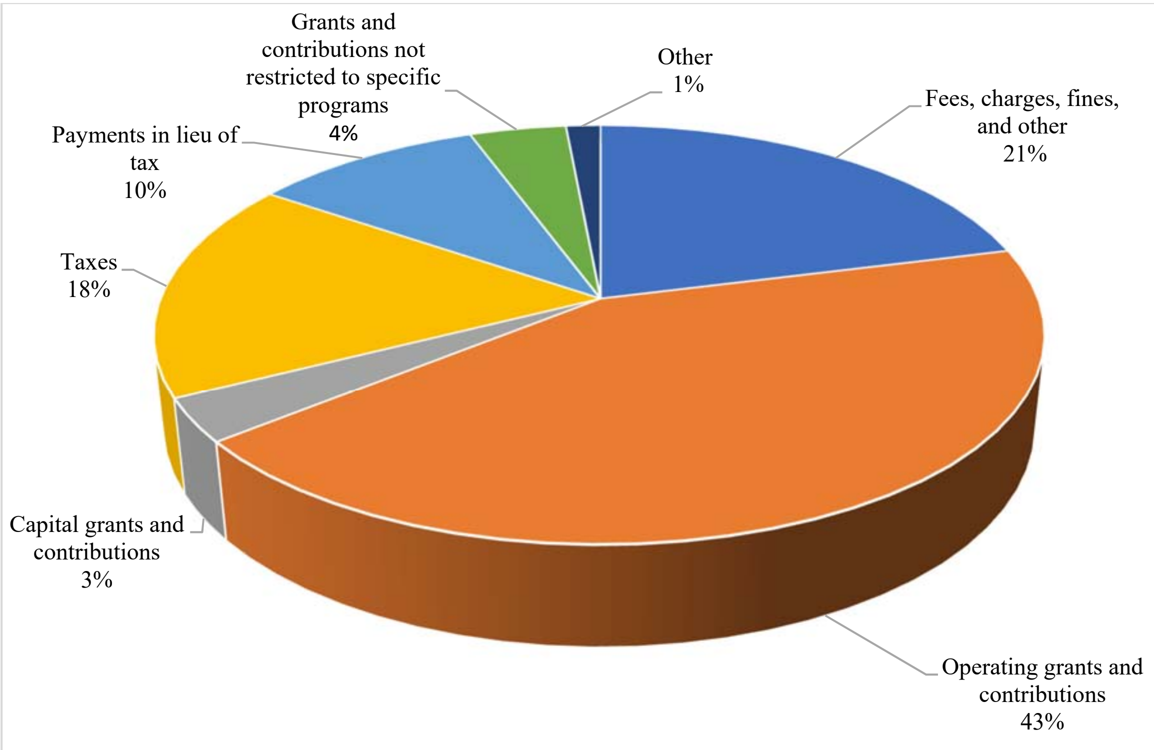


Figure A-4
Expenses by Function for Fiscal Year 2015

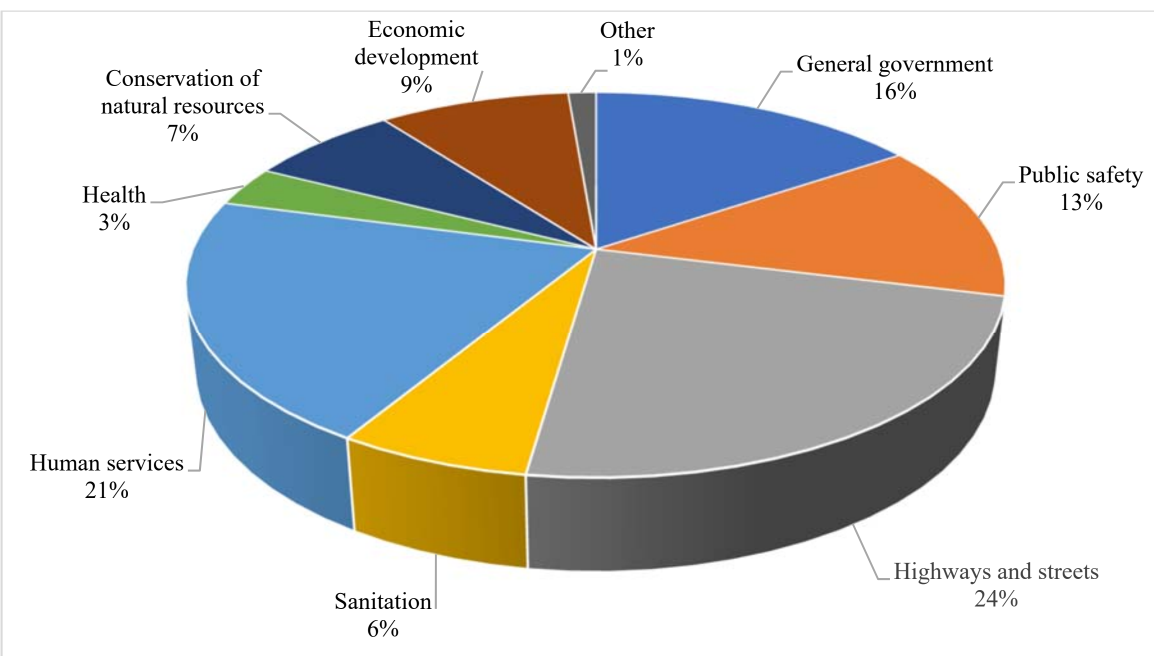


Figure A-5

Program Revenues and Expenses

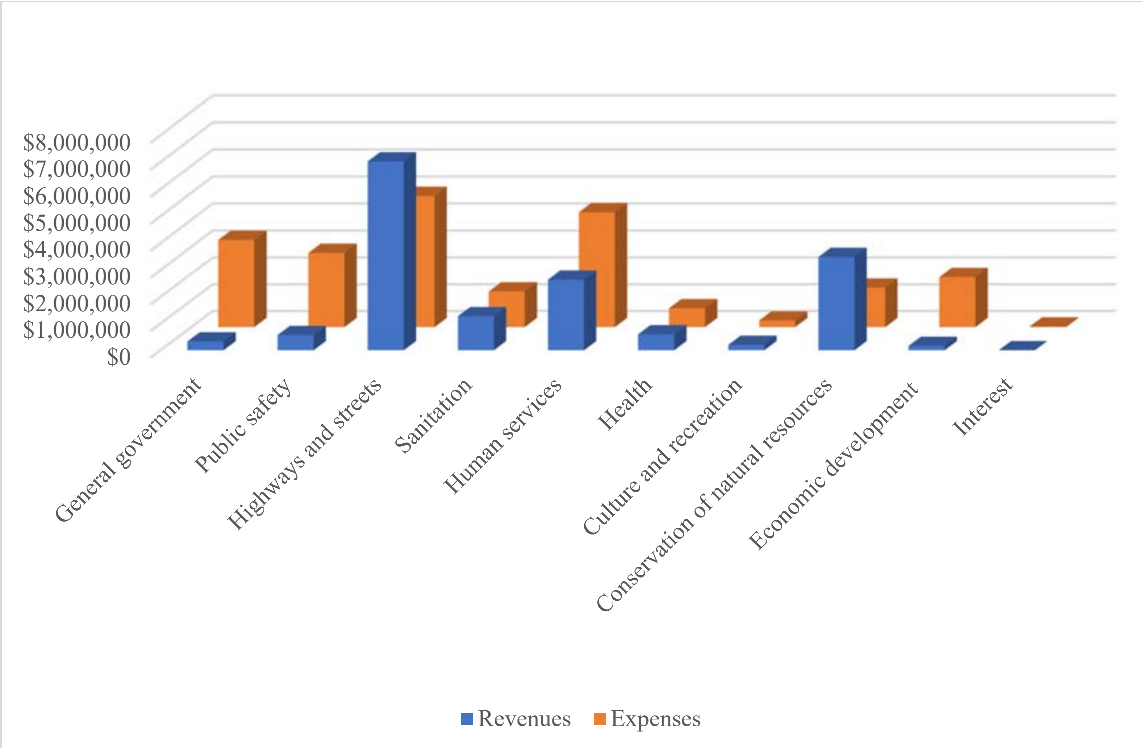
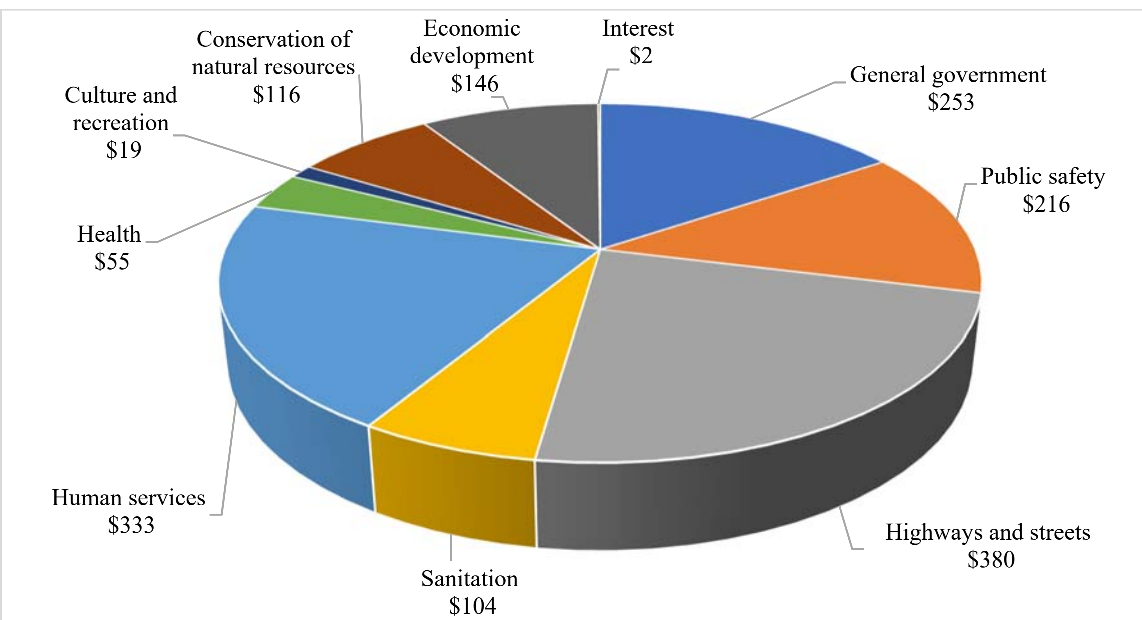


Figure A-6
Expenses Per Capita
12,841 Population as of July 1, 2015



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, outflows, 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 $14,656,997. Of this amount, approximately 2.6 percent constitutes nonspendable fund balance, 7.9 percent constitutes legally or contractually restricted fund balance, and 56.9 percent constitutes specifically assigned fund balance.

The General Fund is the operating fund of the County. At the end of the current fiscal year, the General Fund's total fund balance was $5,596,244. The General Fund's restricted fund balance was $382,656. 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 64.9 percent of total General Fund expenditures, while total fund balance represents 76.1 percent of that same amount.

In 2015, the fund balance amount in the General Fund decreased by $284,943, mainly as a result of a $553,741 payment to the City of Littlefork for the Littlefork Medical Center Capital Project. The County Board committed to fund the project of up to $1,000,000 to be repaid over ten years through an approved taxing district.

The fund balance of the Road and Bridge Special Revenue Fund decreased by $3,362,456 in 2015, partially due to large projects in which revenues were recorded in 2016 and the expenditures in 2015.

The fund balance of the Community Services Special Revenue Fund decreased by $268,721 in 2015 due to out-of-home placement program costs.

The fund balance of the Land and Forestry Special Revenue Fund increased by $69,560 in 2015 due to timber sales.

General Fund Budgetary Highlights

The budget amendments in 2015 consisted of an overall increase in budgeted revenues of $29,200 and an overall decrease in budgeted expenditures of $157,588. Actual revenues were more than overall final budgeted revenues by $484,188, and actual expenditures were lower than budgeted expenditures by $153,151. This was due to FEMA public assistance revenue to cover flood expenditures.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The County's investment in capital assets for its governmental activities as of December 31, 2015, amounted to $75,686,389 (net of accumulated depreciation). The total increase in Koochiching County's investment in capital assets for the current fiscal year was 13.4 percent.

Table A-7
Capital Assets
(Net of Depreciation)

	2015	2014
Land and right of way	$ 4,676,660	$ 4,648,523
Construction in progress	489,120	86,580
Infrastructure	65,412,105	56,819,327
Buildings and improvements	2,641,889	2,767,414
Machinery and equipment	2,466,615	2,446,019
Total	$ 75,686,389	$ 66,767,863

Additional information on the County's capital assets can be found in Note 3.A.3. to the financial statements.

Long-Term Debt

At the end of the current fiscal year, Koochiching County had total debt outstanding of $2,385,000, which is backed by the full faith and credit of the government.

Table A-8
Long-Term Debt

	2015	2014
General Obligation Revenue Notes, Series 2005	$ 2,385,000	$ 2,611,000

The County's net decrease in debt of $226,000, or 8.7 percent, during the fiscal year was primarily 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 2015, overall debt of the County is below the three percent debt limit.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

- Koochiching 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.

- Koochiching County's unemployment rate was 8.7 percent as of December 31, 2015. This is higher than the statewide rate of 3.7 percent and the national average rate of 5.0 percent.

- Koochiching County's population at July 1, 2015, was 12,841, a decrease of 472 since 2010. This ranks Koochiching County 61st of 87 counties in the State of Minnesota.

- On December 15, 2015, Koochiching County set its 2016 revenue and expenditure budgets. The 2016 levy was $3,959,780, a 0 percent increase from 2015. The fund balance reserves planned for expenditure in the 2016 County budget total $2,158,623. There were no new County revenues for the 2016 County budget, which resulted in the use of more fund reserves to cover the remaining $300,000 deficit, after cutting approximately $600,000 of expenditure requests. The County tax levy was not increased for 2016 due to no increase in the tax base to offset the increase.

- In 2014, the County approved a $1,000,000 project funding request from the County General Fund to the Littlefork Medical Center for capital projects, with repayment of the project over ten years through a special taxing district which began in 2015. As of the end of 2015, $553,741 of the project expenditures were paid out by the County, and $89,921 was collected by the County through the taxing district collections. The project funding balance of $446,259 will be paid out in 2016, with the annual repayment of the project continuing through the taxing district collections.

REQUESTS FOR INFORMATION

This annual financial report is designed to provide a general overview of Koochiching 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 Administration Director, Jenny Herman, Koochiching County, 715 - 4th Street, International Falls, Minnesota 56649.

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

KOOCHICHING COUNTY
INTERNATIONAL FALLS, MINNESOTA

EXHIBIT 1

STATEMENT OF NET POSITION
DECEMBER 31, 2015
INCLUDING THE COMPONENT UNIT AS OF JUNE 30, 2015

	Primary Government Governmental Activities	Housing and Redevelopment Authority Component Unit
Assets		
Cash and pooled investments	$ 16,101,234	$ 10,757
Taxes receivable		
Delinquent	191,500	-
Special assessments receivable		
Delinquent	53,970	-
Noncurrent	957,594	-
Accounts receivable	3,344,312	6,879
Accrued interest receivable	21,302	-
Due from other governments	4,688,173	-
Loans receivable	40,867	-
Inventories	382,750	-
Prepaid items	-	1,555
Restricted assets		
Cash and pooled investments	-	9,227
Investment in joint venture - International Falls Airport	4,564,412	-
Capital assets		
Non-depreciable	5,165,780	-
Depreciable - net of accumulated depreciation	70,520,609	443
Total Assets	**$ 106,032,503**	**$ 28,861**
Deferred Outflows of Resources		
Deferred pension outflows	**$ 911,950**	**$ -**
Liabilities		
Accounts payable	$ 343,890	$ 352
Salaries payable	321,632	-
Accrued payroll taxes	-	3,301
Contracts payable	1,511,349	-
Due to other governments	1,842,155	-
Accrued interest payable	8,811	-
Unearned revenue	67,197	-
Long-term liabilities		
Due within one year	531,094	673
Due in more than one year	2,362,754	2,018
Net pension liability	5,535,416	-
Other postemployment benefits	256,901	-
Total Liabilities	**$ 12,781,199**	**$ 6,344**

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

EXHIBIT 1
(Continued)

STATEMENT OF NET POSITION
DECEMBER 31, 2015
INCLUDING THE COMPONENT UNIT AS OF JUNE 30, 2015

	Primary Government Governmental Activities	Housing and Redevelopment Authority Component Unit
Deferred Inflows of Resources		
Deferred pension inflows	**$ 815,743**	**$ -**
Net Position		
Net investment in capital assets	$ 73,301,389	$ 443
Restricted for		
General government	188,674	-
Public safety	193,982	-
Highways and streets	1,317,251	-
Conservation of natural resources	549,236	-
Economic development	2,508	-
Debt service	121,816	-
Housing assistance	-	9,227
Unrestricted	17,672,655	12,847
Total Net Position	**$ 93,347,511**	**$ 22,517**

KOOCHICHING COUNTY
INTERNATIONAL FALLS, MINNESOTA

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2015
INCLUDING THE COMPONENT UNIT FOR THE YEAR ENDED JUNE 30, 2015

	Expenses	Fees, Charges, Fines, and Other
Functions/Programs		
Primary Government		
Governmental activities		
General government	$ 3,254,909	$ 211,512
Public safety	2,775,786	133,879
Highways and streets	4,884,389	116,758
Sanitation	1,337,526	1,206,307
Human services	4,280,420	412,994
Health	707,980	216,201
Culture and recreation	249,511	-
Conservation of natural resources	1,484,932	2,726,969
Economic development	1,880,342	67,494
Interest	25,275	-
Total Primary Government	**$ 20,881,070**	**$ 5,092,114**
Component Unit		
Housing and Redevelopment Authority	**$ 511,244**	**$ 17,449**

General Revenues
Property taxes
Payments in lieu of tax
Grants and contributions not restricted to specific programs
Investment income
Miscellaneous

Total general revenues

Change in Net Position

Net Position - Beginning, as restated (Note 1.E.)

Net Position - Ending

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

Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position: Primary Government: Governmental Activities	Net (Expense) Revenue and Changes in Net Position: Discretely Presented Component Unit
$ 119,606	$ -	$ (2,923,791)	
438,865	-	(2,203,042)	
6,103,873	810,602	2,146,844	
72,516	-	(58,703)	
2,240,412	-	(1,627,014)	
383,414	-	(108,365)	
203,076	-	(46,435)	
767,168	-	2,009,205	
96,259	-	(1,716,589)	
-	-	(25,275)	
$ 10,425,189	**$ 810,602**	**$ (4,553,165)**	
$ 484,565	**$ -**		**$ (9,230)**
		$ 4,121,449	$ -
		2,383,660	-
		997,619	-
		182,998	2
		173,879	-
		$ 7,859,605	**$ 2**
		$ 3,306,440	**$ (9,228)**
		90,041,071	**31,745**
		$ 93,347,511	**$ 22,517**

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FUND FINANCIAL STATEMENTS

KOOCHICHING COUNTY
INTERNATIONAL FALLS, MINNESOTA

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2015

	General	Road and Bridge
Assets		
Cash and pooled investments	$ 4,803,165	$ 4,186,498
Taxes receivable		
Delinquent	89,534	33,057
Special assessments receivable		
Delinquent	-	-
Noncurrent	-	-
Accounts receivable	18,770	34,297
Accrued interest receivable	21,253	-
Due from other funds	833,974	206,617
Due from other governments	124,514	4,082,335
Loans receivable	40,867	-
Inventories	-	382,750
Total Assets	**$ 5,932,077**	**$ 8,925,554**
Liabilities, Deferred Inflows of Resources, and Fund Balances		
Liabilities		
Accounts payable	$ 42,192	$ 56,853
Salaries payable	124,607	51,068
Contracts payable	-	1,511,349
Due to other funds	2,053	-
Due to other governments	43,502	-
Unearned revenue	-	67,197
Total Liabilities	**$ 212,354**	**$ 1,686,467**
Deferred Inflows of Resources		
Unavailable revenue	**$ 123,479**	**$ 3,923,084**
Fund Balances		
Nonspendable	$ -	$ 382,750
Restricted	382,656	104,016
Assigned	440,305	2,829,237
Unassigned	4,773,283	-
Total Fund Balances	**$ 5,596,244**	**$ 3,316,003**
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	**$ 5,932,077**	**$ 8,925,554**

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

EXHIBIT 3

Community Services	Land and Forestry	Nonmajor Governmental Funds	Total Governmental Funds
$ 1,452,558	$ 3,164,039	$ 2,494,974	$ 16,101,234
59,459	-	9,450	191,500
-	-	53,970	53,970
-	-	957,594	957,594
4,042	3,160,246	126,957	3,344,312
-	-	49	21,302
337	-	241,985	1,282,913
307,696	1,688	171,940	4,688,173
-	-	-	40,867
-	-	-	382,750
$ 1,824,092	**$ 6,325,973**	**$ 4,056,919**	**$ 27,064,615**
$ 183,963	$ 4,023	$ 56,859	$ 343,890
75,386	26,469	44,102	321,632
-	-	-	1,511,349
18,242	1,255,228	7,390	1,282,913
32,199	1,740,015	26,439	1,842,155
-	-	-	67,197
$ 309,790	**$ 3,025,735**	**$ 134,790**	**$ 5,369,136**
$ 65,208	**$ 1,822,510**	**$ 1,104,201**	**$ 7,038,482**
$ -	$ -	$ -	$ 382,750
-	424,554	249,006	1,160,232
1,449,094	1,053,174	2,568,922	8,340,732
-	-	-	4,773,283
$ 1,449,094	**$ 1,477,728**	**$ 2,817,928**	**$ 14,656,997**
$ 1,824,092	**$ 6,325,973**	**$ 4,056,919**	**$ 27,064,615**

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KOOCHICHING COUNTY
INTERNATIONAL FALLS, 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		**$ 14,656,997**
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.		75,686,389
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.		7,038,482
Investment in joint venture is not available to pay for current period expenditures and, therefore, is not reported in the governmental funds.		4,564,412
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 notes	$ (2,385,000)	
Other postemployment benefits	(256,901)	
Compensated absences	(508,848)	
Net pension liability	(5,535,416)	
Accrued interest payable	(8,811)	(8,694,976)
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 of resources related to pensions	$ 911,950	
Deferred inflows of resources related to pensions	(815,743)	96,207
Net Position of Governmental Activities		**$ 93,347,511**

KOOCHICHING COUNTY
INTERNATIONAL FALLS, MINNESOTA

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

	General	Road and Bridge
Revenues		
Taxes	$ 2,061,847	$ 663,308
Special assessments	-	-
Licenses and permits	68,948	-
Intergovernmental	3,246,839	9,542,883
Charges for services	234,363	87,751
Fines and forfeitures	21,845	-
Gifts and contributions	9,860	-
Investment income	179,351	-
Miscellaneous	535,272	31,960
Total Revenues	**$ 6,358,325**	**$ 10,325,902**
Expenditures		
Current		
General government	$ 3,079,464	$ -
Public safety	2,651,595	-
Highways and streets	-	13,338,792
Sanitation	-	-
Community services	-	-
Health	-	-
Culture and recreation	300,384	-
Conservation of natural resources	132,837	-
Economic development	1,077,679	-
Capital outlay		
General government	44,561	-
Public safety	65,703	-
Highways and streets	-	229,944
Conservation of natural resources	-	-
Debt service		
Principal	-	-
Interest	-	-
Total Expenditures	**$ 7,352,223**	**$ 13,568,736**
Excess of Revenues Over (Under) Expenditures	**$ (993,898)**	**$ (3,242,834)**

Community Services	Land and Forestry	Nonmajor Governmental Funds	Total Governmental Funds
$ 1,166,931	$ -	$ 188,680	$ 4,080,766
-	-	575,835	575,835
-	-	-	68,948
2,495,513	280,957	1,458,786	17,024,978
82,304	-	830,667	1,235,085
-	-	-	21,845
-	-	-	9,860
-	-	3,647	182,998
329,799	2,369,550	64,562	3,331,143
$ 4,074,547	**$ 2,650,507**	**$ 3,122,177**	**$ 26,531,458**
$ -	$ -	$ -	$ 3,079,464
-	-	-	2,651,595
-	-	-	13,338,792
-	-	1,269,368	1,269,368
4,406,957	-	-	4,406,957
-	-	793,046	793,046
-	46,863	-	347,247
-	1,236,008	149,019	1,517,864
-	-	730,934	1,808,613
-	-	-	44,561
-	-	-	65,703
-	-	-	229,944
-	24,901	-	24,901
-	-	226,000	226,000
-	-	26,110	26,110
$ 4,406,957	**$ 1,307,772**	**$ 3,194,477**	**$ 29,830,165**
$ (332,410)	**$ 1,342,735**	**$ (72,300)**	**$ (3,298,707)**

KOOCHICHING COUNTY
INTERNATIONAL FALLS, MINNESOTA

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

	General	Road and Bridge
Other Financing Sources (Uses)		
Transfers in	$ 854,478	$ 202,370
Transfers out	(145,523)	-
Total Other Financing Sources (Uses)	**$ 708,955**	**$ 202,370**
Net Change in Fund Balances	**$ (284,943)**	**$ (3,040,464)**
Fund Balances - January 1 as restated (Note 1.E.)	**5,881,187**	**6,678,459**
Increase (decrease) in inventories	**-**	**(321,992)**
Fund Balances - December 31	**$ 5,596,244**	**$ 3,316,003**

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

EXHIBIT 5
(Continued)

Community Services	Land and Forestry	Nonmajor Governmental Funds	Total Governmental Funds
$ 63,689	$ 5,226	$ 364,299	$ 1,490,062
-	(1,278,401)	(66,138)	(1,490,062)
$ 63,689	**$ (1,273,175)**	**$ 298,161**	**$ -**
$ (268,721)	**$ 69,560**	**$ 225,861**	**$ (3,298,707)**
1,717,815	**1,408,168**	**2,592,067**	**18,277,696**
-	**-**	**-**	**(321,992)**
$ 1,449,094	**$ 1,477,728**	**$ 2,817,928**	**$ 14,656,997**

KOOCHICHING COUNTY
INTERNATIONAL FALLS, 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 balances - total governmental funds (Exhibit 5)		**$ (3,298,707)**
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		(2,084,046)
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	$ 11,238,374	
Net book value of assets sold	(66,191)	
Current year depreciation expense	(2,253,657)	8,918,526
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 notes		226,000
Change in value of the joint venture does not provide current financial resources and is not reported in the governmental funds.		(86,837)
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 accrued interest payable	$ 835	
Change in compensated absences	60,108	
Change in inventories	(321,992)	
Change in other postemployment benefits	3,287	
Change in deferred pension outflows, as restated	647,488	
Change in deferred pension inflows	(815,743)	
Change in net pension liability, as restated	57,521	(368,496)
Net Change in Net Position of Governmental Activities (Exhibit 2)		**$ 3,306,440**

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

FIDUCIARY FUNDS

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KOOCHICHING COUNTY
INTERNATIONAL FALLS, MINNESOTA

EXHIBIT 7

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
DECEMBER 31, 2015

		Agency
Assets		
Cash and pooled investments	**$**	**375,680**
Liabilities		
Accounts payable	$	1,510
Due to other governments		374,170
Total Liabilities	**$**	**375,680**

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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

Koochiching County was established December 19, 1906, and is an organized county having the powers, duties, and privileges granted counties by Minn. Stat. ch. 373. As required by accounting principles generally accepted in the United States of America (GAAP), these financial statements present Koochiching County (the primary government) and its component units for which the County is financially accountable. 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.

Blended Component Unit

The Koochiching Development Authority is presented in these financial statements as a blended component unit. The Authority was established to assume primary responsibility for development activities within the County. Although the Authority is legally separate from the County, it is reported as if it were a part of Koochiching County because its governing body is the same as the governing body of the County. Financial information on the Koochiching Development Authority can be obtained at the Koochiching County Courthouse, 715 Fourth Street, International Falls, Minnesota 56649.

Discretely Presented Component Unit

The Housing and Redevelopment Authority of Koochiching County (HRA) is presented in these financial statements as a discretely presented component unit in the government-wide financial statements. The HRA is reported in a separate column to emphasize that it is legally separate from the County.

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity

Discretely Presented Component Unit (Continued)

The five-member governing body is appointed by the Koochiching County Board of Commissioners. The financial statements included are as of and for the year ended June 30, 2015. Complete financial statements of the HRA can be obtained by contacting the HRA at 12060 Main Street, Northome, Minnesota 56661.

Joint Ventures

The County participates in joint ventures and jointly-governed organizations described in Notes 6.B. and 6.C., 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 primary government and its component units. 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.

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) net investment in capital assets, (2) restricted net position, and (3) unrestricted net position. The County first utilizes restricted resources to finance qualifying activities.

The statement of activities demonstrates the degree to which the direct expenses of each function of the County's governmental activities are offset by program revenues. Direct expenses are those 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;

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

and (2) grants and contributions restricted to meeting the operational or capital requirements of a particular function or activity. Revenues not classified as program revenues, including all taxes, are presented as general revenues.

2. Fund Financial Statements

The fund financial statements provide information about the County's funds, including its fiduciary funds and blended component unit. Separate statements for each fund category--governmental 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.

The Road and Bridge Special Revenue Fund is used to account for revenues and expenditures of the County Highway Department, which is responsible for the construction and maintenance of roads, bridges, and other projects affecting County roadways.

The Community Services Special Revenue Fund is used to account for economic assistance and community social services programs.

The Land and Forestry Special Revenue Fund is used to account for proceeds from the sale or rental of lands forfeited to the State of Minnesota, pursuant to Minn. Stat. ch. 282, and to account for and report financial transactions of various operations of the County forest.

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

Additionally, the County reports the following fund types:

The Debt Service Fund accounts for the resources accumulated and payments made for the principal and interest on long-term debt of the County.

The Capital Projects Fund accounts for the financing of equipment acquisition, building repairs, or other capital improvements.

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. Since, by definition, these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the County, these funds are not incorporated into the government-wide statements.

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. Shared revenues are generally recognized in the period the appropriation goes into effect. 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. Koochiching County considers all revenues as available if collected within 60 days after the end of the current period. Property and other taxes, licenses, and interest are all considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured.

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

When both restricted and unrestricted resources are available for use, it is the County's policy to use restricted resources first and then unrestricted resources as needed, unless the County Board takes specific action to appropriate those unrestricted resources.

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 may receive investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2015 at the fund level were $179,351.

2. Receivables and Payables

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

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.

1. Summary of Significant Accounting Policies

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

      2. Receivables and Payables (Continued)

         Taxes receivable consist of uncollected taxes payable in the years 2009 through 2015. Taxes receivable are offset by unavailable revenue for the amount not collectible within 60 days of December 31 to indicate they are not available to pay current expenditures.

         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 2009 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. Loans Receivable

         Loans receivable consist of an economic development loan between the County and the Koochiching County Economic Development Authority for the construction of a cold box site.

      5. Inventory

         All inventories are valued at cost using the first in/first out method. Inventories in governmental funds are recorded as expenditures when purchased rather than when consumed. Inventories at the government-wide level are recorded as expenses when consumed. Reported inventories are equally offset by nonspendable fund balance to indicate that they do not constitute available spendable resources.

1. Summary of Significant Accounting Policies

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

6. 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 fair value at the date of donation. The government's capitalization threshold for capital assets is as follows:

Assets	Capitalization Threshold
Land	$ 1
Construction in progress	1
All other classes of assets	10,000

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	20 - 75
Buildings and improvements	15 - 100
Machinery and equipment	5 - 20

7. Unearned Revenue

Governmental funds and government-wide financial statements report unearned revenue in connection with resources that have been received, but not yet earned. In the current year, all unearned revenue was the result of grants received prior to the revenue recognition criteria being met.

1. Summary of Significant Accounting Policies

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

8. Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated annual vacation and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. 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 an amount based on a trend analysis of current usage of paid time off (PTO). The noncurrent portion consists of the remaining amount of PTO. The compensated absences liability is liquidated by the General Fund, and the Road and Bridge, Community Services, Environmental Services, Public Health Nursing, and Land and Forestry Special Revenue Funds.

9. 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. Currently, the County has one item, deferred pension outflows, that 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, differences between projected and actual earnings on pension plan investments, and also pension plan changes in proportionate share 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

9. Deferred Outflows/Inflows of Resources (Continued)

In addition to liabilities, the statement of financial 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. Currently, the County has two types of deferred inflows. The governmental funds report unavailable revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Unavailable revenue arises only under the modified accrual basis of accounting and, accordingly, is reported only in the governmental funds balance sheet. The unavailable revenue amount is deferred and recognized as an inflow of resources in the period that the amounts become available. The County also has deferred pension inflows. These inflows arise only under the full accrual basis of accounting and consist of differences between expected and actual pension plan economic experience and also pension plan changes in proportionate share and, accordingly, are reported only in the statement of net position.

10. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the 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 an other financing source. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

1. Summary of Significant Accounting Policies

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

11. Pension Plan

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

12. Classification of Net Position

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

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

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

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

1. Summary of Significant Accounting Policies

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

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

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 not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the County Board or the Administration Director, who has been delegated that authority by Board resolution.

Unassigned - 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, committed, or assigned.

1. Summary of Significant Accounting Policies

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

13. Classification of Fund Balances (Continued)

The County will maintain an unrestricted fund balance in the General Fund and major funds of amounts not less than three but no more than five months of the next year's budgeted expenditures. Unrestricted fund balance can be "spent down" if there is an anticipated budget shortfall. If spending unrestricted fund balance in designated circumstances has reduced unrestricted fund balance to a point below the minimum targeted level, as noted above, the replenishment will be funded by the amount of budget funding determined in each fund in the next budget cycle.

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

14. 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

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 benefit pensions to employees through pension plans administered through trusts to record their proportionate share of

1. Summary of Significant Accounting Policies

   E. Restatement of Fund Balance and Net Position

      Change in Accounting Principles (Continued)

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*, modifies the measure of payroll that is presented in the required supplementary information schedules.

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.

Prior Period Adjustments

The January 1, 2015, net position increased by $4,651,249 to reflect the County's equity interest in the International Falls - Koochiching County Airport Commission.

The January 1, 2015, net position decreased and current year revenue increased by $1,400,099 to reflect a highway allotment received in advance.

The January 1, 2015, net position increased by $1,936,617 for prior year unrecorded timber receivables of $2,689,746 and due to other governments of $753,129. In the Land and Forestry Special Revenue Fund, the January 1, 2015, fund balance was increased by $471,526 for the prior year-end timber receivables and due to other governments, and additionally for deferred outflows of resources - unavailable revenue of $1,465,091.

1. Summary of Significant Accounting Policies

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

Fund Closure

On January 1, 2015, the Forfeited Tax Special Revenue Fund was closed and reported as part of the Land and Forestry Special Revenue Fund.

Restatement of Fund Balance and Net Position

The effect of the change in accounting principles and prior period adjustments on fund balance and net position is as follows:

	Land and Forestry Special Revenue Fund	Governmental Activites
Fund Balance/Net Position - January 1, 2015, as previously reported	$ 936,642	$ 90,181,779
Change in accounting principles	$ -	$ (5,328,475)
Prior period adjustments		
Investment in joint venture	$ -	$ 4,651,249
Advance allotment	-	(1,400,099)
Timber sales	471,526	1,936,617
Total prior period adjustments	$ 471,526	$ 5,187,767
Fund Balance/Net Position - January 1, 2015, as Restated	$ 1,408,168	$ 90,041,071

2. Stewardship, Compliance, and Accountability

A. Land Management

The County manages approximately 286,878 acres of state-owned tax-forfeited land. This land generates revenues primarily from recreational land leases and land and timber sales. Land management costs, including forestry costs such as site preparation, seedlings, tree planting, and logging roads, are accounted for as current operating expenditures. Revenues in excess of expenditures are distributed to the County and cities, towns, and school districts within the County according to state statute.

2. Stewardship, Compliance, and Accountability (Continued)

B. Excess of Expenditures Over Budget

The following nonmajor governmental funds have expenditures in excess of budget for the year ended December 31, 2015:

	Expenditures	Final Budget	Excess
Environmental Services Special Revenue Fund			
Current			
Conservation of natural resources	$ 131,599	$ 130,401	$ 1,198
Koochiching Development Authority Special Revenue Fund			
Current			
Economic development	656,780	294,853	361,927

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Government-wide statement of net position	
Governmental activities	
Cash and pooled investments	$ 16,101,234
Statement of fiduciary net position	
Cash and pooled investments	375,680
Total Cash and Investments	$ 16,476,914
Deposits	$ 5,692,073
Investments	10,784,841
Total Deposits and Investments	$ 16,476,914

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

a. Deposits

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

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

Custodial Credit Risk for Deposits

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 for custodial credit risk is to maintain adequate collateral for its deposits. The collateral requirements, per County policy, are consistent with Minnesota statutes. As of December 31, 2015, the County did not have documentation to support compliance with state law and/or a perfected security interest under federal law for collateral received to cover deposits in excess of Federal Depository Insurance Corporation (FDIC) coverage totaling $3,549,923.

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

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

(6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. In accordance with the County's investment policy, investments will be sufficiently diverse to avoid risk and enhance return.

At December 31, 2015, the County had the following investments and maturities:

Investment Type	Total Fair Value	Less Than 1 Years	1 - 5 Years
Federal Home Loan Bank	$ 1,152,621	$ -	$ 1,152,621
Federal Home Loan Mortgage Corporation	816,202	-	816,202
Federal Farm Credit Bank	647,340	-	647,340
Federal National Mortgage Association	985,105	-	985,105
U.S. Treasury note	1,374,576	305,169	1,069,407
Municipal securities	2,126,833	1,256,225	870,608
Money market account with broker	8,167	8,167	-
Negotiable certificates of deposit	3,673,997	100,259	3,573,738
Total Investments	$ 10,784,841	$ 1,669,820	$ 9,115,021

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. It is the County's policy to invest only in securities that meet the ratings requirements set by state statute.

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments

Credit Risk (Continued)

Following is a summary of the credit risk and fair values of the County's investments as of December 31, 2015:

Investment Type	S&P Rating	Carrying (Fair) Value
Federal Home Loan Bank	AAA	$ 1,152,621
Federal Home Loan Mortgage Corporation	AAA	816,202
Federal Farm Credit Bank	AAA	647,340
Federal National Mortgage Association	AAA	985,105
U.S. Treasury note	AAA	1,374,576
Municipal securities	AAA	382,861
Municipal securities	AA+	964,705
Municipal securities	AA	754,232
Municipal securities	A+	25,035
Money market account with broker	NR	8,167
Negotiable certificates of deposit	NR	3,673,997
Total Investments		$ 10,784,841

NR - Not Rated

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 securities that are in the possession of an outside party. The County's policy is to minimize custodial credit risk for investments. At December 31, 2015, $7,110,844 of the County's investments were exposed to custodial credit risk.

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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 policy is to diversify its portfolio so the impact of potential losses from one type of security or issuer will be minimized.

Investments in any one issuer that represent five percent or more of the County's investments are as follows:

Issuer	Reported Amount
Federal Home Loan Bank	$ 1,152,621
Federal Home Loan Mortgage Corporation	816,202
Federal Farm Credit Bank	647,340
Federal National Mortgage Association	985,105
U.S. Treasury note	1,374,576

2. Receivables

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

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Taxes	$ 555,320	$ -
Special assessments	1,011,564	957,594
Accounts	3,344,312	-
Accrued interest	21,302	-
Due from other governments	4,688,173	-
Loans	40,867	-
Total	$ 9,661,538	$ 957,594

3. Detailed Notes on All Funds

A. Assets

2. Receivables (Continued)

Loans Receivable

The County entered into an agreement with the Economic Development Authority of Koochiching County for the construction of a cold box at the International Falls weather testing site. The original loan was made on August 1, 2012, in the amount of $200,000, with a 2.0 percent interest rate to be repaid over four years. The remaining balance at December 31, 2015, was $40,867.

3. Capital Assets

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

	Beginning Balance	Increase	Decrease/ Adjustment	Ending Balance
Capital assets not depreciated				
Land	$ 2,543,291	$ -	$ -	$ 2,543,291
Right-of-way	2,105,232	28,137	-	2,133,369
Construction in progress	86,580	9,331,546	(8,929,006)	489,120
Total capital assets not depreciated	$ 4,735,103	$ 9,359,683	$ (8,929,006)	$ 5,165,780
Capital assets depreciated				
Buildings and improvements	$ 6,113,437	$ 17,464	$ -	$ 6,130,901
Machinery and equipment	8,876,526	416,194	(451,956)	8,840,764
Infrastructure	80,872,499	10,374,039	-	91,246,538
Total capital assets depreciated	$ 95,862,462	$ 10,807,697	$ (451,956)	$ 106,218,203
Less: accumulated depreciation for				
Buildings and improvements	$ 3,346,023	$ 142,989	$ -	$ 3,489,012
Machinery and equipment	6,430,507	329,407	(385,765)	6,374,149
Infrastructure	24,053,172	1,781,261	-	25,834,433
Total accumulated depreciation	$ 33,829,702	$ 2,253,657	$ (385,765)	$ 35,697,594
Total capital assets depreciated, net	$ 62,032,760	$ 8,554,040	$ (66,191)	$ 70,520,609
Governmental Activities Capital Assets, Net	$ 66,767,863	$ 17,913,723	$ (8,995,197)	$ 75,686,389

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

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

General government	$	48,089
Public safety		57,270
Sanitation		126,133
Highways and streets, including depreciation of infrastructure assets		1,922,095
Health		3,967
Conservation of natural resources		26,349
Culture and recreation		34,886
Human services		34,868
Total Depreciation Expense	$	2,253,657

B. Interfund Receivables, Payables, and Transfers

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

Due To/From Other Funds

Receivable Fund	Payable Fund		Amount	Purpose
General Fund	Community Services Special Revenue Fund	$	7,195	Indirect cost reimbursement
	Community Services Special Revenue Fund		8,469	Motor pool
	Community Services Special Revenue Fund		2,578	Expense reimbursement
	Koochiching Development Authority Special Revenue Fund		4,312	Expense reimbursement
	Land and Forestry Special Revenue Fund		809,478	Timber sale settlement
	Public Health Nursing Special Revenue Fund		1,942	Motor pool
Total Due to General Fund		$	833,974	
Road and Bridge Special Revenue Fund	General Fund	$	1,621	Charges for services
	County Development Special Revenue Fund		799	Charges for services
	Land and Forestry Special Revenue Fund		202,369	Timber sale settlement
	Land and Forestry Special Revenue Fund		1,828	Reimbursements
Total Due to Road and Bridge Special Revenue Fund		$	206,617	
Community Services Special Revenue Fund	Public Health Nursing Special Revenue Fund	$	337	Postage

3. Detailed Notes on All Funds

B. Interfund Receivables, Payables, and Transfers

Due To/From Other Funds (Continued)

Receivable Fund	Payable Fund	Amount	Purpose
Environmental Services Special Revenue Fund	Land and Forestry Special Revenue Fund	$ 202,369	Timber sale settlement
Koochiching Development Authority Special Revenue Fund	Land and Forestry Special Revenue Fund	$ 39,184	Timber sale settlement
Public Health Nursing Special Revenue Fund	General Fund	$ 432	Immunization services
Total Due To/From Other Funds		$ 1,282,913	

Interfund Transfers

Transfer To/From	Amount	Purpose
Transfers to General Fund from		
Land and Forestry Special Revenue Fund	$ 809,478	Timber sale settlement
Land and Forestry Special Revenue Fund	25,000	Rent reimbursement
County Development Special Revenue Fund	20,000	Survey reimbursement
Total Transfers to General Fund	$ 854,478	
Transfer to Road and Bridge Special Revenue Fund from		
Land and Forestry Special Revenue Fund	$ 202,370	Timber sale settlement
Transfer to Community Services Special Revenue Fund from		
General Fund	$ 63,689	Rent payment
Transfer to Land and Forestry Special Revenue Fund from		
Special Revenue Dedicated Fund	$ 5,226	Aquatic invasive species reimbursement
Transfers to Environmental Services Special Revenue Fund from		
Land and Forestry Special Revenue Fund	$ 202,369	Timber sale settlement
Special Revenue Dedicated Fund	10,440	Aquatic invasive species reimbursement
Total Transfers to Environmental Services Special Revenue Fund	$ 212,809	

3. Detailed Notes on All Funds

B. Interfund Receivables, Payables, and Transfers

Interfund Transfers (Continued)

Transfer To/From	Amount	Purpose
Transfer to Koochiching Development Authority Special Revenue Fund from Land and Forestry Special Revenue Fund	$ 39,184	Timber sale settlement
Transfer to Public Health Nursing Special Revenue Fund from General Fund	$ 81,834	Rent payment
Transfer to Capital Projects Fund from Koochiching Development Authority Special Revenue Fund	$ 30,472	Island view project planning
Total Interfund Transfers	$ 1,490,062	

C. Liabilities and Deferred Inflows of Resources

1. Unearned Revenue and Deferred Inflows of Resources

Unearned revenue consist of state and/or federal grants received but not earned. Deferred inflows of resources - unavailable revenue consists of taxes, special assessments, state and/or federal grants and state highway users tax allotments, and other receivables not collected soon enough after year-end to pay liabilities of the current period.

	Taxes	Special Assessments	Allotments, Grants, and Other	Total
Major governmental funds				
General	$ 71,375	$ -	$ 52,104	$ 123,479
Special Revenue				
Road and Bridge	26,158	-	3,964,123	3,990,281
Community Services	47,333	-	17,875	65,208
Land and Forestry		-	1,822,510	1,822,510
Nonmajor governmental funds				
Special Revenue				
Environmental Services	3,646	51,317	30,994	85,957
Koochiching Development Authority	-	-	15,012	15,012
Public Health Nursing	3,865	-	9,385	13,250
Wastewater Debt Service	-	960,247	29,735	989,982
Total	$ 152,377	$ 1,011,564	$ 5,941,738	$ 7,105,679

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources

1. Unearned Revenue and Deferred Inflows of Resources (Continued)

	Taxes	Special Assessments	Allotments, Grants, and Other	Total
Liability				
Unearned revenue	$ -	$ -	$ 67,197	$ 67,197
Deferred inflows of resources				
Unearned revenue	152,377	1,011,564	5,874,541	7,038,482
Total	$ 152,377	$ 1,011,564	$ 5,941,738	$ 7,105,679

2. Compensated Absences

Under the County's personnel policies and union contracts, employees are granted vacation in varying amounts based on their length of service. Vacation leave accrual varies from 13 to 29 days per year, and vacation bonus leave accrual is a maximum of 6 days per year. Sick leave accrual is 12 days per year. Leave may be accumulated to a maximum of 30 days vacation and 120 days sick leave under the County's employment policy. Severance pay will be paid at 25 and 40 percent of accumulated sick leave for retired employees with a minimum of 20 and 25 years of service, respectively. For the governmental activities, compensated absences are generally liquidated by the General Fund, the Road and Bridge Special Revenue Fund, and the Community Services Special Revenue Fund.

Unused compensatory time, accumulated vacation, and vested sick leave are paid to employees upon termination. Unvested sick leave of approximately $131,653 at December 31, 2015, is available to employees in the event of illness-related absences and is not paid to them at termination.

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources (Continued)

3. Long-Term Debt

General Obligation Notes

The County has general obligation notes outstanding at year-end through a loan agreement with the Minnesota Public Facilities Authority (PFA). The total amount of the PFA loan, drawn down for the construction of the Jackfish Bay wastewater project, was $4,430,839. The note carries an interest rate of 1.0 percent, and remaining principal is due in annual installments of $228,000 to $249,000 through 2025. Note payments are made from the Wastewater Debt Service Fund.

4. Debt Service Requirements

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

Year Ending December 31	General Obligation Notes Principal	General Obligation Notes Interest
2016	$ 228,000	$ 23,850
2017	230,000	21,570
2018	233,000	19,270
2019	235,000	16,940
2020	237,000	14,590
2021 - 2025	1,222,000	36,890
Total	$ 2,385,000	$ 133,110

5. 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
General Obligation Notes	$ 2,611,000	$ -	$ 226,000	$ 2,385,000	$ 228,000
Compensated absences	568,956	519,759	579,867	508,848	303,094
Total Long-Term Liabilities	$ 3,179,956	$ 519,759	$ 805,867	$ 2,893,848	$ 531,094

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources (Continued)

6. Conduit Debt

In 2009, the County issued a $406,695 Facility Revenue Note, Series 2009A, and a $230,000 Recovery Zone Facility Note, Series 2009B. These bonds were issued on behalf of the Citizens for Backus Project to provide funds to finance the renovation, improvement, and equipping of a portion of the third floor of the community center facility, located in International Falls, Minnesota. The notes are secured by the property financed and are payable solely from the revenues of Citizens for Backus/AB, Inc. The County is not obligated in any manner for repayment of the notes. Accordingly, the notes are not reported as liabilities in the financial statements. As of December 31, 2015, outstanding principal balances were $328,695 and $190,728, respectively.

D. Fund Balance

Fund Balances	General	Road and Bridge	Community Services	Land and Forestry	Other Governmental Funds	Total
Nonspendable						
Inventories	$ -	$ 382,750	$ -	$ -	$ -	$ 382,750
Restricted for						
Debt service	-	-	-	-	121,816	121,816
Law library	27,918	-	-	-	-	27,918
Recorder's technology	65,908	-	-	-	-	65,908
Enhanced 911	108,613	-	-	-	-	108,613
Recorder's compliance	21,283	-	-	-	-	21,283
DARE	9,385	-	-	-	-	9,385
Aquatic invasive species	-	-	-	-	124,682	124,682
Highway allotments	-	104,016	-	-	-	104,016
Permit to carry	51,984	-	-	-	-	51,984
Economic development	-	-	-	-	2,508	2,508
Attorney forfeiture	12,022	-	-	-	-	12,022
Controlled substance awareness	24,000	-	-	-	-	24,000
Help America Vote Act	61,543	-	-	-	-	61,543
Forest development	-	-	-	422,040	-	422,040
Local government unit holdings	-	-	-	2,514	-	2,514
Assigned to						
Safety training	8,634	-	-	-	-	8,634
Sheriff canteen	22,103	-	-	-	-	22,103
Building improvements	23,709	-	-	-	-	23,709
Compensated absences	303,095	-	-	-	-	303,095
Veterans transportation	7,105	-	-	-	-	7,105
Economic recovery	27,907	-	-	-	-	27,907
Employee benefits	47,752	-	-	-	-	47,752
Capital projects	-	-	-	-	113,684	113,684
Environmental services	-	-	-	-	1,236,760	1,236,760
Highways and streets	-	2,829,237	-	-	-	2,829,237

3. Detailed Notes on All Funds

D. Fund Balance (Continued)

Fund Balances	General	Road and Bridge	Community Services	Land and Forestry	Other Governmental Funds	Total
Assigned to (Continued)						
Human services	-	-	1,449,094	-	-	1,449,094
Health	-	-	-	-	289,109	289,109
Forest management	-	-	-	1,053,174	-	1,053,174
County development	-	-	-	-	459,522	459,522
Economic development	-	-	-	-	469,847	469,847
Unassigned	4,773,283	-	-	-	-	4,773,283
Total Fund Balances	$ 5,596,244	$ 3,316,003	$ 1,449,094	$ 1,477,728	$ 2,817,928	$ 14,656,997

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

1. Plan Description

All full-time and certain part-time employees of Koochiching 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.

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.

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

1. Plan Description (Continued)

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.

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.

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

2. Benefits Provided (Continued)

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.

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

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

3. Contributions (Continued)

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	$ 384,708
Public Employees Police and Fire Fund	133,531
Public Employees Correctional Fund	39,286

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 $4,498,426 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 0.0868 percent. It was 0.0980 percent measured as of June 30, 2014. The County recognized pension expense of $466,670 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	$ -	$ 226,797
Difference between projected and actual investment earnings	425,845	-
Changes in proportion	-	394,590
Contributions paid to PERA subsequent to the measurement date	193,807	-
Total	$ 619,652	$ 621,387

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

4. Pension Costs

General Employees Retirement Fund (Continued)

The $193,807 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	$ (100,668)
2017	(100,668)
2018	(100,668)
2019	106,462

Public Employees Police and Fire Fund

At December 31, 2015, the County reported a liability of $999,886 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 0.088 percent. It was 0.090 percent measured as of June 30, 2014. The County recognized pension expense of $168,893 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 $7,920 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	$ -	$ 162,149
Difference between projected and actual investment earnings	174,214	-
Changes in proportion	-	18,001
Contributions paid to PERA subsequent to the measurement date	66,659	-
Total	$ 240,873	$ 180,150

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

4. Pension Costs

Public Employees Police and Fire Fund (Continued)

The $66,659 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	$ 7,523
2017	7,523
2018	7,523
2019	7,525
2020	(36,030)

Public Employees Correctional Fund

At December 31, 2015, the County reported a liability of $37,104 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 0.24 percent. It was 0.23 percent measured as of June 30, 2014. The County recognized pension expense of $40,616 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	$ -	$ 14,206
Difference between projected and actual investment earnings	30,929	-
Changes in proportion	566	-
Contributions paid to PERA subsequent to the measurement date	19,930	-
Total	$ 51,425	$ 14,206

The $19,930 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	$ 3,186
2017	3,186
2018	3,183
2019	7,734

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 $676,179.

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 7.90 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	$ 7,073,125	$ 4,498,426	$ 2,372,121
Public Employees Police and Fire Fund net pension liability	1,948,788	999,886	215,927
Public Employees Correctional Fund net pension liability (asset)	258,398	37,104	(140,021)

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, Koochiching 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 Plan

Four employees of Koochiching 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 Koochiching County during the year ended December 31, 2015, were:

	Employee	Employer
Contribution amount	$ 5,727	$ 5,727
Percentage of covered payroll	5%	5%

C. Other Postemployment Benefits (OPEB)

Plan Description

Koochiching 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)

Plan Description (Continued)

Koochiching County also provides health insurance benefits to elected officials upon retirement who meet eligibility requirements as established by the County Board. The monetary contribution under the plan would be equal to one year of non-union annual cafeteria plan contributions for every year of service, capped at three years. Contribution amounts are held by Koochiching County and used to provide insurance coverage as chosen by the retiring official.

Funding Policy

The contribution requirements of the plan members and the County are established and may be amended by the Koochiching County Board of Commissioners. The required contribution is based on projected pay-as-you-go financing requirements. Non-elected 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. For 2015, there were 117 non-elected participants in the plan, including 8 retirees.

Annual OPEB Cost and Net OPEB Obligation

For benefits provided as required by Minn. Stat. § 471.61, subd. 2b, 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. Additional benefits provided to elected officials have not been included in the calculation of the ARC. For fiscal year 2015, the County paid benefits of $18,379 for retired elected officials and calculated an OPEB liability of $163,890, which has been included as part of contributions made and net OPEB obligation, respectively. For 2015, there were nine elected participants in the plan, including one retiree.

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.

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

Annual OPEB Cost and Net OPEB Obligation (Continued)

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	$	63,284
Interest on net OPEB obligation		2,365
Adjustment to ARC		(3,430)
Annual OPEB cost (expense)	$	62,219
Contributions made		(65,506)
Increase in net OPEB obligation	$	(3,287)
Net OPEB Obligation - Beginning of Year		260,188
Net OPEB Obligation - End of Year	$	256,901

The County's annual OPEB cost for the year ended December 31, 2015, was $62,219. The percentage of annual OPEB cost contributed to the plan was 105.3 percent, and the net OPEB obligation for 2015 was $256,901. 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, were as follows:

Fiscal Year-End	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2013	$ 52,750	$ 42,939	81.4%	$ 34,231
December 31, 2014	62,671	37,786	60.3	260,188
December 31, 2015	62,219	65,506	105.3	256,901

Funded Status and Funding Progress

As of January 1, 2014, the most recent actuarial valuation date, the plan was unfunded. The actuarial accrued liability for benefits was $498,303, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of $498,303. The covered payroll (annual payroll of active employees covered by the plan) was $5,360,867, and the ratio of the UAAL to the covered payroll was 9.3 percent.

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB) (Continued)

Actuarial Methods and Assumptions

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

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of 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 used for benefits provided as required by Minn. Stat. § 471.61, subd. 2b, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4.0 percent investment rate of return (net of investment expenses), which is Koochiching County's implicit rate of return on the General Fund. 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 percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2015, is 22 years.

5. Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. To manage these risks, the County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Intergovernmental Trust (MCIT). MCIT is a public entity risk pool currently operated as a common risk management and insurance program for its members. The County is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. 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.

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.

6. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

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

The County, in connection with the normal conduct of its affairs, is involved in various judgments, claims, and litigations; it is expected that the final settlement of these matters will not materially affect the financial statements of the County.

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

B. Joint Ventures

Arrowhead Health Alliance

Carlton, Cook, Koochiching, and Lake Counties entered into a joint powers agreement, pursuant to Minn. Stat. §§ 471.59 and 256B.692, for the purpose of organizing, governing, planning, and administering a county-based purchasing entity to participate in prepaid health care programs through the Minnesota Department of Human Services and the federal Centers for Medicare and Medicaid Services. In 2012, St. Louis County joined the Arrowhead Health Alliance.

Control of the Arrowhead Health Alliance is vested in a Board of Directors composed of one representative from each of the member counties. Lake County is the fiscal agent for the Arrowhead Health Alliance. Koochiching County did not contribute to the Arrowhead Health Alliance in 2015. Complete financial information can be obtained from the Lake County Courthouse, 601 - 3rd Avenue, Two Harbors, Minnesota 55616.

Arrowhead Regional Corrections

The County, in a joint powers agreement pursuant to Minn. Stat. § 471.59, participates with Carlton, Cook, Lake, and St. Louis Counties in the Arrowhead Regional Corrections Board, which was established pursuant to the Community Corrections Act, Minn. Stat. §§ 401.01-.16.

The Arrowhead Regional Corrections Board comprises three major divisions: juvenile institutional services, adult institutional services, and court and field services. These divisions are composed of the five participating counties' probation departments, the Arrowhead Juvenile Detention Center, and the Northeast Regional Corrections Center.

Arrowhead Regional Corrections is governed by an eight-member Board, composed of one member appointed from each of the participating counties' Board of Commissioners, except for St. Louis County, which has three members appointed by its Board. In addition, the right to have an additional member is annually rotated among Carlton, Cook, Koochiching, and Lake Counties.

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Arrowhead Regional Corrections (Continued)

Arrowhead Regional Corrections is financed through state grants and contributions from the participating counties. Koochiching County contributed $302,802 to Arrowhead Regional Corrections for the year ended December 31, 2015. Separate financial information can be obtained from Arrowhead Regional Corrections, 211 West Second Street, Suite 450, Duluth, Minnesota 55802.

Aitkin-Itasca-Koochiching Community Health Services Board

Aitkin, Itasca, and Koochiching Counties entered into a joint powers agreement, creating and operating the Aitkin-Itasca-Koochiching Community Health Services (CHS) Board, effective January 1, 1977. This agreement is entered into under the authority of the Community Health Services Act of 1976 and is pursuant to the provisions of Minn. Stat. § 471.59 for the development and maintenance of an integrated system of community health services.

The CHS Board is comprised of two members from Aitkin and Koochiching Counties and three members from Itasca County, each appointed by the participating counties. Itasca County maintains the accounting records of the CHS Board. Funding is obtained through federal, state, local, and private sources. Koochiching County did not contribute to the CHS Board in 2015. Complete financial information can be obtained from the Aitkin-Itasca-Koochiching Community Health Services Board Administrator, 1209 Southeast 2nd Avenue, Grand Rapids, Minnesota 55744.

International Falls - Koochiching County Airport Commission

The County entered into an agreement with the City of International Falls to share in future costs of construction, maintenance, and operation of the airport. If this agreement is terminated, disposition of assets will be determined.

The governing body of the Airport Commission is comprised of five members. Two members are from the City Council and two are from the Board of County Commissioners. The fifth member is appointed by the City Council subject to the approval of the County Board.

6. Summary of Significant Contingencies and Other Items

   B. Joint Ventures

International Falls - Koochiching County Airport Commission (Continued)

In 2015, Koochiching County made payments totaling $349,626 to the Airport Commission.

Both the City of International Falls and Koochiching County have an explicit and measurable right to its share of the total capital surplus of the Airport Commission. Gains and losses are allocated annually to both members based on the percentage of their utilization. Koochiching County's equity interest in the Airport Commission at December 31, 2015, was $4,564,412. The equity interest is reported as an investment in joint venture on the government-wide statement of net position. Changes in equity are included in the government-wide statement of activities as General Fund expenses or revenues.

Complete financial statements can be obtained from the International Falls - Koochiching County Airport, 600 Fourth Street, International Falls, Minnesota 56649.

Koochiching Economic Development Partnership

Koochiching County, along with the Cities of Big Falls, International Falls, Little Fork, Northome/Mizpah, and Ranier, created the Koochiching Economic Development Partnership to jointly and cooperatively coordinate, consolidate, and facilitate future planning and actions for the economic development of the Koochiching County area. The partnership is governed by a Board of Directors comprising one Director from each party, except for Koochiching County and the City of International Falls, which are entitled to two Directors. Koochiching County contributed $50,000 to the Economic Development Partnership in 2015. Complete financial information can be obtained from Koochiching County, 715 Fourth Street, International Falls, Minnesota 56649.

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

Minnesota Counties Information Systems

Aitkin, Carlton, Cass, Chippewa, Cook, Crow Wing, Dodge, Itasca, Koochiching, Lac qui Parle, Lake, Sherburne, and St. Louis Counties entered into a joint powers agreement, pursuant to Minn. Stat. § 471.59, for the purpose of operating and maintaining data processing facilities and management information systems for the benefit of its members.

Minnesota Counties Information Systems (MCIS) is governed by a 13-member Board, comprised of a member appointed by each of the participating county's Board of Commissioners. Financing is obtained through user charges to the members. Cass County is the fiscal agent for MCIS.

Each county's share of the assets and liabilities cannot be accurately determined, since it will depend on the number of counties that are members when the agreement is dissolved. Koochiching County contributed $105,836 to MCIS for the year ended December 31, 2015. Separate financial information can be obtained from Minnesota Counties Information Systems, 413 Southeast 7th Avenue, Grand Rapids, Minnesota 55744.

Northeast Minnesota Office of Job Training

Aitkin, Carlson, Cook, Itasca, Koochiching, Lake, and St. Louis Counties (excluding the City of Duluth) entered into a joint powers agreement, pursuant to Minn. Stat. § 471.59, for the purpose of developing and implementing a private and public job training program. The United State Congress, through the Job Training Partnership Act of 1982, authorized states to establish "service delivery areas" to provide programs to achieve full employment through the use of grants. The counties identified above are defined as a "service delivery area," and the Northeast Minnesota Office of Job Training is designed as the grant recipient and administrator for such service delivery area. Koochiching County is not a funding mechanism for this organization.

The governing body is comprised of seven members, one from the Board of Commissioners of each of the participating counties. Separate financial information can be obtained from the Northeast Minnesota Office of Job Training, 820 North 9th Street, Suite 210, Virginia, Minnesota 55792.

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

Northeast Minnesota Regional Radio Board

The Northeast Minnesota Regional Radio Board was established through a joint powers agreement, pursuant to Minn. Stat. §§ 471.59 and 403.39, to provide for regional administration of enhancements to the Statewide Public Safety Radio and Communication System (ARMER) and to enhance and improve interoperable public safety communications.

The joint powers are the Counties of Aitkin, Carlton, Cass, Cook, Crow Wing, Itasca, Kanabec, Koochiching, Lake, Pine, and St. Louis and the Cities of Duluth, Hibbing, International Falls, and Virginia. Control of the Northeast Minnesota Regional Radio Board is vested in a Board of Directors composed of one County Commissioner from each of the member counties and one City Councilor from each of the member cities. In addition, there is one member from the Northeast Minnesota Regional Advisory Committee, one member from the Northeast Minnesota Regional Radio System User Committee, and one member from the Northeast Minnesota Owners and Operators Committee who are also voting members of the Board.

Itasca County is the fiscal agent for the Northeast Minnesota Regional Radio Board. Funding is provided by grants and contributions from participating members. Koochiching County did not contribute to the Northeast Minnesota Regional Radio Board for the year ended December 31, 2015. Separate financial information can be obtained from Itasca County, 123 Northeast 4th Street, Grand Rapids, Minnesota 55744-2847.

Northeast Service Cooperative

The Northeast Service Cooperative (NESC) was established in 1976, pursuant to Minn. Stat. §§ 471.59 and 123.582 (now 123A.21). The NESC is located in the Arrowhead region, which includes Aitkin, Carlton, Cook, Itasca, Koochiching, Lake, and St. Louis Counties, covering a total of 17,950 miles. The NESC provides service to school districts, and cities, counties, and other governmental agencies in the northeast region. The NESC'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.

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Northeast Service Cooperative (Continued)

The NESC is governed by an 11-member Board of Directors consisting of 9 school board members elected at large by their peers and two representatives from city, county, and other governmental agency members throughout the seven-county region. Three superintendents serve the Board of Directors in an ex-officio capacity. Complete financial information can be obtained from the Northeast Service Cooperative, 5525 Emerald Avenue, Mountain Iron, Minnesota 55768.

Voyageurs National Park Water Basin Joint County Sewer Project

On December 11, 2009, Koochiching County entered into a joint powers agreement, pursuant to Minn. Stat. § 471.59, with St. Louis County for the purpose of providing an environmentally sensitive and responsible solution to the problem of non-compliant and failing septic systems on certain properties located within the project area. The County extended this agreement on June 2, 2015. This agreement will govern the application for, solicitation, and administration of funds received for the purpose of planning, grant writing, engineering, conservation, environmental studies, and the development, management, and construction of wastewater treatment for property within the project area.

The governing body is comprised of four members, two County Commissioners appointed by the St. Louis County Board and two County Commissioners appointed by the Koochiching County Board. Koochiching County contributed $19,053 to the Voyageurs National Park Water Basin Joint County Sewer Project for the year ended December 31, 2015. The St. Louis County Auditor acts as fiscal agent for the Joint County Sewer Project. Separate financial information can be obtained from the St. Louis County Courthouse, 100 North 5th Avenue West, Duluth, Minnesota 55802.

Little Fork and Rat Root River Board

The Little Fork and Rat Root River Board was established through a joint powers agreement, pursuant to Minn. Stat. § 471.59, for the purpose of protecting the Little Fork and Rat Root Rivers from uncontrolled and unplanned development. The joint powers are Koochiching County and the City of Little Fork. Two County Commissioners and one elected city official comprise the membership of the Board.

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Little Fork and Rat Root River Board (Continued)

All projects were completed in 1995, and the Board was inactive during 2015. Any other information on this Board can be obtained from the Koochiching County Auditor's Office, 715 Fourth Street, International Falls, Minnesota 56649.

Northern Counties Land Use Coordinating Board

The Northern Counties Land Use Coordinating Board was established through a joint powers agreement, pursuant to Minn. Stat. § 471.59, for the purpose of helping to formulate land use plans for the protection, sustainable use, and development of lands and natural resources. The joint powers members are Aitkin, Cook, Itasca, Koochiching, Lake, Lake of the Woods, Pennington, Roseau, and St. Louis Counties. Three elected County Commissioners from St. Louis County and two from each of the other member counties comprise the membership of the Board. St. Louis County handles all the financial transactions for this organization through its Northern Counties Land Use Board Agency Fund.

Koochiching County contributed $2,000 in dues to the Land Use Coordinating Board for the year ended December 31, 2015. Complete financial information can be obtained from the Northern Counties Land Use Coordinating Board, St. Louis County Courthouse, 100 North 5th Avenue West, Suite 214, Duluth, Minnesota 55802.

Arrowhead Library System

The Arrowhead Library System was formed pursuant to Minn. Stat. § 134.20, effective January 1968, and includes Carlton, Cook, Itasca, Koochiching, Lake, Lake of the Woods, and St. Louis Counties. Control of the Library is vested in the Arrowhead Library Board, which is composed of 20 members with staggered terms made up of the following: 6 members from St. Louis County, 3 members from Itasca County, 2 members from each of the other member counties, and 1 member from the area at large. Koochiching County appropriated $44,646 to the Library for the year ended December 31, 2015.

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

C. Jointly-Governed Organizations

Koochiching County, in conjunction with other governmental entities and various private organizations, formed the jointly-governed organizations listed below:

Big Fork River Board

The Big Fork River Board was established through a joint powers agreement, pursuant to Minn. Stat. § 471.59, for the purpose of protecting the Big Fork River from uncontrolled and unplanned development. The joint powers are Koochiching and Itasca Counties and the Cities of Big Falls and Bigfork. The governing body of the Board is comprised of six members: two County Commissioners are appointed from each member county, and one elected city official is appointed from each member city. Koochiching County contributed $750 to the Big Fork River Board during 2015. Complete financial information can be obtained from the Itasca County Auditor/Treasurer, 123 Northeast Fourth Street, Grand Rapids, Minnesota 55744.

East Koochiching Sanitary Sewer District

The East Koochiching Sanitary Sewer District was established on March 22, 1982, for the purpose of billing and collecting revenues for sewage services to taxpayers in the portion of the North Koochiching Area Sanitary District not included in the International Falls, South International Falls, and Ranier municipalities. An eight-member Board, which includes a Koochiching County Commissioner, governs the District.

Koochiching County, in an agent capacity, reports the cash transactions of the East Koochiching Sanitary Sewer District as an agency fund on its financial statements. Complete financial information can be obtained from the Koochiching County Auditor-Treasurer's Office at 715 Fourth Street, International Falls, Minnesota 56649.

Economic Development Authority of Koochiching County

The Economic Development Authority of Koochiching County was created by 2000 Minn. Laws Chapter 484, Article 1, Section 2. Membership consists of two Koochiching County Commissioners, two members of the International Falls City Council, two residents of Koochiching County, and one state legislator representing Koochiching County.

6. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations

Economic Development Authority of Koochiching County (Continued)

The duties of the Authority are to hire economic development staff, establish economic development priorities for Koochiching County, and approve economic development projects for Koochiching County.

Koochiching County did not contribute during 2015 to the Economic Development Authority of Koochiching County. Complete financial information can be obtained from the Economic Development Authority, P. O. Box 138, International Falls, Minnesota 56649.

Joint County Natural Resources Board

The Joint County Natural Resources Board was formed in 1985 under the authority of the Joint Powers Act, pursuant to 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 policies for the development, utilization, and protection of natural resources in northern Minnesota, and to ensure that there is an interrelated plan for the use and protection of both public and private resources.

The Joint Counties Natural Resources Board is composed of at least one resident of each member county appointed by its respective County Board, as provided in the Joint Counties Natural Resources Board's bylaws. In the event of dissolution of the Joint County Natural Resources Board, the net position of the Natural Resources Board at that time will be distributed to the respective member counties in proportion to the contribution of each.

Financing is provided by appropriations from member counties. Koochiching County contributed $1,000 to the Joint County Natural Resources Board for the year ended December 31, 2015. Separate financial information can be obtained from the Natural Resources Board's Treasurer, 206 - 8th Avenue Southeast, Baudette, Minnesota 56623.

6. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations (Continued)

Koochiching County Family Services Collaborative

The Koochiching County Family Services Collaborative was established pursuant to Minn. Stat. § 124D.23. The Collaborative includes Koochiching County; several County agencies; KOOTASCA Community Action, Inc.; Arrowhead Regional Corrections; and Independent School District Nos. 361, 362, and 363. The purpose of this Collaborative is to improve the lives of families and children through efforts focused on prevention and early intervention. The Collaborative seeks to empower parents and families to solve their own problems through support, information, skill building, and advocacy.

Control of the Koochiching County Family Services Collaborative is vested in a Board of Directors. The County has four members on the Board. Financing is provided by state and federal grants, appropriations from the Collaborative members, and miscellaneous revenues. Koochiching County provided no funding to the Collaborative during 2015.

Koochiching County is the fiscal agent for the Collaborative, which is accounted for in its Agency Fund. Collaborative Agency Fund assets and liabilities were $206,379 as of December 31, 2015. Separate financial information can be obtained from the Koochiching County Community Services Office, 1000 Fifth Street, International Falls, Minnesota 56649.

KOOTASCA Community Action, Inc.

KOOTASCA Community Action, Inc., is a non-profit human service agency serving Itasca and Koochiching Counties in Northern Minnesota. KOOTASCA is governed by a 15-member Board, with 7 members appointed by Koochiching County and 8 members appointed by Itasca County, and serves low-income families connected to the community to get out of poverty by providing housing and Head Start programs and crisis services.

6. Summary of Significant Contingencies and Other Items

   C. Jointly-Governed Organizations (Continued)

   Rainy River/Rapid River Management Board

   The Rainy River/Rapid River Management Board was established on December 17, 1991, through a joint powers agreement, pursuant to Minn. Stat. § 471.59, for the purpose of protecting the Rainy and Rapid Rivers from uncontrolled and unplanned development. The joint powers are Koochiching and Lake of the Woods Counties. Two County Commissioners appointed by each County Board comprise the membership of the Board; however, representation from the Cities of Baudette and International Falls has been solicited.

   Any other information on this Board can be obtained from the Koochiching County Auditor-Treasurer's Office, 715 Fourth Street, International Falls, Minnesota 56649.

   D. Subsequent Event

   On October 24, 2017, the County approved the issuance of General Obligation Sewer Revenue Bonds, Series 2017A, in the amount of $3,530,000.

7. Housing and Redevelopment Authority - Discretely Presented Component Unit Disclosures

   A. Summary of Significant Accounting Policies

   The Housing and Redevelopment Authority (HRA) of Koochiching County is a component unit of Koochiching County and is reported in a separate column in the County's financial statements to emphasize that the HRA is a legally separate entity from Koochiching County. The HRA operates as a local government unit for the purpose of providing housing and redevelopment services to the local area. The governing body consists of a five-member Board appointed by the Koochiching County Board of Commissioners. The financial statements included are as of and for the year ended June 30, 2015.

   Deposits and Investments

   Investments are stated at fair value, except for nonnegotiable certificates of deposit, which are on a cost basis, and short-term money market investments, which are stated at amortized cost.

7. Housing and Redevelopment Authority - Discretely Presented Component Unit Disclosures

A. Summary of Significant Accounting Policies (Continued)

Prepaid Items

Prepaid expenses present the unexpired premium on insurance policies.

Capital Assets

All capital assets, which includes property, buildings, furniture, and equipment, are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized. Interest has not been capitalized during the construction period on property, plant, and equipment.

Depreciation is recorded using the straight-line method over the various lives of the assets, which range from three to ten years.

Vacation and Sick Leave

Full-time employees are granted vacation from 12 to 27 days per year based on longevity. Sick leave is one day per month for full-time employees, one-half day per month for the Executive Director, and one-quarter day per month for other part-time help.

Use of Estimates

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

B. Cash and Investments

State statutes and U.S. Department of Housing and Urban Development (HUD) regulations require that all HRA deposits be covered by insurance, surety bond, or collateral.

7. Housing and Redevelopment Authority - Discretely Presented Component Unit Disclosures

B. Cash and Investments (Continued)

Following is a summary of the deposits covered by insurance or collateral at June 30, 2015:

	Book Balance	Bank Balance
Covered Deposits		
Insured, or collateralized with securities held by the Authority or its agent in the Authority's name	$ 19,984	$ 20,330

C. Capital Assets

Capital asset activity for the year ended June 30, 2015, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Equipment and other	$ 11,076	$ 450	$ -	$ 11,526
Less: accumulated depreciation	11,076	8	(1)	11,083
Totals	$ -	$ 442	$ (1)	$ 443

D. Liabilities

Liabilities at June 30, 2015, consisted of the following:

Current liabilities	
Accounts payable	$ 352
Accrued payroll	3,301
Compensated absences - current	673
Total current liabilities	$ 4,326
Noncurrent liabilities	
Compensated absences - noncurrent	2,018
Total Liabilities	$ 6,344

7. Housing and Redevelopment Authority - Discretely Presented Component Unit Disclosures (Continued)

E. Compensated Absences Payable

Compensated absences activity for the year ended June 30, 2015, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated absences	$ 2,246	$ 445	$ -	$ 2,691	$ 673

F. Risk Management

The HRA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; workers' compensation claims; and natural disasters. Property and casualty and workers' compensation liabilities are insured. The HRA retains risk for the deductible portions of the insurance. The amounts of these deductibles are considered immaterial to the financial statements.

G. Pension Plan

The HRA has a Simplified Employee Pension (SEP) plan. The employees contributed $2,532 for the year.

H. Economic Dependency

The programs of the Authority are economically dependent on annual contributions and grants from HUD. Without those contributions and grants, the programs would operate at a loss.

REQUIRED SUPPLEMENTARY INFORMATION

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KOOCHICHING COUNTY
INTERNATIONAL FALLS, 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	$ 2,034,505	$ 2,034,505	$ 2,061,847	$ 27,342
Licenses and permits	11,000	11,000	68,948	57,948
Intergovernmental	2,867,785	2,896,985	3,246,839	349,854
Charges for services	249,000	249,000	234,363	(14,637)
Fines and forfeits	18,200	18,200	21,845	3,645
Gifts and contributions	6,850	6,850	9,860	3,010
Investment income	275,150	275,150	179,351	(95,799)
Miscellaneous	382,447	382,447	535,272	152,825
Total Revenues	**$ 5,844,937**	**$ 5,874,137**	**$ 6,358,325**	**$ 484,188**
Expenditures				
Current				
General government				
Commissioners	$ 277,678	$ 277,942	$ 251,248	$ 26,694
Court services	115,000	131,376	125,950	5,426
Law library	15,000	15,000	15,974	(974)
County administration	469,943	403,734	277,771	125,963
Auditor/treasurer	250,227	250,827	245,880	4,947
Assessor	413,808	414,336	408,471	5,865
Information systems	239,685	216,361	217,535	(1,174)
Central services	143,900	143,900	136,787	7,113
Payroll coordinator	70,551	70,551	69,917	634
Elections	8,000	19,168	30,248	(11,080)
Attorney	266,982	245,173	284,280	(39,107)
Recorder	225,129	232,607	240,844	(8,237)
Surveyor	55,500	55,500	53,213	2,287
Motor pool	35,800	35,800	29,483	6,317
Buildings and grounds	337,861	338,125	397,076	(58,951)
Veterans service officer	67,839	85,112	83,065	2,047
Insurance	106,232	120,132	211,722	(91,590)
Total general government	**$ 3,099,135**	**$ 3,055,644**	**$ 3,079,464**	**$ (23,820)**
Public safety				
Sheriff	$ 2,080,566	$ 2,083,884	$ 2,134,377	$ (50,493)
Boat and water safety	5,694	5,694	9,279	(3,585)
Snowmobile safety	4,644	4,644	465	4,179
Medical examiner	32,000	32,000	36,085	(4,085)
Arrowhead Regional Corrections	302,802	302,802	302,802	-
Emergency management	132,964	145,164	103,840	41,324
E-911	51,650	51,650	30,093	21,557
Other public safety	25,964	25,964	34,654	(8,690)
Total public safety	**$ 2,636,284**	**$ 2,651,802**	**$ 2,651,595**	**$ 207**

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

KOOCHICHING COUNTY
INTERNATIONAL FALLS, MINNESOTA

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)				
Culture and recreation				
Historical society	$ 76,000	$ 76,000	$ 76,000	$ -
Regional library	69,118	69,118	69,118	-
Snowmobile and ski trails	-	-	155,266	(155,266)
Total culture and recreation	**$ 145,118**	**$ 145,118**	**$ 300,384**	**$ (155,266)**
Conservation of natural resources				
County extension	$ 55,485	$ 55,485	$ 54,837	$ 648
Soil and water conservation	35,000	35,000	35,000	-
Humane society	12,000	12,000	12,000	-
County fair	31,000	31,000	31,000	-
Total conservation of natural resources	**$ 133,485**	**$ 133,485**	**$ 132,837**	**$ 648**
Economic development				
Koochiching County Economic Development Authority	$ 250,000	$ -	$ 96,259	$ (96,259)
Highway 53 Task Force	12,000	12,000	4,000	8,000
Housing and Redevelopment Authority	-	-	13,861	(13,861)
Littlefork Medical Center	1,000,000	1,000,000	553,741	446,259
Arrowhead Regional Development	128,100	128,100	100,193	27,907
Airport Commission	241,626	294,625	309,625	(15,000)
Total economic development	**$ 1,631,726**	**$ 1,434,725**	**$ 1,077,679**	**$ 357,046**
Capital outlay				
General government	$ 7,214	$ 61,300	$ 44,561	$ 16,739
Public safety	10,000	23,300	65,703	(42,403)
Total capital outlay	**$ 17,214**	**$ 84,600**	**$ 110,264**	**$ (25,664)**
Total Expenditures	**$ 7,662,962**	**$ 7,505,374**	**$ 7,352,223**	**$ 153,151**
Excess of Revenues Over (Under) Expenditures	**$ (1,818,025)**	**$ (1,631,237)**	**$ (993,898)**	**$ 637,339**

KOOCHICHING COUNTY
INTERNATIONAL FALLS, MINNESOTA

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
Other Financing Sources (Uses)				
Transfers in	$ 890,000	$ 890,000	$ 854,478	$ (35,522)
Transfers out	(25,000)	(15,000)	(145,523)	(130,523)
Total Other Financing Sources (Uses)	**$ 865,000**	**$ 875,000**	**$ 708,955**	**$ (166,045)**
Net Change in Fund Balance	**$ (953,025)**	**$ (756,237)**	**$ (284,943)**	**$ 471,294**
Fund Balance - January 1	**5,881,187**	**5,881,187**	**5,881,187**	**-**
Fund Balance - December 31	**$ 4,928,162**	**$ 5,124,950**	**$ 5,596,244**	**$ 471,294**

KOOCHICHING COUNTY
INTERNATIONAL FALLS, 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	$ 682,439	$ 682,439	$ 663,308	$ (19,131)
Intergovernmental	10,357,879	10,357,879	9,542,883	(814,996)
Charges for services	10,000	10,000	87,751	77,751
Miscellaneous	49,500	49,500	31,960	(17,540)
Total Revenues	**$ 11,099,818**	**$ 11,099,818**	**$ 10,325,902**	**$ (773,916)**
Expenditures				
Current				
Highways and streets				
Administration	$ 481,936	$ 491,446	$ 390,113	$ 101,333
Maintenance	1,382,947	1,375,435	1,405,852	(30,417)
Construction	9,084,457	9,084,985	11,122,516	(2,037,531)
Equipment, maintenance, and shop	457,970	458,234	420,311	37,923
Total highways and streets	**$ 11,407,310**	**$ 11,410,100**	**$ 13,338,792**	**$ (1,928,692)**
Capital outlay				
Highways and streets	235,000	235,000	229,944	5,056
Total Expenditures	**$ 11,642,310**	**$ 11,645,100**	**$ 13,568,736**	**$ (1,923,636)**
Excess of Revenues Over (Under) Expenditures	**$ (542,492)**	**$ (545,282)**	**$ (3,242,834)**	**$ (2,697,552)**
Other Financing Sources (Uses)				
Transfers in	200,000	200,000	202,370	2,370
Net Change in Fund Balance	**$ (342,492)**	**$ (345,282)**	**$ (3,040,464)**	**$ (2,695,182)**
Fund Balance - January 1	**6,678,459**	**6,678,459**	**6,678,459**	**-**
Increase (decrease) in inventories	**-**	**-**	**(321,992)**	**(321,992)**
Fund Balance - December 31	**$ 6,335,967**	**$ 6,333,177**	**$ 3,316,003**	**$ (3,017,174)**

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

KOOCHICHING COUNTY
INTERNATIONAL FALLS, MINNESOTA

EXHIBIT A-3

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

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 1,217,302	$ 1,210,302	$ 1,166,931	$ (43,371)
Intergovernmental	2,490,186	2,492,373	2,495,513	3,140
Charges for services	93,250	93,250	82,304	(10,946)
Miscellaneous	356,200	356,200	329,799	(26,401)
Total Revenues	**$ 4,156,938**	**$ 4,152,125**	**$ 4,074,547**	**$ (77,578)**
Expenditures				
Current				
Human services				
Income maintenance	$ 1,635,470	$ 1,635,470	$ 1,498,755	$ 136,715
Social services	2,880,344	2,880,344	2,908,202	(27,858)
Total Expenditures	**$ 4,515,814**	**$ 4,515,814**	**$ 4,406,957**	**$ 108,857**
Excess of Revenues Over (Under) Expenditures	**$ (358,876)**	**$ (363,689)**	**$ (332,410)**	**$ 31,279**
Other Financing Sources (Uses)				
Transfers in	63,689	63,689	63,689	-
Net Change in Fund Balance	**$ (295,187)**	**$ (300,000)**	**$ (268,721)**	**$ 31,279**
Fund Balance - January 1	**1,717,815**	**1,717,815**	**1,717,815**	**-**
Fund Balance - December 31	**$ 1,422,628**	**$ 1,417,815**	**$ 1,449,094**	**$ 31,279**

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

KOOCHICHING COUNTY
INTERNATIONAL FALLS, MINNESOTA

EXHIBIT A-4

BUDGETARY COMPARISON SCHEDULE
LAND AND FORESTRY SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2015

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Intergovernmental	$ 246,676	$ 246,676	$ 280,957	$ 34,281
Miscellaneous	990,694	990,694	2,369,550	1,378,856
Total Revenues	**$ 1,237,370**	**$ 1,237,370**	**$ 2,650,507**	**$ 1,413,137**
Expenditures				
Current				
Culture and recreation	$ 68,500	$ 68,500	$ 46,863	$ 21,637
Conservation of natural resources	1,155,878	1,155,878	1,236,008	(80,130)
Capital outlay				
Conservation of natural resources	37,500	37,500	24,901	12,599
Total Expenditures	**$ 1,261,878**	**$ 1,261,878**	**$ 1,307,772**	**$ (45,894)**
Excess of Revenues Over (Under) Expenditures	**$ (24,508)**	**$ (24,508)**	**$ 1,342,735**	**$ 1,367,243**
Other Financing Sources (Uses)				
Transfers in	$ -	$ -	$ 5,226	$ 5,226
Transfers out	(25,000)	(25,000)	(1,278,401)	(1,253,401)
Total Other Financing Sources (Uses)	**$ (25,000)**	**$ (25,000)**	**$ (1,273,175)**	**$ (1,248,175)**
Net Change in Fund Balance	**$ (49,508)**	**$ (49,508)**	**$ 69,560**	**$ 119,068**
Fund Balance - January 1, as restated (Note 1.E.)	**1,408,168**	**1,408,168**	**1,408,168**	**-**
Fund Balance - December 31	**$ 1,358,660**	**$ 1,358,660**	**$ 1,477,728**	**$ 119,068**

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

KOOCHICHING COUNTY
INTERNATIONAL FALLS, MINNESOTA

EXHIBIT A-5

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, 2011	$ -	$ 485,305	$ 485,305	-	$ 5,223,722	9.29%
January 1, 2014	-	498,303	498,303	-	5,360,867	9.30

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

KOOCHICHING COUNTY
INTERNATIONAL FALLS, MINNESOTA

EXHIBIT A-6

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
June 30, 2015	0.0868%	$ 4,498,426	$ 5,101,897	88.17%	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.

KOOCHICHING COUNTY
INTERNATIONAL FALLS, MINNESOTA

EXHIBIT A-7

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	$ 384,708	$ 384,708	$ -	$ 5,129,432	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.

KOOCHICHING COUNTY
INTERNATIONAL FALLS, MINNESOTA

EXHIBIT A-8

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
June 30, 2015	0.088%	$ 999,886	$ 807,014	123.90%	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.

KOOCHICHING COUNTY
INTERNATIONAL FALLS, MINNESOTA

EXHIBIT A-9

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	$ 133,531	$ 133,531	$ -	$ 824,268	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.

KOOCHICHING COUNTY
INTERNATIONAL FALLS, MINNESOTA

EXHIBIT A-10

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
June 30, 2015	0.24%	$ 37,104	$ 436,027	8.51%	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.

KOOCHICHING COUNTY
INTERNATIONAL FALLS, MINNESOTA

EXHIBIT A-11

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	$ 39,286	$ 39,286	$ -	$ 448,983	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.

KOOCHICHING COUNTY
INTERNATIONAL FALLS, MINNESOTA

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 accounting principles generally accepted in the United States of America for all governmental funds. All annual appropriations lapse at fiscal year-end.

In August of each year, all departments and agencies submit requests for appropriations to the County Administration Director so that a budget can be prepared. Beginning in September, the County Board conducts reviews of each budget line item with the respective budget authority or representative and prepares a final draft budget by November. The Board holds public hearings, and a final budget must be prepared and adopted no later than December 31.

The overall budget is prepared by fund, function, and department. Within the County's adopted budget policy, 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 (i.e., the level at which expenditures may not legally exceed appropriations) is the department level.

2. Excess of Expenditures Over Budget

The following departments had expenditures in excess of budget for the year ended December 31, 2015:

	Expenditures	Budget	Excess
General Fund			
Current			
General government			
Law library	$ 15,974	$ 15,000	$ 974
Information systems	217,535	216,361	1,174
Elections	30,248	19,168	11,080
Attorney	284,280	245,173	39,107
Recorder	240,844	232,607	8,237
Buildings and grounds	397,076	338,125	58,951
Insurance	211,722	120,132	91,590

2. Excess of Expenditures Over Budget (Continued)

	Expenditures	Budget	Excess
General Fund			
Current (Continued)			
Public safety			
Sheriff	2,134,377	2,083,884	50,493
Boat and water safety	9,279	5,694	3,585
Medical examiner	36,085	32,000	4,085
Other public safety	34,654	25,964	8,690
Culture and recreations			
Snowmobile and ski trails	155,266	-	155,266
Economic development			
Koochiching County Economic Development Authority	96,259	-	96,259
Housing and Redevelopment Authority	13,861	-	13,861
Airport Commission	309,625	294,625	15,000
Capital outlay			
Public safety	65,703	23,300	42,403
Road and Bridge Special Revenue Fund			
Current			
Highways and streets			
Maintenance	1,405,852	1,375,435	30,417
Construction	11,122,516	9,084,985	2,037,531
Community Services Special Revenue Fund			
Current			
Human services			
Social Services	2,908,202	2,880,344	27,858
Land and Forestry Special Revenue Fund			
Current			
Conservation of natural resources	1,236,008	1,155,878	80,130

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, 2011. See Note 4.C. to the financial statements for more information.

3. Other Postemployment Benefits Funding Status (Continued)

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.

Since Koochiching County has not irrevocably deposited funds in a trust for future health benefits, the actuarial value of assets to pay the actuarial liability for postemployment benefits is zero.

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SUPPLEMENTARY INFORMATION

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COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS

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NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

The County Development Fund accounts for and reports intergovernmental revenue restricted, committed, and assigned to various development purposes of the County.

The Environmental Services Fund accounts for and reports financial transactions restricted, committed, and assigned to various environmental services of the County.

The Koochiching Development Authority Fund accounts for and reports financial transactions restricted, committed, and assigned to various economic development activities of the Development Authority authorized by Minnesota Laws 1987, Chapter 182.

The Public Health Nursing Fund accounts for and reports all revenues assigned to various health and nursing services.

The Special Assessment Fund accounts for and reports all revenues restricted and committed for the maintenance and capital outlay of the West Koochiching water lines.

The Special Revenue Dedicated Fund accounts for all revenues restricted for aquatic invasive species prevention.

DEBT SERVICE FUND

The Wastewater Debt Service Fund accounts for and reports the financial resources that are restricted, committed, and assigned for the payment of long-term debt principal, interest, and related costs for the Jackfish Bay wastewater project.

CAPITAL PROJECTS FUND

The Capital Projects Fund accounts for and reports financial resources committed to the acquisition or construction of major capital assets.

KOOCHICHING COUNTY
INTERNATIONAL FALLS, MINNESOTA

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2015

	County Development	Environmental Services	Koochiching Development Authority
Assets			
Cash and pooled investments	$ 460,342	$ 1,012,643	$ 456,246
Taxes receivable			
Delinquent	-	4,568	-
Special assessments receivable			
Delinquent	-	51,317	-
Noncurrent	-	-	-
Accounts receivable	-	118,020	-
Accrued interest receivable	-	-	-
Due from other funds	-	202,369	39,184
Due from other governments	-	525	25,762
Total Assets	**$ 460,342**	**$ 1,389,442**	**$ 521,192**
Liabilities, Deferred Inflows of Resources, and Fund Balances			
Liabilities			
Accounts payable	$ 21	$ 22,019	$ 29,513
Salaries payable	-	18,267	-
Due to other funds	799	-	4,312
Due to other governments	-	26,439	-
Total Liabilities	**$ 820**	**$ 66,725**	**$ 33,825**
Deferred Inflows of Resources			
Unavailable revenue	**$ -**	**$ 85,957**	**$ 15,012**
Fund Balances			
Restricted	$ -	$ -	$ 2,508
Assigned	459,522	1,236,760	469,847
Total Fund Balances	**$ 459,522**	**$ 1,236,760**	**$ 472,355**
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	**$ 460,342**	**$ 1,389,442**	**$ 521,192**

EXHIBIT B-1

Special Revenue Funds											
Public Health Nursing		Special Assessment		Special Revenue Dedicated		Wastewater Debt Service Fund		Capital Projects Fund		Total	
$	231,531	$	70,767	$	128,547	$	92,030	$	42,868	$	2,494,974
	4,882		-		-		-		-		9,450
	-		-		-		2,653		-		53,970
	-		-		-		957,594		-		957,594
	8,937		-		-		-		-		126,957
	-		49		-		-		-		49
	432		-		-		-		-		241,985
	86,132		-		-		59,521		-		171,940
$	**331,914**	**$**	**70,816**	**$**	**128,547**	**$**	**1,111,798**	**$**	**42,868**	**$**	**4,056,919**
$	1,441	$	-	$	3,865	$	-	$	-	$	56,859
	25,835		-		-		-		-		44,102
	2,279		-		-		-		-		7,390
	-		-		-		-		-		26,439
$	**29,555**	**$**	**-**	**$**	**3,865**	**$**	**-**	**$**	**-**	**$**	**134,790**
$	**13,250**	**$**	**-**	**$**	**-**	**$**	**989,982**	**$**	**-**	**$**	**1,104,201**
$	-	$	-	$	124,682	$	121,816	$	-	$	249,006
	289,109		70,816		-		-		42,868		2,568,922
$	**289,109**	**$**	**70,816**	**$**	**124,682**	**$**	**121,816**	**$**	**42,868**	**$**	**2,817,928**
$	**331,914**	**$**	**70,816**	**$**	**128,547**	**$**	**1,111,798**	**$**	**42,868**	**$**	**4,056,919**

KOOCHICHING COUNTY
INTERNATIONAL FALLS, MINNESOTA

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

	County Development	Environmental Services	Koochiching Development Authority
Revenues			
Taxes	$ -	$ 90,850	$ -
Special assessments	-	475,087	-
Intergovernmental	174,061	83,209	620,315
Charges for services	-	523,508	-
Investment income	-	-	2,678
Miscellaneous	25,362	27,478	435
Total Revenues	**$ 199,423**	**$ 1,200,132**	**$ 623,428**
Expenditures			
Current			
Sanitation	$ -	$ 1,269,368	$ -
Health	-	-	-
Conservation of natural resources	-	131,599	-
Economic development	74,154	-	656,780
Debt service			
Principal	-	-	-
Interest	-	-	-
Total Expenditures	**$ 74,154**	**$ 1,400,967**	**$ 656,780**
Excess of Revenues Over (Under) Expenditures	**$ 125,269**	**$ (200,835)**	**$ (33,352)**
Other Financing Sources (Uses)			
Transfers in	$ -	$ 212,809	$ 39,184
Transfers out	(20,000)	-	(30,472)
Total Other Financing Sources (Uses)	**$ (20,000)**	**$ 212,809**	**$ 8,712**
Net Change in Fund Balance	**$ 105,269**	**$ 11,974**	**$ (24,640)**
Fund Balance - January 1	**354,253**	**1,224,786**	**496,995**
Fund Balance - December 31	**$ 459,522**	**$ 1,236,760**	**$ 472,355**

Special Revenue Funds: Public Health Nursing	Special Revenue Funds: Special Assessment	Special Revenue Funds: Special Revenue Dedicated	Wastewater Debt Service Fund	Capital Projects Fund	Total
$ 97,830	$ -	$ -	$ -	$ -	$ 188,680
-	-	-	100,748	-	575,835
472,396	-	108,805	-	-	1,458,786
202,705	-	-	104,454	-	830,667
-	109	-	860	-	3,647
11,287	-	-	-	-	64,562
$ 784,218	**$ 109**	**$ 108,805**	**$ 206,062**	**$ -**	**$ 3,122,177**
$ -	$ -	$ -	$ -	$ -	$ 1,269,368
793,046	-	-	-	-	793,046
-	-	17,420	-	-	149,019
-	-	-	-	-	730,934
-	-	-	226,000	-	226,000
-	-	-	26,110	-	26,110
$ 793,046	**$ -**	**$ 17,420**	**$ 252,110**	**$ -**	**$ 3,194,477**
$ (8,828)	**$ 109**	**$ 91,385**	**$ (46,048)**	**$ -**	**$ (72,300)**
$ 81,834	$ -	$ -	$ -	$ 30,472	$ 364,299
-	-	(15,666)	-	-	(66,138)
$ 81,834	**$ -**	**$ (15,666)**	**$ -**	**$ 30,472**	**$ 298,161**
$ 73,006	**$ 109**	**$ 75,719**	**$ (46,048)**	**$ 30,472**	**$ 225,861**
216,103	**70,707**	**48,963**	**167,864**	**12,396**	**2,592,067**
$ 289,109	**$ 70,816**	**$ 124,682**	**$ 121,816**	**$ 42,868**	**$ 2,817,928**

KOOCHICHING COUNTY
INTERNATIONAL FALLS, MINNESOTA

EXHIBIT B-3

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

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Intergovernmental	$ 110,825	$ 110,825	$ 174,061	$ 63,236
Miscellaneous	-	-	25,362	25,362
Total Revenues	**$ 110,825**	**$ 110,825**	**$ 199,423**	**$ 88,598**
Expenditures				
Current				
Economic development	90,825	90,825	74,154	16,671
Excess of Revenues Over (Under) Expenditures	**$ 20,000**	**$ 20,000**	**$ 125,269**	**$ 105,269**
Other Financing Sources (Uses)				
Transfers out	(20,000)	(20,000)	(20,000)	-
Net Change in Fund Balance	**$ -**	**$ -**	**$ 105,269**	**$ 105,269**
Fund Balance - January 1	**354,253**	**354,253**	**354,253**	**-**
Fund Balance - December 31	**$ 354,253**	**$ 354,253**	**$ 459,522**	**$ 105,269**

KOOCHICHING COUNTY
INTERNATIONAL FALLS, MINNESOTA

EXHIBIT B-4

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

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 94,006	$ 94,006	$ 90,850	$ (3,156)
Special assessments	470,000	470,000	475,087	5,087
Intergovernmental	147,173	147,173	83,209	(63,964)
Charges for services	485,600	485,600	523,508	37,908
Miscellaneous	35,000	35,000	27,478	(7,522)
Total Revenues	**$ 1,231,779**	**$ 1,231,779**	**$ 1,200,132**	**$ (31,647)**
Expenditures				
Current				
Sanitation	$ 1,383,431	$ 1,383,431	$ 1,269,368	$ 114,063
Conservation of natural resources	130,401	130,401	131,599	(1,198)
Total Expenditures	**$ 1,513,832**	**$ 1,513,832**	**$ 1,400,967**	**$ 112,865**
Excess of Revenues Over (Under) Expenditures	**$ (282,053)**	**$ (282,053)**	**$ (200,835)**	**$ 81,218**
Other Financing Sources (Uses)				
Transfers in	200,000	200,000	212,809	12,809
Net Change in Fund Balance	**$ (82,053)**	**$ (82,053)**	**$ 11,974**	**$ 94,027**
Fund Balance - January 1	**1,224,786**	**1,224,786**	**1,224,786**	**-**
Fund Balance - December 31	**$ 1,142,733**	**$ 1,142,733**	**$ 1,236,760**	**$ 94,027**

KOOCHICHING COUNTY
INTERNATIONAL FALLS, MINNESOTA

EXHIBIT B-5

BUDGETARY COMPARISON SCHEDULE
KOOCHICHING DEVELOPMENT AUTHORITY SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2015

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Intergovernmental	$ -	$ -	$ 620,315	$ 620,315
Investment income	600	600	2,678	2,078
Miscellaneous	1,000	1,000	435	(565)
Total Revenues	**$ 1,600**	**$ 1,600**	**$ 623,428**	**$ 621,828**
Expenditures				
Current				
Economic development	294,853	294,853	656,780	(361,927)
Excess of Revenues Over (Under) Expenditures	**$ (293,253)**	**$ (293,253)**	**$ (33,352)**	**$ 259,901**
Other Financing Sources (Uses)				
Transfers in	$ 40,000	$ 40,000	$ 39,184	$ (816)
Transfers out	(30,472)	(30,472)	(30,472)	-
Total Other Financing Sources (Uses)	**$ 9,528**	**$ 9,528**	**$ 8,712**	**$ (816)**
Net Change in Fund Balance	**$ (283,725)**	**$ (283,725)**	**$ (24,640)**	**$ 259,085**
Fund Balance - January 1	**496,995**	**496,995**	**496,995**	**-**
Fund Balance - December 31	**$ 213,270**	**$ 213,270**	**$ 472,355**	**$ 259,085**

KOOCHICHING COUNTY
INTERNATIONAL FALLS, MINNESOTA

EXHIBIT B-6

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

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 101,055	$ 101,055	$ 97,830	$ (3,225)
Intergovernmental	414,616	414,616	472,396	57,780
Charges for services	185,555	185,555	202,705	17,150
Miscellaneous	15,000	15,000	11,287	(3,713)
Total Revenues	**$ 716,226**	**$ 716,226**	**$ 784,218**	**$ 67,992**
Expenditures				
Current				
Health	798,060	798,060	793,046	5,014
Excess of Revenues Over (Under) Expenditures	**$ (81,834)**	**$ (81,834)**	**$ (8,828)**	**$ 73,006**
Other Financing Sources (Uses)				
Transfers in	81,834	81,834	81,834	-
Net Change in Fund Balance	**$ -**	**$ -**	**$ 73,006**	**$ 73,006**
Fund Balance - January 1	**216,103**	**216,103**	**216,103**	**-**
Fund Balance - December 31	**$ 216,103**	**$ 216,103**	**$ 289,109**	**$ 73,006**

KOOCHICHING COUNTY
INTERNATIONAL FALLS, MINNESOTA

EXHIBIT B-7

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

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Intergovernmental	$ 108,805	$ 108,805	$ 108,805	$ -
Expenditures				
Current				
Conservation of natural resources	157,768	157,768	17,420	140,348
Excess of Revenues Over (Under) Expenditures	**$ (48,963)**	**$ (48,963)**	**$ 91,385**	**$ 140,348**
Other Financing Sources (Uses)				
Transfers out	-	-	(15,666)	(15,666)
Net Change in Fund Balance	**$ (48,963)**	**$ (48,963)**	**$ 75,719**	**$ 124,682**
Fund Balance - January 1	**48,963**	**48,963**	**48,963**	**-**
Fund Balance - December 31	**$ -**	**$ -**	**$ 124,682**	**$ 124,682**

KOOCHICHING COUNTY
INTERNATIONAL FALLS, MINNESOTA

EXHIBIT B-8

BUDGETARY COMPARISON SCHEDULE
WASTEWATER DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2015

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Special assessments	$ 106,400	$ 101,400	$ 100,748	$ (652)
Charges for services	125,000	125,000	104,454	(20,546)
Investment income	1,000	1,700	860	(840)
Total Revenues	**$ 232,400**	**$ 228,100**	**$ 206,062**	**$ (22,038)**
Expenditures				
Debt service				
Principal	$ 226,000	$ 226,000	$ 226,000	$ -
Interest	26,110	26,110	26,110	-
Total Expenditures	**$ 252,110**	**$ 252,110**	**$ 252,110**	**$ -**
Net Change in Fund Balance	**$ (19,710)**	**$ (24,010)**	**$ (46,048)**	**$ (22,038)**
Fund Balance - January 1	**167,864**	**167,864**	**167,864**	**-**
Fund Balance - December 31	**$ 148,154**	**$ 143,854**	**$ 121,816**	**$ (22,038)**

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FIDUCIARY FUNDS

AGENCY FUNDS

The Ambulance District Agency Fund is used to account for the collection and payment of funds due to the Ambulance District.

The Arrowhead Regional Development Commission Agency Fund is used to account for the collection and payment of funds due to the Arrowhead Regional Development Commission.

The Assurance Agency Fund is used to account for the collection and distribution of assurance funds.

The Bigfork Hospital District Agency Fund is used to account for the collection and payment of funds due to the Bigfork Hospital District.

The Dialysis Study Agency Fund is used to account for the collection and distribution of dialysis study funds.

The East Koochiching Sanitary District Agency Fund is used to account for the collection and payment of funds due to the East Koochiching Sanitary District.

The Family Services Collaborative Agency Fund is used to account for the receipt and disbursements of funds due to the Family Services Collaborative.

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

The Gun Permits Agency Fund is used to account for the collection and distribution of funds for gun permits. During 2015, the gun permit activity was reclassified and reported in the General Fund.

The Littlefork Medical Center District Agency Fund is used to account for the receipts and distribution of funds for the Littlefork Medical Center District.

The Lodging Tax Agency Fund is used to account for the collection and distribution of lodging taxes.

AGENCY FUNDS
(Continued)

The Mortgage Registration Tax Agency Fund is used to account for the collection and distribution of mortgage registration taxes.

The Northome First Responders Agency Fund is used to account for the collection and payment of funds due to the Northome First Responders.

The Police and Fire Relief Agency Fund is used to account for the receipt and disbursement of funds for the police and fire relief associations.

The Rainy River First Responders Agency Fund is used to account for the collection and payment of funds due to the Rainy River First Responders.

The Recorder Surcharges Agency Fund is used to account for the collection and distribution of Recorder surcharges.

The Red Lake Watershed District Agency Fund is used to account for the collection and payment of funds due to the Red Lake Watershed District.

The Regional Mental Health Agency Fund is used to account for the collection and distribution of mental health funds.

The Rural Fire Service Agency Fund is used to account for the collection and distribution of rural fire service funds.

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

The State Deed Tax Agency Fund is used to account for the collection and distribution of state deed taxes.

The State General Tax Agency Fund is used to account for the collection and payment of funds due to the State of Minnesota.

The Substance Abuse Agency Fund is used to account for the collection and payment of substance abuse funds.

AGENCY FUNDS
(Continued)

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

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

The Universal Home Visiting Agency Fund is used to account for the collection and payment of funds due to various health agencies.

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KOOCHICHING COUNTY
INTERNATIONAL FALLS, 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
AMBULANCE DISTRICT				
Assets				
Cash and pooled investments	$ 633	$ 60,276	$ 56,835	$ 4,074
Liabilities				
Due to other governments	$ 633	$ 60,276	$ 56,835	$ 4,074
ARROWHEAD REGIONAL DEVELOPMENT COMMISSION				
Assets				
Cash and pooled investments	$ 447	$ 18,116	$ 18,156	$ 407
Liabilities				
Due to other governments	$ 447	$ 18,116	$ 18,156	$ 407
ASSURANCE				
Assets				
Cash and pooled investments	$ 3	$ 30	$ 30	$ 3
Liabilities				
Due to other governments	$ 3	$ 30	$ 30	$ 3

KOOCHICHING COUNTY
INTERNATIONAL FALLS, 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
BIGFORK HOSPITAL DISTRICT				
Assets				
Cash and pooled investments	$ 268	$ 9,918	$ 9,938	$ 248
Liabilities				
Due to other governments	$ 268	$ 9,918	$ 9,938	$ 248
DIALYSIS STUDY				
Assets				
Cash and pooled investments	$ 16,106	$ 450	$ 6,362	$ 10,194
Liabilities				
Due to other governments	$ 16,106	$ 450	$ 6,362	$ 10,194
EAST KOOCHICHING SANITARY DISTRICT				
Assets				
Cash and pooled investments	$ 1,852	$ 92,503	$ 91,633	$ 2,722
Liabilities				
Due to other governments	$ 1,852	$ 92,503	$ 91,633	$ 2,722

KOOCHICHING COUNTY
INTERNATIONAL FALLS, 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
FAMILY SERVICES COLLABORATIVE				
Assets				
Cash and pooled investments	**$ 217,457**	**$ 28,505**	**$ 39,583**	**$ 206,379**
Liabilities				
Due to other governments	**$ 217,457**	**$ 28,505**	**$ 39,583**	**$ 206,379**
FIRE DISTRICTS				
Assets				
Cash and pooled investments	$ (14,133)	$ 143,273	$ 122,746	$ 6,394
Due from other governments	14,133	-	14,133	-
Total Assets	**$ -**	**$ 143,273**	**$ 136,879**	**$ 6,394**
Liabilities				
Due to other governments	**$ -**	**$ 143,273**	**$ 136,879**	**$ 6,394**
GUN PERMITS				
Assets				
Cash and pooled investments	**$ 43,783**	**$ 15,905**	**$ 59,688**	**$ -**
Liabilities				
Due to other governments	**$ 43,783**	**$ 15,905**	**$ 59,688**	**$ -**

KOOCHICHING COUNTY
INTERNATIONAL FALLS, 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
LITTLEFORK MEDICAL CENTER DISTRICT				
Assets				
Cash and pooled investments	$ -	$ 97,331	$ 89,921	$ 7,410
Liabilities				
Due to other governments	$ -	$ 97,331	$ 89,921	$ 7,410
LODGING TAX				
Assets				
Cash and pooled investments	$ 280	$ 51,359	$ 51,358	$ 281
Liabilities				
Due to other governments	$ 280	$ 51,359	$ 51,358	$ 281
MORTGAGE REGISTRATION TAX				
Assets				
Cash and pooled investments	$ 2,473	$ 121,191	$ 110,419	$ 13,245
Liabilities				
Due to other governments	$ 2,473	$ 121,191	$ 110,419	$ 13,245

KOOCHICHING COUNTY
INTERNATIONAL FALLS, 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
NORTHOME FIRST RESPONDERS				
Assets				
Cash and pooled investments	**$ 1,236**	**$ 6,869**	**$ 7,263**	**$ 842**
Liabilities				
Due to other governments	**$ 1,236**	**$ 6,869**	**$ 7,263**	**$ 842**
POLICE AND FIRE RELIEF				
Assets				
Cash and pooled investments	**$ -**	**$ 79,091**	**$ 79,091**	**$ -**
Liabilities				
Due to other governments	**$ -**	**$ 79,091**	**$ 79,091**	**$ -**
RAINY RIVER FIRST RESPONDERS				
Assets				
Cash and pooled investments	$ (58)	$ 9,946	$ 8,818	$ 1,070
Due from other governments	58	-	58	-
Total Assets	**$ -**	**$ 9,946**	**$ 8,876**	**$ 1,070**
Liabilities				
Due to other governments	**$ -**	**$ 9,946**	**$ 8,876**	**$ 1,070**

KOOCHICHING COUNTY
INTERNATIONAL FALLS, 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
RECORDER SURCHARGES				
Assets				
Cash and pooled investments	$ 2,842	$ 41,278	$ 40,695	$ 3,425
Liabilities				
Due to other governments	$ 2,842	$ 41,278	$ 40,695	$ 3,425
RED LAKE WATERSHED DISTRICT				
Assets				
Cash and pooled investments	$ 1,795	$ 16,407	$ 17,269	$ 933
Liabilities				
Due to other governments	$ 1,795	$ 16,407	$ 17,269	$ 933
REGIONAL MENTAL HEALTH				
Assets				
Cash and pooled investments	$ 51,468	$ -	$ 51,468	$ -
Liabilities				
Accounts payable	$ 51,468	$ -	$ 51,468	$ -

KOOCHICHING COUNTY
INTERNATIONAL FALLS, 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
RURAL FIRE SERVICE				
Assets				
Cash and pooled investments	$ 957	$ 25,278	$ 24,725	$ 1,510
Liabilities				
Accounts payable	$ 957	$ 25,278	$ 24,725	$ 1,510
SCHOOL DISTRICTS				
Assets				
Cash and pooled investments	$ 87,236	$ 3,715,210	$ 3,744,009	$ 58,437
Liabilities				
Due to other governments	$ 87,236	$ 3,715,210	$ 3,744,009	$ 58,437
STATE DEED TAX				
Assets				
Cash and pooled investments	$ 3,357	$ 126,697	$ 117,805	$ 12,249
Liabilities				
Due to other governments	$ 3,357	$ 126,697	$ 117,805	$ 12,249

KOOCHICHING COUNTY
INTERNATIONAL FALLS, 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 GENERAL TAX				
Assets				
Cash and pooled investments	$ -	$ 1,398,563	$ 1,383,669	$ 14,894
Liabilities				
Due to other governments	$ -	$ 1,398,563	$ 1,383,669	$ 14,894
SUBSTANCE ABUSE				
Assets				
Cash and pooled investments	$ 177	$ -	$ 160	$ 17
Liabilities				
Due to other governments	$ 177	$ -	$ 160	$ 17
TAXES AND PENALTIES				
Assets				
Cash and pooled investments	$ 14,248	$ 15,831,787	$ 15,846,035	$ -
Liabilities				
Due to other governments	$ 14,248	$ 15,831,787	$ 15,846,035	$ -

KOOCHICHING COUNTY
INTERNATIONAL FALLS, 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
TOWNS AND CITIES				
Assets				
Cash and pooled investments	**$ 30,153**	**$ 2,602,343**	**$ 2,601,550**	**$ 30,946**
Liabilities				
Due to other governments	**$ 30,153**	**$ 2,602,343**	**$ 2,601,550**	**$ 30,946**
UNIVERSAL HOME VISITING				
Assets				
Cash and pooled investments	**$ 31**	**$ 96,679**	**$ 96,710**	**$ -**
Liabilities				
Due to other governments	**$ 31**	**$ 96,679**	**$ 96,710**	**$ -**
TOTAL ALL AGENCY FUNDS				
Assets				
Cash and pooled investments	$ 462,611	$ 24,589,005	$ 24,675,936	$ 375,680
Due from other governments	14,191	-	14,191	-
Total Assets	**$ 476,802**	**$ 24,589,005**	**$ 24,690,127**	**$ 375,680**
Liabilities				
Accounts payable	$ 52,425	$ 25,278	$ 76,193	$ 1,510
Due to other governments	424,377	24,563,727	24,613,934	374,170
Total Liabilities	**$ 476,802**	**$ 24,589,005**	**$ 24,690,127**	**$ 375,680**

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OTHER SCHEDULES

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KOOCHICHING COUNTY
INTERNATIONAL FALLS, MINNESOTA

EXHIBIT D-1

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

Appropriations and Shared Revenue		
State		
Highway users tax	$	8,903,269
County program aid		751,589
Market value credit		59,144
PERA rate reimbursement		28,068
Disparity reduction aid		150,898
Police aid		71,182
Aquatic invasive species		108,805
Select Committee on Recycling and the Environment (SCORE)		69,692
E-911		85,466
Total appropriations and shared revenue	**$**	**10,228,113**
Reimbursement for Services		
State		
Minnesota Department of Human Services	**$**	**438,936**
Local		
Local contributions	$	5,324
Payments in lieu of taxes		2,383,660
Total local	**$**	**2,388,984**
Total reimbursement for services	**$**	**2,827,920**
Grants		
State		
Minnesota Department/Board of		
Corrections	$	7,983
Public Safety		71,713
Health		116,627
Human Services		645,893
Iron Range Resources and Rehabilitation Board		288,777
Natural Resources		260,075
Veterans Affairs		10,000
Peace Officer Standards and Training Board		3,998
Pollution Control Agency		47,679
Total state	**$**	**1,452,745**

KOOCHICHING COUNTY
INTERNATIONAL FALLS, MINNESOTA

EXHIBIT D-1
(Continued)

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

Grants (Continued)		
Federal		
Department of		
Agriculture	$	197,935
Interior		12,166
Justice		3,677
Labor		978
Transportation		306,784
Energy		380,118
Education		3,254
Health and Human Services		1,287,114
Homeland Security		324,174
Total federal	**$**	**2,516,200**
Total state and federal grants	**$**	**3,968,945**
Total Intergovernmental Revenue	**$**	**17,024,978**

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	Passed Through to Subrecipients
U.S. Department of Agriculture				
Passed Through Aitkin-Itasca-Koochiching Community Health Services Board				
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	Not provided	$ 50,630	$ -
Passed Through Minnesota Department of Human Services				
SNAP Cluster				
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	15152MN101S2514	150,999	-
Passed Through Minnesota Department of Finance - Nonoperating				
Forest Service Schools and Roads Cluster				
Schools and Roads - Grants to States	10.665	Not provided	51	-
Total U.S. Department of Agriculture			**$ 201,680**	**$ -**
U.S. Department of Interior				
Direct				
Payments in Lieu of Taxes	15.226	Not applicable	**$ 12,166**	**$ -**
U.S. Department of Justice				
Direct				
Bulletproof Vest Partnership Program	16.607	Not applicable	**$ 3,677**	**$ -**
U.S. Department of Labor				
Passed Through Minnesota Department of Employment and Economic Development (DEED)				
Trade Adjustment Assistance	17.245	Not provided	**$ 978**	**$ -**
U.S. Department of Transportation				
Passed Through Minnesota Department of Transportation				
Highway Planning and Construction Cluster				
Highway Planning and Construction	20.205	00036	$ 810,602	$ -
Passed Through Minnesota Department of Natural Resources				
Highway Planning and Construction Cluster				
Recreational Trails Program	20.219	88905	11,167	-
Passed Through City of Virginia, Minnesota				
Highway Safety Cluster				
State and Community Highway Safety	20.600	Not provided	451	-
National Priority Safety Programs	20.616	Not provided	1,132	-
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	Not provided	3,338	-
Total U.S. Department of Transportation			**$ 826,690**	**$ -**

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	Passed Through to Subrecipients
U.S. Department of Energy				
Direct				
Renewable Energy Research and Development	81.087	Not applicable	**$ 395,130**	**$ 161,368**
U.S. Department of Education				
Passed Through Aitkin-Itasca-Koochiching Community Health Services Board				
Special Education - Grants for Infants and Families	84.181	Not provided	**$ 3,254**	**$ -**
U.S. Department of Health and Human Services				
Direct				
Rural Health Care Services Outreach, Rural Health Network Development and Small Health Care Provider Quality Improvement Program	93.912	Not applicable	$ 57,705	$ 40,422
Passed Through Aitkin-Itasca-Koochiching Community Health Services Board				
Public Health Emergency Preparedness	93.069	Not provided	26,452	-
Universal Newborn Hearing Screening	93.251	Not provided	400	-
Early Hearing Detection and Intervention Information System (EHDI-IS) Surveillance Program	93.314	Not provided	75	-
TANF Cluster				
Temporary Assistance for Needy Families (Total Temporary Assistance for Needy Families CFDA 93.558 $178,519)	93.558	Not provided	36,615	-
Maternal and Child Health Services Block Grant to the States	93.994	Not provided	29,248	-
Passed Through Minnesota Department of Human Services				
Promoting Safe and Stable Families	93.556	1401MNFPSS	4,299	-
TANF Cluster				
Temporary Assistance for Needy Families (Total Temporary Assistance for Needy Families CFDA 93.558 $178,519)	93.558	1502MNTANF	141,904	-
Child Support Enforcement	93.563	1504MN4005	342,463	-
Refugee and Entrant Assistance - State Administered Programs	93.566	1501MNRCMA	38	-
CCDF Cluster				
Child Care and Development Block Grant	93.575	G1501MNCCDF	5,230	-
Community-Based Child Abuse Prevention Grants	93.590	1302MNFRPG	128	-
Stephanie Tubbs Jones Child Welfare Services Program	93.645	1401MNCWSS	2,833	-
Foster Care - Title IV-E	93.658	1501MNFOST	70,951	-
Social Services Block Grant	93.667	1501MNSOSR	125,015	-
Chafee Foster Care Independence Program	93.674	1401MN1420	5,865	-
Children's Health Insurance Program	93.767	1405MN5021	71	-
Medicaid Cluster				
Medical Assistance Program	93.778	1505MN5ADM	448,622	-
Total U.S. Department of Health and Human Services			**$ 1,297,914**	**$ 40,422**

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

KOOCHICHING COUNTY
INTERNATIONAL FALLS, MINNESOTA

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	Passed Through to Subrecipients
U.S. Department of Homeland Security				
Passed Through Minnesota Department of Natural Resources				
Boating Safety Financial Assistance	97.012	R29G4CGSFY15	$ 4,752	$ -
Passed Through Minnesota Department of Public Safety				
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	DR-4182-MN	272,920	-
Hazard Mitigation Grant	97.039	FEMA-4069-DR-MN	9,150	-
Emergency Management Performance Grants	97.042	A-EMPG-2015-KOOCHCO-00037	15,629	-
Homeland Security Grant Program (Total Homeland Security Grant Program CFDA 97.067 $93,252)	97.067	A-OSGP-2013-KOOCHCO-00003	76,117	-
Passed Through Northeast Minnesota Regional Radio Board				
Homeland Security Grant Program (Total Homeland Security Grant Program CFDA 97.067 $93,252)	97.067	Not provided	17,135	-
Total U.S. Department of Homeland Security			**$ 395,703**	**$ -**
Total Federal Awards			**$ 3,137,192**	**$ 201,790**

Totals by Cluster	
Total expenditures for SNAP Cluster	$ 150,999
Total expenditures for Forest Service Schools and Roads Cluster	51
Total expenditures for Highway Planning and Construction Cluster	821,769
Total expenditures for Highway Safety Cluster	1,583
Total expenditures for TANF Cluster	178,519
Total expenditures for CCDF Cluster	5,230
Total expenditures for Medicaid Cluster	448,622

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

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KOOCHICHING COUNTY
INTERNATIONAL FALLS, 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 Koochiching County. The County's reporting entity is defined in Note 1 to the financial statements. Koochiching County's financial statements include the operations of the Housing and Redevelopment Authority (HRA) of Koochiching County component unit, which expended $484,565 in federal awards during the year ended June 30, 2015, which are not included in the Schedule of Expenditures of Federal Awards because the HRA was audited by other auditors.

2. Basis of Presentation

   The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Koochiching 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 Koochiching County, it is not intended to and does not present the financial position or changes in net position of Koochiching 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. Koochiching County has elected to not use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

4. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	$	2,516,200
Grants received more than 60 days after year-end, unavailable in 2015		
Special Supplemental Nutrition Program for Women, Infants, and Children		3,745
Highway Planning and Construction		519,906
Renewable Energy Research and Development		15,012
Child Support Enforcement		10,800
Disaster Grants - Public Assistance (Presidentially Declared Disasters)		65,756
Homeland Security Grant Program		5,773
Expenditures Per Schedule of Expenditures of Federal Awards	$	3,137,192

Management and Compliance Section

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STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

REBECCA OTTO
STATE AUDITOR

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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
Koochiching County
International Falls, 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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Koochiching 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 June 19, 2018. Our report includes references to other auditors who audited the financial statements of the Housing and Redevelopment Authority of Koochiching County as of and for the year ended June 30, 2015, a discretely presented component unit, and the International Falls - Koochiching County Airport Commission joint venture, as described in our report on Koochiching County's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Koochiching 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 2015-004 and 2015-005 to be material weaknesses and items 2008-001, 2008-002, 2015-001 through 2015-003, and 2015-006 through 2015-009 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Koochiching 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 Koochiching 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 2015-017 through 2015-024. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the County's noncompliance with the above referenced provisions.

Other Matters

Included in the Schedule of Findings and Questioned Costs are management practices comments. We believe these recommendations and information to be of benefit to the County, and they are reported for that purpose.

Koochiching County's Response to Findings

Koochiching 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/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

June 19, 2018

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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
Koochiching County
International Falls, Minnesota

Report on Compliance for Each Major Federal Program

We have audited Koochiching 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 each of the County's major federal programs for the year ended December 31, 2015. Koochiching County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Koochiching County's basic financial statements include the operations of the Housing and Redevelopment Authority (HRA) of Koochiching County component unit, which expended $484,565 in federal awards during the year ended June 30, 2015, which are not included in the Schedule of Expenditures of Federal Awards. Our audit, described below, did not include the operations of the HRA of Koochiching County because the HRA of Koochiching County was audited by other auditors.

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 each of Koochiching County's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the

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 Koochiching County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the County's compliance with those requirements.

Basis for Qualified Opinions on the Highway Planning and Construction Cluster (CFDA Nos. 20.205 and 20.219) and the Medicaid Cluster (CFDA No. 93.778)

As described in the accompanying Schedule of Findings and Questioned Costs, Koochiching County did not comply with requirements regarding CFDA Nos. 20.205 and 20.219 Highway Planning and Construction Cluster as described in finding number 2015-010 for Procurement, Suspension, and Debarment, and finding number 2015-016 for Identification of Federal Awards. In addition, Koochiching County did not comply with requirements regarding CFDA No. 93.778 Medicaid Cluster as described in finding numbers 2015-010 and 2015-014 for Procurement, Suspension, and Debarment; finding number 2015-012 for Eligibility; finding number 2015-013 for Cash Management and Reporting; and finding number 2015-016 for Identification of Federal Awards. Compliance with such requirements is necessary, in our opinion, for the County to comply with the requirements applicable to those programs.

Qualified Opinion on the Highway Planning and Construction Cluster (CFDA Nos. 20.205 and 20.219) and Medicaid Cluster (CFDA No. 93.778)

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

Unmodified Opinion on the Other Major Federal Program

In our opinion, Koochiching County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its other major federal program identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs for the year ended December 31, 2015.

Koochiching County's responses to the noncompliance findings identified in our audit are described in the accompanying Corrective Action Plan. Koochiching County's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control Over Compliance

Management of Koochiching County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

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 certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

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 deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2015-010, 2015-012, 2015-013, 2015-014, and 2015-016 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit the attention of those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2015-011 and 2015-015 to be significant deficiencies.

Koochiching County's responses to the internal control over compliance findings identified in our audit are described in the accompanying Corrective Action Plan. Koochiching County's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

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/Rebecca Otto	*/s/Greg Hierlinger*
REBECCA OTTO STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

June 19, 2018

KOOCHICHING COUNTY
INTERNATIONAL FALLS, 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 programs:

- Material weaknesses identified? **Yes**
- Significant deficiencies identified? **Yes**

Type of auditor's report issued on compliance for major federal programs: **Unmodified, except for the Highway Planning and Construction Cluster and the Medicaid Cluster, which are qualified.**

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

The major federal programs are:

Highway Planning and Construction Cluster	
Highway Planning and Construction	CFDA No. 20.205
Recreational Trails Program	CFDA No. 20.219
Renewable Energy Research and Development	CFDA No. 81.087
Medicaid Cluster	CFDA No. 93.778

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

Koochiching 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 2008-001

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 implemented.

Condition: The limited number of personnel within several Koochiching County offices results in a lack of segregation of accounting duties necessary to ensure adequate internal accounting control. Based on a review of the County departments that collect fees, including Environmental Services, Recorder, Public Health, Community Services, Social Welfare, Auditor/Treasurer, Sheriff, and Jail, there are generally one or two staff persons who are responsible for billing, collecting, recording, reconciling, and depositing receipts, as well as reconciling bank accounts. In addition, the following issues were noted:

- Independent reviews of the monthly bank reconciliations are not being performed for checking accounts in the Auditor/Treasurer and Sheriff's offices.
- Receipts can be voided in the receipting system by anyone who has access to the receipting system.
- The Auditor/Treasurer's office does not reconcile the receipting system to collections on a daily basis, instead, it is done weekly and monthly.
- All Jail correctional staff have access to the inmate cash stored in bins within a locked room.
- Pre-numbered receipts used in the Jail are not reconciled to the miscellaneous receipts obtained from the Auditor/Treasurer's office when deposits are made.
- In two separate County departments, processing disbursements and printing checks are performed by the same staff.

Context: This is not unusual in operations the size of Koochiching County; however, the County's management should constantly be aware of these conditions 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 Koochiching 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.

In addition, we recommend the following:

- Someone independent of the preparer should review monthly bank reconciliations.
- Access to voiding receipts within the receipting system should be limited to staff who are independent of the receipting and cash handling process.
- Reconciliations between the receipting system and cash collections should be performed daily.
- Access to inmate cash should be limited, and compensating controls, such as weekly cash counts, should be performed.
- Pre-numbered receipts used in the departments should be reconciled to deposits or miscellaneous receipts from the Auditor/Treasurer's Office.
- When feasible, processing disbursements and check printing should be segregated.

View of Responsible Official: Acknowledged

Finding Number 2008-002

<u>Documenting and Monitoring Internal Controls</u>

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; payroll; and information technology.

Condition: The County has documented policies relating to fund balance and travel expense reimbursement. The County also has an investment policy, but it does not accurately reflect investment custodial credit risk as defined by accounting standards, which require separate and different application between deposits and investments. However, some of the policies are outdated, and the County lacks written policies and procedures over other significant functions. In addition, there are no 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 Koochiching County to fail to periodically review those controls. Monitoring of internal controls is necessary to ensure they are in place, appropriate, and operating effectively.

Effect: Without comprehensive 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 begun the process of updating existing policies and developing other formal policies and procedures; however, due to limited time and resources, the County has been unable to complete this project.

Recommendation: We recommend County management continue its efforts to document key internal controls in its significant functions. The County should update and complete accounting policies and procedures, including correcting 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: Acknowledged

ITEMS ARISING THIS YEAR

Finding Number 2015-001

Segregation of Duties - Vendor Setup

Criteria: Internal controls should be designed to provide for an adequate segregation of duties so that no one individual has the ability to both process disbursements and set up new vendors. If segregation of duties is limited due to staff size, procedures should be implemented to include someone independent of the vendor payment process to review, verify, and approve new vendors on a timely basis.

Condition: Nine of the active Integrated Financial System (IFS) users had the ability to both add/delete/edit vendors and process disbursements. In addition, there was a lack of consistency in how new vendors were added, which resulted in duplicate vendors set up with multiple name variations and vendor numbers.

Context: The County has the ability to implement controls and/or limit access to the vendor set up function within IFS.

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

Cause: The County indicated that, over time, more staff were given access to vendor setup and the disbursement process than what was originally intended.

Recommendation: We recommend the County re-evaluate whether segregation of duties between disbursements and vendor setup is possible and assign access rights as applicable. If not, we recommend that procedures be developed to have an employee independent of the vendor payment process review new vendors and changes to existing vendors in a timely manner, and maintain evidence of the reviews. We also recommend that procedures be implemented to verify whether a vendor already exists before setting up a new vendor in IFS.

View of Responsible Official: Acknowledged

Finding Number 2015-002

Segregation of Duties - Payroll

Criteria: Management is responsible for establishing and maintaining internal control over various accounting cycles, including payroll. In the payroll system, changes to the payroll master file and payroll processing should be segregated. If that is not practical, changes to the payroll master file should be monitored by someone independent of payroll processing at least monthly. In addition, employee and supervisor signatures on time sheets should be required to attest to the validity of the time reported.

Condition: The processing of payroll and changes to the payroll master file for occurrences such as new hires, terminations, promotions, and pay increases are done by the same person. Department heads, including non-elected officials such as the County Engineer and Land and Forestry Manager, approve their own time.

Context: It is not unusual for organizations the size of Koochiching County to allow salaried elected officials to approve their own time.

Effect: When there is limited segregation of duties and monitoring, there is an increased risk that errors or irregularities may occur and not be detected in a timely manner.

Cause: The County indicated that, due to its size, staffing is limited and separation of responsibilities typically performed in a separate human resources department in larger organizations is not feasible. The lack of approval on department head time sheets is a result of no one being in a higher position to review the time sheets.

Recommendation: Management should be aware that segregation of duties is not adequate from an internal control point of view. We recommend the County re-evaluate whether the same person should be making changes to the payroll master file and processing payroll. Someone independent of the payroll processing function should review payroll edit reports to monitor that changes made to the payroll master file were properly authorized and document this review. Time sheets should be signed by two separate people attesting to the hours.

View of Responsible Official: Acknowledged

Finding Number 2015-003

Employee Expense Reimbursements

Criteria: The County travel policy allows employees to request reimbursement for travel expenses related to County business on a claim form that includes the date, location, and purpose of the business meeting or training attended. The policy requires employees to record actual meal expenses up to the authorized daily maximum amount of $20 per day. If the daily maximum amount is exceeded, personnel must provide receipts for all meals. Meal expenses not accompanied with overnight lodging expenses will not normally be allowed, except when personnel are attending a meeting, training, or conducting business away from the work facility. Meal expenses in such circumstances will be reimbursed based on actual meal expenses, not to exceed the daily limit. The policy allows up to 15 percent gratuity.

Condition: During testing of 102 expenditures, the following deficiencies were noted specific to employee reimbursements:

- One reimbursement included a $125 gift card purchase with no explanation for whom or for what purpose the gift card was purchased.

- Five reimbursements were made where the department head approved their own reimbursement requests, and no independent review was performed.

- One reimbursement for two separate mileage claims did not include any detailed support on how the mileage was calculated.

- Four reimbursements did not include itemized receipts for multiple meal purchases, making it difficult to determine if the purchases were allowable.

- One reimbursement included two meals, which both exceeded the $20 daily meal allowance, and did not include itemized receipts as required by policy.

- Four reimbursements included gratuity in excess of the 15 percent allowed by County policy.

- One reimbursement, made for a two-month period, included 15 meal reimbursements at local restaurants, including one day for both lunch and dinner, with no documented explanation. There was no overnight travel. The reimbursement was not processed through payroll and, therefore, was not included in taxable income to the employee. This reimbursement also included gratuities in excess of the 15 percent allowed for meals. The excess gratuities totaled $96.17 for all meals reimbursed.

Context: Internal controls over employee reimbursement requests are weak without a standard governing approval, centralized processing, and uniform application of the County travel policy.

Effect: Lack of review and approval over expense reimbursement requests increases the risk that an improper payment or payment not in compliance with County policy will be made.

Cause: Lack of review of expense reimbursements prior to them being processed for payment.

Recommendation: We recommend the County travel policy be reviewed, and amended if necessary, to ensure it is complete and addresses the needs of the County as well as applicable state statutes. The policy should require detailed receipts for all purchases reimbursed to ensure the reimbursement is allowable. Furthermore, we recommend that department heads no longer be allowed to approve their own reimbursement requests and a review and approval be performed on all expense reimbursements prior to being processed. Individuals responsible for reviewing the expense reimbursements should ensure the County policy is being followed and all support is included.

View of Responsible Official: Acknowledged

Finding Number 2015-004

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. In addition to the material items identified, numerous additional audit adjustments were made that resulted in changes to the financial statements. 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 auditors cannot be considered part of the County's internal control.

Effect: Adjustments were made in the funds to correctly state year-end balances. All audit adjustments were reviewed and approved by management and are reflected in the financial statements. The following material audit adjustments were recorded for December 31, 2015:

General Fund

- Decreased loans receivable and deferred inflows of resources - unavailable revenue by $503,046 to reflect the proper accounting treatment of imposed nonexchange revenue transactions.

- Decreased general government expenditures by $154,333, decreased economic development expenditures by $213,157, and decreased intergovernmental revenues by $367,490 for salary reimbursements received from outside organizations for which the County processes payroll.

Road and Bridge Special Revenue Fund

- Increased contracts payable and construction expenditures by $242,957 to recognize work performed in 2015.

- Decreased due from other governments by $129,976, increased highway allotment revenue by $130,614, and decreased deferred inflows of resources - unavailable revenue by $260,590 to correctly record highway allotment activity.

- Increased federal intergovernmental revenue (CFDA No. 97.036) and decreased state intergovernmental revenue (Minnesota Department of Public Safety) by $164,138 for federal disaster aid revenue incorrectly identified.

- Decreased inventory by $213,146 to correctly reflect the year-end balance.

Community Services Special Revenue Fund

- Increased state intergovernmental revenue (Minnesota Department of Human Services) by $260,843, increased intergovernmental state reimbursement for services by $56,073, and decreased federal intergovernmental revenue (CFDA No. 93.778) by $316,916 to correctly classify receipts for the Medical Assistance Program.

Land and Forestry Special Revenue Fund

- Increased accounts receivable by $3,160,246, increased deferred inflows of resources - unavailable revenue by $1,822,510, increased due to other governments by $878,595, and increased miscellaneous revenue by $459,141 to record timber sale receivables. This is also material to the relevant accounts of the governmental activities.

- Adjustments were made to combine the Forfeited Tax Special Revenue Fund with the Land and Forestry Special Revenue Fund as the Forfeited Tax Special Revenue Fund did not meet the criteria to be reported as a special revenue fund.

Cause: The County does not have procedures in place for adequate review of information for financial reporting.

Recommendation: We recommend County staff implement procedures over financial reporting that 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 generally accepted accounting principles (GAAP).

View of Responsible Official: Acknowledged

Finding Number 2015-005

Prior Period 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 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: Prior period adjustments material to the County's financial statements were identified during the audit. The prior period adjustments to restate the County's financial statements were reviewed and approved by the appropriate County staff and are reflected in the financial statements.

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

Effect: Adjustments were made to restate the January 1, 2015, net position/fund balance as follows:

Governmental Activities

- Beginning net position and the investment in joint venture were increased by $4,651,249 to record the County's 2014 equity interest in the International Falls - Koochiching County Airport Commission.

- Beginning net position was increased by $1,936,617 for the 2014 unrecorded timber receivables.

- Beginning net position was decreased and 2015 revenue was increased by $1,400,099 to correct the recording of an advance received for state-aid regular construction in the prior year, which was previously recorded as revenue instead of deferred inflows of resources.

Land and Forestry Special Revenue Fund

- Beginning fund balance was increased by $471,526 to reflect increases in accounts receivable of $2,689,746, deferred inflows of resources - unavailable revenue of $1,465,091, and due to other governments of $753,129 for 2014 unrecorded timber receivables.

Cause: The County does not have procedures in place for adequate review of information for financial reporting.

Recommendation: We recommend County staff implement procedures over financial reporting that 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: Acknowledged

Finding Number 2015-006

Inventory

Criteria: Recorded inventory amounts should reflect the actual amount of inventory on hand. Inventory records should be reconciled to an annual physical count to ensure accuracy for financial statement presentation. During the fiscal period, the inventory records should be regularly updated for additions and withdrawals to maintain accuracy. Additionally, controls should be in place to ensure that information provided by the inventory system is accurate and that County assets are adequately safeguarded.

Condition: Inventory quantities and values for two gravel pits with significant year-end inventory balances were reviewed. Initially, the County was unable to provide support for the inventory quantities and values reported at year-end. The County performed significant analysis and recalculation of amounts after it was determined that there was no existing support for the year-end inventory balances.

Context: Additions to inventory are recorded in the Highway Costing System when the invoice is processed; withdrawals are not tracked. The County does not use a perpetual inventory system to track inventory quantities and values throughout the year. Physical inventory counts are performed at year-end, and the system balances are adjusted to reflect the balances on hand.

Effect: The inventory system does not reflect an accurate account of the inventory on hand during the year. Without adequate controls over inventory, County assets are exposed to misuse and theft.

Cause: The County Highway Department calculated and adjusted the year-end inventory for gravel and did not maintain support for the calculations.

Recommendation: We recommend the County track inventory purchases, withdrawals, and values throughout the year and update inventory records on an ongoing basis. Physical inventory counts should be performed annually, by at least two individuals, and all support for year-end balances should be approved and maintained.

View of Responsible Official: Acknowledged

Finding Number 2015-007

<u>Fund Balance Reporting</u>

Criteria: Governments are required to report amounts in the appropriate fund balance classifications, in accordance with Governmental Accounting Standards Board Statement 54 (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 for various categories in the General Fund, and one category in the Special Revenue Dedicated Special Revenue Fund, for which County Board resolutions could not be located. In addition, the County committed and restricted fund balance for budget reserves in many funds which do not meet the requirements of committed and restricted fund balance in accordance with GASB 54. Finally, the County Board delegated the authority to the Administration Director to make commitments of fund balance, which is not allowed under the requirements of GASB 54. To be effective, a resolution committing resources for budget reserves should identify either the specific projects or types of projects for which resources will be used.

Context: On December 15, 2015, the County Board approved a resolution to commit fund balance for budget reserves.

Effect: Significant reclassifications of fund balance were required in most funds to adjust committed, restricted, assigned, and unassigned fund balance to properly reflect the commitments and restrictions authorized by the County Board and allowed under GASB 54.

Cause: Several of the categories were 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 and restrictions comply with GASB 54 requirements. 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 2015-008

Network and System Access Termination

Criteria: When employees leave employment with the County, their system access should be removed within a reasonably short specified timeframe.

Condition: Based on testing 35 terminated employees from 2015 through 2017 for network access removal, 5 instances were identified where employee access had not been terminated, and 1 other instance was identified where the removal of access occurred after five months.

Context: While there is no formal written policy identifying who is responsible for notifying Information Technology (IT) of personnel changes, IT relies on the department heads for such notification.

Effect: When terminated employees have access to the County's systems, it increases the risk that malicious damage to data files and systems, fraud, and/or misstatement may occur.

Cause: Lack of communication between the department heads, payroll, and IT and lack of documented policies and procedures.

Recommendation: We recommend the County implement a policy and additional procedures to ensure the timely removal of terminated employees' access to the network and computer applications.

View of Responsible Official: Acknowledged

Finding Number 2015-009

Financial Statement Disclosures

Criteria: Reporting in accordance with generally accepted accounting principles (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 Forfeited Tax Special Revenue Fund did not meet the requirements of a special revenue fund.

- The Housing and Redevelopment Authority (HRA) of Koochiching County was determined to be a discrete component unit and was not previously presented in the financial statements or the related notes.

- The agency funds included a fund for gun permit activity, which should be reported as part of the General Fund.

- Intergovernmental revenue was not properly reported in the Schedule of Intergovernmental Revenue. State-shared revenues were understated by $200,307; reimbursement for services was understated by $25,605; state grants were overstated by $146,893; and federal grants were overstated by $253,894.

- The notes to the financial statements did not adequately disclose that the County's deposits and investments were exposed to $3,549,923 and $6,610,844, respectively, of custodial credit risk.

- Information regarding the loans receivable was not included in the notes to the financial statements.

- The capital asset threshold of $5,000 disclosed in the notes was incorrect. The County Board approved a $10,000 threshold at the June 16, 2015, County Board meeting.

- The Road and Bridge and Land and Forestry Special Revenue Funds budget to actual comparison schedules were incomplete. The missing information caused the Road and Bridge Special Revenue Fund budget to actual comparison schedule to not mathematically compute and the Land and Forestry Special Revenue Fund budget to actual comparison schedule to disclose an incorrect ending fund balance.

- The compensated absences note disclosure presented net deductions when the additions and deductions should both be presented separately.

- Termination benefits, which qualify as part of other postemployment benefits (OPEB), were not provided to the actuary when determining the net OPEB obligation and were reported separately in the financial report instead of as part of OPEB.

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

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

ITEMS ARISING THIS YEAR

Finding Number 2015-010

Uniform Guidance Written Procurement Policies and Procedures

Programs: U.S. Department of Transportation's Highway Planning and Construction Cluster (CFDA Nos. 20.205 and 20.219), Award Nos. 00036 and 88905, 2015, and U.S. Department of Health and Human Services' Medicaid Cluster (CFDA No. 93.778), Award No. 1505MN5ADM, 2015

Pass-Through Agencies: Minnesota Department of Transportation (CFDA Nos. 20.205 and 20.219) and Minnesota Department of Human Services (CFDA No. 93.778).

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: The County did not have written procurement policies, including provisions for written standards of conduct and suspension and debarment, during 2015 and did not enact 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 programs; 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.

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 develop and adopt policies that include the specific components of the Uniform Guidance requirements in written procurement policies and procedures.

View of Responsible Official: Acknowledged

Finding Number 2015-011

<u>Special Tests and Provisions - Davis-Bacon Act</u>

Program: U.S. Department of Transportation's Highway Planning and Construction Cluster (CFDA No. 20.205), Award No. 00036, 2015

Pass-Through Agency: Minnesota Department of Transportation

Criteria: The Davis-Bacon Act (23 U.S.C. 113) and 29 CFR section 5 require that contractors and subcontractors performing work on federal contracts in excess of $2,000 pay their laborers and mechanics not less than the prevailing wage rates and fringe benefits listed in the contract's wage determination class. Each covered contractor and subcontractor must, on a weekly basis, provide a copy of the payrolls providing the information listed under payrolls and basic records of 29 CFR section 5 for the preceding weekly payroll. A good system of internal control would require the County to review the payroll information submitted by its contractors for compliance with Davis-Bacon Act wage rates.

Condition: Koochiching County received the certified payrolls from contractors and subcontractors for both projects that involved federal payroll-related expenditures in 2015, but there was no evidence that the certified payrolls were reviewed for compliance with the Davis-Bacon Act.

Questioned Costs: None.

Context: It is common for Koochiching County to receive and expend Highway Planning and Construction Grant.

Effect: The County has not maintained evidence that supports its review that contractors are complying with the prevailing wage rate requirements of the Davis-Bacon Act.

Cause: Personnel assigned to monitor compliance for the road construction projects funded by the Highway Planning and Construction Grant were unaware that there should be evidence of reviews performed.

Recommendation: We recommend that a supervisory monitoring process be established to ensure that compliance with the Davis-Bacon Act is being achieved and that documentation exists to support the monitoring of and compliance with this requirement.

View of Responsible Official: Acknowledged

Finding Number 2015-012

Eligibility

Program: U.S. Department of Health and Human Services' Medicaid Cluster (CFDA No. 93.778), Award No. 1505MN5ADM, 2015

Pass-Through Agency: Minnesota Department of Human Services

Criteria: Title 2 U.S. *Code of Federal Regulations* § 200.303 states that the auditee must establish and maintain effective internal control over the federal award that provides reasonable assurance that the auditee is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award.

Condition: The Minnesota Department of Human Services (DHS) maintains the computer system, MAXIS, which is used by the County to support the eligibility determination process. In the case files tested for compliance with eligibility requirements, not all documentation was available, updated, or input correctly to support participant eligibility. The following exceptions were detected in a sample of 40 cases tested:

- Two case files were missing the 2015 annual renewal.

- Two case files contained incomplete 2015 applications.

- Two case files had a representative or power of attorney sign the application on behalf of the applicant, but there was no documentation in the case file that provided proof they were the legal representative or power of attorney.

- Five case files lacked documentation of whether there was other health insurance available.

- One case file lacked documentation of analysis of cost-effective insurance when other insurance was available.

- Five case files did not have sufficient verification of assets and/or were incorrectly entered into MAXIS.

- One case file had income that was not appropriately updated in MAXIS.

- One case file was missing citizenship verification in MAXIS.

There is also no documented process to perform periodic reviews of the Medical Assistance Program case files.

Questioned Costs: Not applicable. The County administers the program, but benefits to participants in this program are paid by the State of Minnesota.

Context: The State of Minnesota contracts with the County Health and Human Services Department to perform the "intake function" (meeting with the social services client to determine income and categorical eligibility), while the Minnesota Department of Human Services maintains the computer system, MAXIS, which supports the eligibility determination process and actually pays the benefits to the participants.

The sample size was based on guidance from chapter 11 of the 2017 AICPA Audit Guide, *Government Auditing Standards and Single Audits.*

Effect: The improper input of information into MAXIS and lack of verification or follow-up of eligibility-determining factors increases the risk that a program participant will receive benefits when they are not eligible.

Cause: Program personnel entering case information into MAXIS did not ensure all required information was input or updated correctly.

Recommendation: We recommend the County implement additional procedures, including reviews, to provide reasonable assurance that all necessary documentation to support eligibility determinations exists and is properly input in MAXIS and issues are followed up on in a timely manner. In addition, consideration should be given to providing further training to program personnel.

View of Responsible Official: Acknowledged

Finding Number 2015-013

Cash Management and Reporting - Local Collaborative Time Study Reports

Program: U.S. Department of Health and Human Services' Medicaid Cluster (CFDA No. 93.778), Award No. 1505MN5ADM, 2015

Pass-Through Agency: Minnesota Department of Human Services

Criteria: Requirements for the Local Collaborative Time Study (LCTS) cost schedules are described in the DHS information bulletin No. 13-32-08 - *Local Collaborative Time Study (LCTS) Web-based Cost Schedules and Instructions*. The bulletin states that the LCTS fiscal reporting and payment agent is required to review the information on the LCTS cost schedules prior to the required submission date.

Additionally, to comply with federal cash management requirements for a reimbursement grant as allowed under 2 CFR 200.305(b)(3), and as required by DHS bulletin No. 13-32-08, only expenses that have previously been paid can be included on the cost schedules.

Condition: A sample size of six reports was selected for testing based on a population that included both the two annual reports as well as 20 quarterly LCTS Cost Schedule reports prepared by Koochiching County and participating agencies. Someone independent of the preparer does not review the quarterly Public Health LCTS Cost Schedules, LCTS Annual Collaborative Report, and LCTS Annual Spending Report submitted by the Public Health Department. The other collaborative members do not submit their quarterly LCTS reports to the Public Health Department, and therefore, are not reviewed by the County. In addition, errors were identified on the Public Health LCTS Cost Schedules (DHS-3220), Annual Spending Report, and Collaborative Report submitted to DHS, as follows:

- The County included direct charges and allocated expenses on the Public Health LCTS cost schedules that were based on rates and formulas determined at the time the collaborative was formed. There is no support for how these rates and formulas were calculated, nor have they been adjusted for changes in actual expenditures over the years.
- The Annual Spending Report was prepared using revenues and expenditures from 2014 rather than 2015.
- The expenditures reported on the Collaborative Report were based on budgeted information.

Questioned Costs: The Minnesota DHS determines federal reimbursement based on a time study, the rate of which is not readily determinable. Therefore, questioned costs could not be determined.

Context: The Koochiching County Public Health and Human Services Departments act as the LCTS Fiscal Reporting and Payment Agent for the local collaborative in Koochiching County and are responsible for preparing and submitting the Annual Spending Report.

The sample size was based on guidance from chapter 11 of the 2017 AICPA Audit Guide, *Government Auditing Standards and Single Audits.*

Effect: Errors on the LCTS reports can result in the County receiving either more or less federal funding than can be justified based on actual underlying activity. Lack of a review and approval process increases the risk that reports will not be submitted as required or will not be correct. Inaccurate or unsupported expenditures make compliance with cash management requirements undeterminable.

Cause: There are no policies and procedures in place for the County to conduct reviews of the quarterly reports.

Recommendation: We recommend the County and collaborative members implement policies and procedures to ensure that the LCTS annual and quarterly reports required to be submitted are reviewed for accuracy and completeness by an individual independent of the preparer. Evidence of the reviews should be maintained on file.

View of Responsible Official: Acknowledged

Finding Number 2015-014

<u>Procurement, Suspension, and Debarment</u>

Program: U.S. Department of Health and Human Services' Medicaid Cluster (CFDA No. 93.778), Award No. 1505MN5ADM, 2015

Pass-Through Agency: Minnesota Department of Human Services

Criteria: Federal regulations provided in Title 2 U.S. *Code of Federal Regulations* § 200.318(i) state that the non-federal entity must maintain records sufficient to detail the history of procurement. These records will include, but are not necessarily limited to, the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price. Non-federal entities must follow further federal guidance over full and open competition as provided in Title 2 U.S. *Code of Federal Regulations* § 200.319; cost or price analysis provided in Title 2 U.S. *Code of*

Federal Regulations § 200.323; verifying debarment, suspension, and exclusions as provided in Title 2 U.S. *Code of Federal Regulations* §§ 180.300, 200.213, and 200.318(h); and procurement by micro-purchases as provided in Title 2 U.S. *Code of Federal Regulations* § 200.320(a).

Condition: Five procurement transactions over $3,000 were tested for compliance with federal regulations. For all items tested, the County had no documentation to meet the requirements of the history of procurement, full and open competition, or verification of whether vendors were debarred, suspended, or whether other exclusions existed. For the three items tested that exceeded the simplified acquisition threshold, there was no documentation that a cost or price analysis was performed. Five micro-purchases were also tested. For these items, consideration was not given to equitably distribute the purchases among qualified suppliers.

Questioned Costs: None.

Context: For several procurement transactions tested, the County first entered into contracts with the vendors years ago. New contracts are awarded on an annual basis without going through a sealed bidding process or other allowable method of procurement. For micro-purchases, the County indicated it tries to find the best price from available suppliers, taking advantage of sales and discounts.

The sample size was not based on guidance from chapter 11 of the 2017 AICPA Audit Guide, *Government Auditing Standards and Single Audits*, because the County indicated it did not have procedures in place to address the compliance requirements.

Effect: The County is not in compliance with federal regulations.

Cause: The County was unaware of these requirements.

Recommendation: We recommend the County document the history of procurement transactions, including contract selection, and full and open competition in accordance with federal regulations. The County should retain documentation to support verification that vendors are not debarred or suspended or that other exclusions apply, and the County should perform a cost or price analysis for procurements that exceed the simplified acquisition threshold. We also recommend the County distribute its micro-purchases amongst qualified suppliers to the extent practicable.

View of Responsible Official: Acknowledged

Finding Number 2015-015

<u>Activities Allowed and Unallowed, Allowable Costs/Cost Principles</u>

Programs: U.S. Department of Energy's Renewable Energy Research and Development (CFDA No. 81.087), Award No. DE-FG36-08GO88050, 2015, and U.S. Department of Health and Human Services' Medicaid Cluster (CFDA No. 93.778), Award No. 1505MN5ADM, 2015

Pass-Through Agencies: None (CFDA No. 81.087) and Minnesota Department of Human Services (CFDA No. 93.778).

Criteria: Title 2 U.S. *Code of Federal Regulations* § 200.303 states that the auditee must establish and maintain effective internal control over the federal award that provides reasonable assurance that the auditee is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award.

Condition: For one of six disbursements tested for the Renewable Energy Research and Development Grant, no County employee with oversight responsibility reviewed or approved the invoice. The County asserted that only invoices paid directly to the subrecipient were reviewed and approved, and the County did not review payments to other vendors under this grant.

In addition, of the 40 Medical Assistance Program disbursements for which internal controls were tested, one time sheet and three invoices did not contain documentation of approval by the supervisor.

Questioned Costs: None.

Context: Proper approval by the County Board and supervisor assigned oversight responsibility is an important function to ensure amounts charged to federal programs are accurate and proper. In May 2016, new procedures were implemented for the Renewable Energy Research and Development Grant to ensure all support was reviewed and approved prior to being processed for payment.

The sample size was based on guidance from Chapter 11 of the 2017 AICPA Audit Guide, *Government Auditing Standards and Single Audits*.

Effect: Payment of unapproved claims is an indication of a failure in the internal control designed to prevent unauthorized, unallowed, or unallowable claims.

Cause: Based on inquiry with management, time sheets for department heads are not approved by anyone, and the other exceptions were due to lack of oversight.

Recommendation: We recommend the County continue its efforts to document review and approval of all claims as was implemented by the County in May 2016 for the Renewable Energy Research and Development Grant. In addition, we recommend that procedures be implemented to ensure all claims processed for the Medical Assistance Program, including department head time sheets, be reviewed and approved by a supervisor prior to being processed for payment.

View of Responsible Official: Acknowledged

Finding Number 2015-016

<u>Identification of Federal Awards</u>

Programs: U.S. Department of Transportation's Highway Planning and Construction Cluster (CFDA Nos. 20.205 and 20.219), Award Nos. 00036 and 88905, 2015 and U.S. Department of Health and Human Services' Medicaid Cluster (CFDA No. 93.778), Award No. 05-1505MN5ADM, 2015

Pass-Through Agencies: Minnesota Department of Transportation (CFDA Nos. 20.205 and 20.219) and Minnesota Department of Human Services (CFDA No. 93.778).

Criteria: Title 2 U.S. *Code of Federal Regulations* § 200.510(b) states that the auditee must prepare a schedule of expenditures of federal awards (SEFA) for the period covered by the auditee's financial statements which must include the total federal awards expended as determined in accordance with § 200.502, *Basis for determining federal awards expended*.

Condition: The County did not properly identify the amount expended for the Highway Planning and Construction Cluster and the Medicaid Cluster on its SEFA.

Questioned Costs: None.

Context: Koochiching County provided a SEFA for the year ended December 31, 2015, which reported total federal expenditures for the Highway Planning and Construction Cluster and the Medicaid Cluster of $290,696 and $782,610, respectively. After audit adjustments, the program expenditures for the Highway Planning and Construction Cluster and the Medicaid Cluster were $821,769 and $448,622, respectively, resulting in differences of $531,073 and ($333,988), respectively.

Effect: The inability to properly identify and track federal expenditures or to detect misstatements in the SEFA increases the likelihood that federal expenditures would not be fairly reported and that noncompliance with direct and material compliance requirements may occur.

Cause: Expenditures for the Highway Planning and Construction Cluster were not included on the SEFA because the reimbursement was not received until 2016. For the Medicaid Cluster, there was a misunderstanding of how the revenues should be reported, which are the basis for reporting expenditures.

Recommendation: We recommend the County review internal controls currently in place and design and implement procedures to improve internal controls over identifying the expenditures of federal awards for SEFA reporting.

View of Responsible Official: Acknowledged

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

ITEMS ARISING THIS YEAR

Finding Number 2015-017

Collateral Assignments

Criteria: Minnesota Statute § 118A.03 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: Koochiching County has deposits with TruStar Federal Credit Union, Bremer Bank, and First State Bank of Deerwood. Each bank pledged collateral to cover deposits in excess of FDIC coverage to Koochiching County. TruStar Federal Credit Union could not provide a written assignment for collateral pledged to secure the County deposits. In addition, the pledge agreement provided by First State Bank of Deerwood was dated 2004 and does not contain the language required by Minn. Stat. § 118A.03, subd. 4. Lastly, neither Bremer Bank nor TruStar Federal Credit Union could provide sufficient evidence that the depository's board of directors or loan committee approved the written assignments.

Context: Current collateral assignments are advisable to ensure that proper statutory language is included in the collateral assignments so that the County's interests are properly protected. The collateral assignments should also be approved by the bank's board of directors or loan committee in order to be enforceable. See 12 U.S.C. § 1823(e).

Amounts exceeding FDIC coverage at these depositories were $3,549,923 at December 31, 2015.

Effect: Without an approved written assignment of the pledged collateral, the County does not have a perfected security interest in the pledged collateral. Deposits held in excess of federal deposit insurance are at risk of loss should a depository fail.

Cause: The County relied on the depositories to monitor compliance with Minnesota statutes.

Recommendation: We recommend the County require that its depositories provide written assignments for all collateral pledged. The assignments should include the statutory language required by Minn. Stat. § 118A.03, subd. 4, and should be approved by each bank's board of directors or loan committee. The County should be monitoring collateral coverage and compliance with the applicable statutes and maintaining documentation of compliance.

View of Responsible Official: Acknowledged

Finding Number 2015-018

Electronic Funds Transfer Policy

Criteria: The County Board is required by Minn. Stat. §§ 471.381, subd. 3, and 385.071 to establish policies and procedures for investment and expenditure transactions via electronic funds transfers.

Condition: The County Board has not established written policies and procedures regarding the use of electronic funds transfers.

Context: The County Auditor/Treasurer utilizes electronic funds transfers for various transactions such as paying sales tax, payroll tax, mortgage deed tax, or to transfer money to and from investments.

Effect: The County is not in compliance with Minn. Stat. §§ 471.381, subd. 3, and 385.071.

Cause: The County has not taken the time to develop a formal written policy although procedures are in place.

Recommendation: We recommend the County Board establish written policies and procedures for electronic funds transfers as required by Minn. Stat. §§ 471.381, subd. 3, and 385.071. The policies and procedures should include all policy controls set forth in Minn. Stat. § 471.38, subd. 3a, that became applicable to counties in 2017.

View of Responsible Official: Acknowledged

Finding Number 2015-019

Acceptance of Donations

Criteria: Minnesota Statute § 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: During 2015, the County received numerous donations totaling $9,860. Documentation of acceptance by the County Board could not be located for these donations.

Context: Donations were received throughout the year from various donors, primarily for the DARE and Veterans Van Transportation programs.

Effect: Noncompliance with Minn. Stat. § 465.03.

Cause: The County staff who are responsible for notifying the Board of new gifts and donations were not aware of the departments receiving the donations. The departments receiving the donations were not aware of the requirements of the Board to accept the donations.

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: Acknowledged

Finding Number 2015-020

Out-of-State Travel Policy

Criteria: Counties are required by Minn. Stat. § 471.661 to, ". . . have on record a policy that controls travel outside of the state of Minnesota for the applicable elected officials of the relevant unit of government." The policy must be approved by a recorded vote and specify when travel outside of the state is appropriate, applicable expense limits, and procedures for approved travel.

Condition: A travel policy was originally adopted by the County Board in April 1996 and was amended in May 2002. However, the policy does not clarify when travel outside the state is appropriate, which expenses are reimbursable, what the applicable expense limits are, or what type of documentation is required to support expenses, as required by statute.

Context: The travel policy required County Board approval for all out of state travel except to Fort Francis Ontario.

Effect: Noncompliance with Minn. Stat. § 471.661.

Cause: County staff were unaware of the requirements of the statute specific to out-of-state travel.

Recommendation: We recommend the County Board comply with Minn. Stat. § 471.661 and establish a formal out-of-state travel policy or amend the current travel policy to meet the requirements of Minn. Stat. § 471.661.

View of Responsible Official: Acknowledged

Finding Number 2015-021

Use of Public Funds

Criteria: In general, a public entity must have express or implied statutory (or charter) authority to make an expenditure. In addition, the expenditure must be made for a public purpose. See Minn. Const., art. X, § 1 ("Taxes . . . shall be levied and collected for public purposes."); Visina v. Freeman, 89 N.W.2d 635 (1958) (courts generally construe "public purpose" to mean "such an activity as will serve as a benefit to the community as a body and which, at the same time, is directly related to the functions of government"); Tousley v. Leach, 180 Minn. 293, 230 N.W. 788 (1930) (public funds may be used by public entity if the purpose is a public one for which tax money may be used, there is authority to make the expenditure, and the use is genuine).

Condition: The following issues were noted during a review of 2015 County expenditures:

- On numerous occasions, snacks or refreshments were purchased for employee meetings with no documentation as to who was in attendance, the purpose of the meetings, and the reason why it was necessary to have snacks and refreshments at the meetings.

- On two separate instances, meals were purchased by staff during interviewing. The support did not include documentation as to the reason why it was necessary to meet over lunch or who was in attendance.

- The Sheriff's Office vending machine proceeds are deposited with the County and used to purchase items for the squad room, such as coffee and snacks. These purchases do not meet a public purpose for the County.

- A payment to Friends Against Abuse for a Crisis Line Grant in the amount of $5,000 was made during the year. The County could not provide a grant agreement or contract with Friends Against Abuse, and no direct services were provided.

- An allocation of $10,000 was made to the International Falls Ambulance Service in addition to the $7,650 paid to them for transporting inmates. The County could not provide a contract, agreement, or statutory authority for the allocation.

Context: Review of the general ledger revealed expenditures that occurred without a clear use of public funds.

Effect: County funds were used for expenditures that either do not meet a public purpose or for a purpose for which the County does not have statutory authority to use.

Cause: The County indicated this was an oversight.

Recommendation: We recommend the County discontinue the practice of spending public funds for unauthorized items. If it is necessary to meet over lunch, the reason for the meeting, who was in attendance, and why it was necessary to meet over lunch should be documented on the support. Grants and allocations should only be made for expenditures the County has statutory authority to make.

View of Responsible Official: Acknowledged

Finding Number 2015-022

Unauthorized Creation of Taxing District

Criteria: Minnesota Statute § 375B.03 authorizes the County to create subordinate service districts for areas within the County in which "one or more governmental services or additions to countywide services are provided by the county". (Emphasis added) (Minn. Stat. § 375B.02)

Condition: The April 15, 2014, County Board minutes indicate that the County Board decided to give $1,000,000 from the County General Fund to the Littlefork Medical Center (LMC) for capital improvements. The County characterized the transfer as a "loan" and created a "Subordinate Service Taxing District" to repay the loan to the LMC by levying $100,000 per year for ten years. The Subordinate Service Taxing District was the same geographic area as Independent School District No. 362.

At the end of the ten-year period, the $1,000,000 given to the LMC will have been paid back to the County by the taxpayers within the "Subordinate Service Taxing District." However, since taxpayers within "Subordinate Service Taxing District" are not receiving any additional services from Koochiching County, there is no basis under Minn. Stat. Ch. 375B to annually levy $100,000 of additional tax on those property taxpayers.

Context: The County Board wanted to help the LMC with capital improvements.

Effect: Noncompliance with Minn. Stat. Ch. 375B. The County created an unauthorized subordinate service district and added additional tax on property taxpayers, within the school district, who received no additional County service.

Cause: The County Board wanted to provide money to improve the LMC and have the "loan" paid back by taxpayers in the school district. The County Board felt that the citizens in close proximity to the LMC were benefitting and believed they could make them pay for this benefit in an amount that would pay the County back the $1,000,000 it had given to the LMC.

Recommendation: We recommend the County Board comply with Minn. Stat. Ch. 375B and discontinue the "Subordinate Service Taxing District."

View of Responsible Official: Disagree

Auditor's Comment Regarding the County's Corrective Action Plan

Based on statements in the County's Corrective Action Plan, the following clarifications are necessary.

Minnesota Statute § 375B.01 defines a "subordinate service district" as "a compact and contiguous district within the county in which one or more governmental services or additions to countywide services are provided by the county and financed from revenues secured from within that district." (Emphasis added)

The Koochiching County Subordinate Service District fails to meet this definition because:

- No services, additional or otherwise, are being provided by the County to the residents of the district. The general medical services were already being provided, independent of the existence of the district. Moreover, those services are provided, not by the County, but by the LMC, a city hospital.

- The County could not produce a contract between the County and the LMC in which the LMC agreed to provide any additional services to taxpayers in the district.

- Further, the annual levied amounts do not finance any "services" as required by Minn. Stat. § 375B.01. According to County documents, the levied amount of $100,000 each year for ten years was based solely on the County Board's desire to reimburse its General Fund for the $1,000,000 gift it made to the LMC.

- More importantly, this $1,000,000 gift was for capital improvements. Capital improvements are not services.

Since the annual levy on taxpayers in the district is based on a ten-year repayment of the capital improvement gift to the LMC, the County cannot comply with Minn. Stat. § 375B.09, which requires any county board that has created a subordinate service district to annually budget for "the operation of the district" to set the annual district levy. Since there are no additional services being provided, directly or through contract, there is no basis for a county board's annual determination of the costs for the "operation of the district" to set an annual budget amount to be levied. Koochiching County has set the annual levy not based on the annual costs of the additional service it is providing district taxpayers, as required by statute, but based on a loan repayment schedule created by the County Board in 2014.

Further evidence that there are no additional County services being provided that would warrant additional charges to residents of the district can be found in the fact that the district only exists for the ten years needed to repay the County General Fund for the $1,000,000 payment to the LMC. In the eleventh year, as in the years that preceded the creation of the district, district residents will be receiving the exact same level of County "services" they received during the prior ten years; however, they will not be taxed $100,000 annually to pay for nonexistent additional services.

The County's own actions indicate that it never considered the annual levied amounts to be charges to district taxpayers to finance the cost of additional services being provided to them. The County created a $1,000,000 "receivable" consistent with discussions in the County Board minutes establishing that this was intended as a loan repayment program. However, future amounts to be paid by taxpayers to a subordinate service district created under Minn. Stat. Ch. 375B are not current receivables, nor are they current County assets.

Finding Number 2015-023

<u>Current Year Property Tax Refund Program</u>

Criteria: Under Minn. Stat. § 375.192, the County Board has broad discretion to abate taxes under the process set forth in that statute. The Board may delegate this authority to the County Auditor.

Condition: In May 2014, the County Board created the Current Year Property Tax Refund Program, whereby the County makes an annual "grant" to the City of Big Falls. The City uses the "grant" for refunds to property taxpayers that are within the Big Fork Valley Hospital District and the "Subordinate Service Taxing District" created by the County to pay itself back for money it gave to the LMC. If qualified taxpayers do not request a tax refund from the City, the unclaimed amount is deemed to be a "donation of funds" to the City from "its property owners."

Context: Certain property taxpayers within the "Subordinate Service Taxing District" complained that they were already in the Big Fork Valley Hospital District. In order to avoid "double taxation", the County Board created the Current Year Property Tax Refund Program.

Effect: The County does not have authority to create a tax refund program. The County Board can abate taxes under the process set forth in Minn. Stat. § 375.192 and can delegate its abatement authority to the County Auditor. However, the County Board lacks the authority to delegate such abatement power to a city.

Even if the County had authority to grant money to the City for taxpayers to claim as a tax refund, if such taxpayers failed to claim the refund, it would likely become "unclaimed property" under Minn. Stat. § 345.38, not a "donation" to the City. As such, it would need to be annually reported to the Commissioner of Commerce and delivered to the commissioner of commerce if it remains unclaimed for three years. (Minn. Stat. §§ 345.41-.42.)

Cause: The County created the "Subordinate Service Taxing District" without authority and then, when taxpayers within that taxing district complained that they were also within a duly created hospital taxing district, the County created the Current Year Property Tax Refund Program, without authority, to refund amounts to complaining property taxpayers.

Recommendation: We recommend the County discontinue the Current Year Property Tax Refund Program. Unclaimed "refund" amounts need to be handled consistent with Minn. Stat. Ch. 345.

View of Responsible Official: Acknowledged

Finding Number 2015-024

Contract Compliance

Criteria: Minnesota statutes contain requirements for the contract processes used by local governments.

Condition: The County was not in compliance with the following State of Minnesota contracting requirements:

- Cooperative Purchasing: Minn. Stat. § 471.345, subd. 15, states, "For a contract estimated to exceed $25,000, a municipality must consider the availability, price and quality of supplies, materials, or equipment available through the state's cooperative purchasing venture before purchasing through another source." One instance was noted where equipment was purchased for the Sheriff's Department based on quotes without consideration of the state's cooperative purchasing venture.

- Witholding Affidavit for Contractors (Form IC-134): Minn. Stat. § 270C.66 states that, before making final settlement with any contractor under a contract requirement the employment of employees for wages by the contractor and by subcontractors, the County is required to obtain a certificate by the Commissioner of Revenue that the contractor or subcontractor has complied with the withholding requirements of Minn. Stat. § 290.92. One instance was noted where final payment was made to a construction company before the affidavit of withholding was obtained.

Context: Six contracts were tested for compliance with the applicable contracting and bidding laws.

Effect: Noncompliance with Minn. Stat. §§ 471.345 and 270C.66.

Cause: For the Sherriff's Department equipment purchase, the Building Facilities staff person responsible for initiating the purchase is no longer with the County and no documentation was included in the file to indicate the state cooperative purchasing venture was considered. For the Withholding Affidavit, the County informed us that it was an oversight that the Form IC-134 was not obtained. The form was requested and obtained at the time of the audit in 2017, however, this was after final payment had already been made.

Recommendation: We recommend the County ensure all employees and officials involved with contracting for the County are aware of and follow applicable legal requirements.

View of Responsible Official: Acknowledged

B. MANAGEMENT PRACTICES

ITEMS ARISING THIS YEAR

Finding Number 2015-025

Disaster Recovery Plan

Criteria: To effectively deal with a disaster affecting computer operations, the County should have a complete, current, and detailed disaster recovery plan in effect. Formalized procedures should document, but not be limited to, the following:

- a list of key personnel, including the actual recovery team, who should be available during the recovery process;
- a description of the responsibilities of each member of the recovery team and of all other County employees;
- a plan as to how the County will continue operations until normal operations are re-established; this should include the use of alternative computer facilities and/or the use of manual procedures, a list of master operating schedules, and critical job schedules;

- a list of materials the County needs to continue operations and how they will be obtained;

- hardware configurations and minimum equipment requirements;

- information relative to offsite backup storage;

- a list of vendor contracts;

- identification of the space to be used; and

- a schedule for developing and periodically reviewing and updating the plan.

Condition: The County has a disaster recovery plan in the event of a disaster involving its computer system. Since the plan was written, new computer systems, software, and procedures have been implemented that make the disaster recovery plan outdated.

Context: Services that need to be addressed include the continuance of several important applications processed by the County's computer system, such as the preparation of payroll, the calculation of tax assessments and settlements, and the recording of receipts and disbursements.

Effect: Without a current disaster recovery plan, the County is exposed to potential risk to its critical information technology systems and data and may not be prepared to continue operations after an unexpected interruption.

Cause: The plan has not been updated since 2004.

Recommendation: We recommend the County update the disaster recovery plan to reflect new systems, software, and changes in personnel and operations that have occurred over the years since the plan was last updated.

View of Responsible Official: Acknowledged

Finding Number 2015-026

<u>Budget Deficiencies</u>

Criteria: Generally accepted accounting principles 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: Differences were noted between the Board-approved budgets and the original budgets entered in the County's Integrated Financial System (IFS).

Context: The budget differences were entered as amendments without Board approval.

Effect: When Board-approved budgets are not entered in the IFS properly, it becomes difficult to compare budget to actual activity, and the budget cannot effectively be used as a monitoring tool.

Cause: Errors were made while posting the original Board-approved budgets to the general ledger, and the original budgets were not reviewed for accuracy after being entered.

Recommendation: We recommend the County implement procedures to improve budgetary accounting, which should include reviewing the original budgets entered in the IFS, comparing them to the Board-approved budgets, and entering budget amendments only after Board approval.

View of Responsible Official: Acknowledged

V. PREVIOUSLY REPORTED ITEM RESOLVED

2014-001 Road and Bridge Fund Financial Statements

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KOOCHICHING COUNTY BOARD OF COMMISSIONERS
715 4th Street
INTERNATIONAL FALLS, MN 56649

REPRESENTATION OF KOOCHICHING COUNTY INTERNATIONAL FALLS, MINNESOTA

CORRECTIVE ACTION PLAN FOR THE YEAR ENDED DECEMBER 31, 2015

Finding Number: 2008-001

Finding Title: Segregation of Duties

Name of Contact Person Responsible for Corrective Action: Jenny Herman

Corrective Action Planned: The Koochiching County Administration Director and Administrative Assistant will continue to monitor transactions and structure the duties of office personnel to help ensure as much segregation of duties as possible within the County's staffing limitations and funding constraints. The County Board of Commissioners and management is mindful that limited staffing increases the risks in safeguarding the County's assets and the proper recording of its financial activity and, where possible, will implement oversight procedures to ensure that internal control policies and procedures are being followed by staff.

Anticipated Completion Date: ongoing

Finding Number: 2008-002

Finding Title: Documenting and Monitoring Internal Controls

Name of Contact Person Responsible for Corrective Action: Jenny Herman

Corrective Action Planned: County management will continue to review and update existing policies and create comprehensive accounting policies and procedures, including its investment policy to conform with accounting standards. A written plan will be developed to assess and monitor the significant internal controls on a regular basis and document the results of the review, changes required and who performed the work.

Anticipated Completion Date: December 2019

Administration Office: Phone: 218-283-1152; jenny.herman@co.koochiching.mn.us

Finding Number: 2015-001

Finding Title: Segregation of Duties - Vendor Setup

Name of Contact Person Responsible for Corrective Action: Jenny Herman

Corrective Action Planned: Management will re-evaluate whether segregation of duties between disbursements and vendor setup is possible and assign access rights as applicable. In addition, procedures will be developed to have an employee independent of the vendor payment process document the review of new vendors, and changes to existing vendors. Management will also implement a procedure to verify whether a vendor already exists before setting up a new vendor.

Anticipated Completion Date: March 2019

Finding Number: 2015-002

Finding Title: Segregation of Duties - Payroll

Name of Contact Person Responsible for Corrective Action: Jenny Herman

Corrective Action Planned: Administration will document the review of payroll master file changes and a procedure will be put in place to have two people attest to timecard hours.

Anticipated Completion Date: December 2018

Finding Number: 2015-003

Finding Title: Employee Expense Reimbursements

Name of Contact Person Responsible for Corrective Action: Jenny Herman

Corrective Action Planned: The County's travel policy will be reviewed and amended as necessary and will require detailed receipts for all purchases. Department heads will no longer be able to approve their own reimbursement requests and individuals responsible for reviewing expense reimbursement will ensure that the County policy is being followed and all supporting documentation is included with the claim.

Anticipated Completion Date: January 2019

Finding Number: 2015-004

Finding Title: Audit Adjustments

Name of Contact Person Responsible for Corrective Action: Jenny Herman

Corrective Action Planned: The Administration Director will implement procedures over financial reporting to ensure the financial statements are fairly presented in accordance with generally accepted accounting principles.

Anticipated Completion Date: December 2018

Finding Number: 2015-005

Finding Title: Prior Period Adjustments

Name of Contact Person Responsible for Corrective Action: Jenny Herman

Corrective Action Planned: The Administration Director will implement procedures over financial reporting to ensure the financial statements are fairly presented in accordance with generally accepted accounting principles.

Anticipated Completion Date: December 2018

Finding Number: 2015-006

Finding Title: Inventory

Name of Contact Person Responsible for Corrective Action: Joseph Sutherland

Corrective Action Planned: The County will track inventory purchases, withdrawals and values throughout the year and update inventory records on an ongoing basis. Physical inventory counts will be performed annually by at least two individuals and support for year-end balances will be approved by Administration and maintained.

Anticipated Completion Date: November 2018

Finding Number: 2015-007

Finding Title: Fund Balance Reporting

Name of Contact Person Responsible for Corrective Action: Jenny Herman

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

Anticipated Completion Date: December 2018

Finding Number: 2015-008

Finding Title: Network and System Access Termination

Name of Contact Person Responsible for Corrective Action: Jenny Herman and Jaci Nagle

Corrective Action Planned: The County will implement procedures to ensure the timely removal of terminated employees' access to the network and computer applications.

Anticipated Completion Date: December 2018

Finding Number: 2015-009

Finding Title: Financial Statement Disclosures

Name of Contact Person Responsible for Corrective Action: Jenny Herman

Corrective Action Planned: The County will develop and document a process to review the financial report before the report is issued.

Anticipated Completion Date: December 2018

Finding Number: 2015-010

Finding Title: Uniform Guidance Written Procurement Policies and Procedures

Programs: Highway Planning and Construction Cluster (CFDA Nos. 20.205 and 20.219) and Medicaid Cluster (CFDA No. 93.778)

Name of Contact Person Responsible for Corrective Action: Jenny Herman

Corrective Action Planned: The County will develop and adopt a policy that includes the specific components of the Uniform Guidance requirements in a written procurement policy.

Anticipated Completion Date: December 2018

Finding Number: 2015-011

Finding Title: Special Tests and Provisions - Davis-Bacon Act

Program: Highway Planning and Construction Cluster (CFDA No. 20.205)

Name of Contact Person Responsible for Corrective Action: Joseph Sutherland

Corrective Action Planned: The County Engineer will establish a monitoring process to ensure that compliance with the Davis-Bacon Act is being achieved.

Anticipated Completion Date: October 2018

Finding Number: 2015-012

Finding Title: Eligibility

Program: Medicaid Cluster (CFDA No. 93.778)

Name of Contact Person Responsible for Corrective Action: Kathy LaFrance

Corrective Action Planned: The County will document and implement additional procedures, including review, to provide reasonable assurance that all necessary documentation to support eligibility determinations exists and is properly input in MAXIS.

Anticipated Completion Date: December 2018

Finding Number: 2015-013

Finding Title: Cash Management and Reporting - Local Collaborative Time Study Reports

Program: Medicaid Cluster (CFDA No. 93.778)

Name of Contact Person Responsible for Corrective Action: Kathy LaFrance

Corrective Action Planned: The County and collaborative members will implement and document procedures to ensure that the LCTS annual and quarterly reports are reviewed for accuracy and completeness by an individual independent of the preparer.

Anticipated Completion Date: December 2018

Finding Number: 2015-014

Finding Title: Procurement, Suspension, and Debarment

Program: Medicaid Cluster (CFDA No. 93.778)

Name of Contact Person Responsible for Corrective Action: Kathy LaFrance

Corrective Action Planned: The County will document the history of procurement transactions, including contract selection and full and open competition in accordance with Federal regulations. The County will retain documentation to support verification that vendors are not disbarred or suspended or that other exclusions apply, and the County will perform a cost analysis for procurements that exceed the simplified acquisition threshold and will distribute micro-purchases amongst qualified suppliers to the extent practicable.

Anticipated Completion Date: January 2019

Finding Number: 2015-015

Finding Title: Activities Allowed and Unallowed, Allowable Costs/Cost Principles

Programs: Renewable Energy Research and Development (CFDA No. 81.087) and Medicaid Cluster (CFDA No. 93.778)

Name of Contact Person Responsible for Corrective Action: Kathy LaFrance

Corrective Action Planned: The County will document review and approval of all claims for the RECAP project and the County will create and implement procedures to ensure all claims processed for the Medical Assistance Program be reviewed and approved by a supervisor prior to being processed for payment.

Anticipated Completion Date: Completed August 2018

Finding Number: 2015-016

Finding Title: Identification of Federal Awards

Programs: Highway Planning and Construction Cluster (CFDA Nos. 20.205 and 20.219) and Medicaid Cluster (CFDA No. 93.778)

Name of Contact Person Responsible for Corrective Action: Joseph Sutherland and Kathy LaFrance

Corrective Action Planned: The County will implement procedures to improve internal controls over identifying the expenditures of federal awards for SEFA reporting.

Anticipated Completion Date: December 2018

Finding Number: 2015-017

Finding Title: Collateral Assignments

Name of Contact Person Responsible for Corrective Action: Auditor/Treasurer

Corrective Action Planned: The County will require its depositories to provide written, board of director or loan committee approved assignments, using the languages required by Minnesota Statute 118A.03 for all collateral pledged and will monitor collateral coverage.

Anticipated Completion Date: December 2018

Finding Number: 2015-018

Finding Title: Electronic Funds Transfer Policy

Name of Contact Person Responsible for Corrective Action: Auditor/Treasurer

Corrective Action Planned: The County has established policies and procedures for investment and expenditure transactions via electronic funds transfer.

Anticipated Completion Date: Completed March 2018

Finding Number: 2015-019

Finding Title: Acceptance of Donations

Name of Contact Person Responsible for Corrective Action: Jenny Herman

Corrective Action Planned: On the first meeting of each month the County Board accepts by resolution donations and the terms prescribed by the donor.

Anticipated Completion Date: Completed on March 2018

Finding Number: 2015-020

Finding Title: Out-of-State Travel Policy

Name of Contact Person Responsible for Corrective Action: Jenny Herman

Corrective Action Planned: The County will establish a formal out-of-state travel policy.

Anticipated Completion Date: January 2019

Finding Number: 2015-021

Finding Title: Use of Public Funds

Name of Contact Person Responsible for Corrective Action: Jenny Herman

Corrective Action Planned: The County will establish policies and procedures for the use of public funds.

Anticipated Completion Date: January 2019

Finding Number: 2015-022

Finding Title: Unauthorized Creation of Taxing District

Name of Contact Person Responsible for Corrective Action: N/A

Corrective Action Planned: The County disagrees with this finding.

In the Finding, the Auditor suggests the County created an unauthorized subordinate service district. The County disagrees with the finding.

Minn. Stat. § 375B.02-.04 authorizes counties to create subordinate service districts, and assess a tax within the district, when the county board determines "to provide and finance any governmental service or function which it is otherwise authorized to undertake."

Here, the tax within the subject subordinate service district was imposed to raise revenue to fund major repairs needed to keep the Little Fork Medical Center ("LMC") open which was owned by the City of Littlefork. The Center provides medical health care, assisted living, nursing home, and addiction care services to the Littlefork area of the County. Counties are specifically authorized under Minn. Stat. Ch. 376 to make these types of services available to county residents. Consequently, the subordinate service district tax "finances a governmental service" which Koochiching County is "authorized to undertake."

The Finding appears in large part to be based on the presumption that the taxpayers within the subordinate service district are receiving no service or benefits that other County residents do not receive. The County strongly disagrees. But for the major repairs to the LMC, the facility would have closed, depriving the residents of this area of the County of the health care services provided by the LMC; Residents in the subordinate service district are in fact receiving the benefit of a county-funded service that is generally not available to other residents of the County that do not reside close enough to Littlefork to access the services offered by LMC.

In short, finding 2015-022 does not properly construe or apply Minnesota law. The County takes issue with it.

Finding Number: 2015-023
Finding Title: Current Year Property Tax Refund Program

Name of Contact Person Responsible for Corrective Action: Jenny Herman

Corrective Action Planned: The County will discontinue the Current Year Property Tax Refund Program

Anticipated Completion Date: 2019

Finding Number: 2015-024

Finding Title: Contract Compliance

Name of Contact Person Responsible for Corrective Action: Jenny Herman

Corrective Action Planned: The County will ensure all employees and officials involved with contracting for the County are aware of and follow applicable legal requirements.

Anticipated Completion Date: December 2018

Finding Number: 2015-025

Finding Title: Disaster Recovery Plan

Name of Contact Person Responsible for Corrective Action: Jaci Nagle

Corrective Action Planned: The County will update and test our current disaster recovery plan.

Anticipated Completion Date: July 2019

Finding Number: 2015-026

Finding Title: Budget Deficiencies

Name of Contact Person Responsible for Corrective Action: Jenny Herman

Corrective Action Planned: The County will implement procedures to improve budgetary accounting, including reviewing original budgets and comparing them to Board approved budgets.

Anticipated Completion Date: December 2018

KOOCHICHING COUNTY BOARD OF COMMISSIONERS
715 4th Street
INTERNATIONAL FALLS, MN 56649

REPRESENTATION OF KOOCHICHING COUNTY
INTERNATIONAL FALLS, MINNESOTA

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

Finding Number: 2008-001
Finding Title: Segregation of Duties

Summary of Condition: Due to the limited number of personnel within several County offices, segregation of accounting duties necessary to ensure adequate internal accounting control is not possible.

Summary of Corrective Action Previously Reported: Management is aware of this and will provide oversight where needed.

Status: Not Corrected. Management understands the challenges for segregation of duties with limited staff and improvements to existing procedures can be made. A review of current procedures will be conducted, and the Administration Director will make recommendations for improvements to be implemented by the end of the 2nd quarter of 2018.

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

Finding Number: 2008-002
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: Management does review the financial statements.

Administration Office: Phone: 218-283-1152; jenny.herman@co.koochiching.mn.us

Status: Not Corrected. Management will complete a review of the draft Audit Control Policy and have this policy approved by the Board of Commissioners. Administration will ensure this policy is implemented and reviewed with new and existing staff. In addition, an annual review of this policy will be completed to ensure the County follows the Board approved policy.

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

Finding Number: 2014-001
Finding Title: Road and Bridge Fund Financial Statements

Summary of Condition: The Road and Bridge Department did not provide completed financial statements and other information needed for the annual audit in a timely manner.

Summary of Corrective Action Previously Reported: The County Administration Director will ensure that County Management provide the necessary information for completion of the annual County audit on a timely basis.

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