STATE OF MINNESOTA

Office of the State Auditor

Rebecca Otto
State Auditor

PENNINGTON COUNTY
THIEF RIVER 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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PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA

Year Ended December 31, 2015

Audit Practice Division
Office of the State Auditor
State of Minnesota

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PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA

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Introductory Section

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PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA

ORGANIZATION
DECEMBER 31, 2015

			Term Expires
Elected			
Commissioners			
Vice Chair	Donald Jensen	District 1	January 2017
Board Member	Cody Hempel	District 2	January 2017
Board Member	Neil Peterson	District 3	January 2019
Chair	Darryl Tveitbakk	District 4	January 2019
Board Member	Oliver “Skip” Swanson	District 5	January 2017
Attorney	Allan Rogalla		January 2019
Auditor-Treasurer	Kenneth Olson		January 2019
County Recorder	Ken Schmalz*		January 2019
Registrar of Titles	Ken Schmalz*		January 2019
County Sheriff	Ray Kuznia		January 2019
Appointed			
Assessor	Adeline Olson		January 2017
Coroner	Scott Petrescue		Indefinite
Court Administrator	Kathy Narlock		Indefinite
Highway Engineer	Michael Flaagan		May 2018
Veterans Service Officer	Steve Stone		Indefinite
Human Services Director	Ken Yutrzenka		Indefinite

*Replaced by Julie Hansen on January 27, 2016.

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Financial Section

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STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

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SAINT PAUL, MN 55103-2139

REBECCA OTTO
STATE AUDITOR

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

INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Pennington County
Thief River Falls, Minnesota

Report on the Financial Statements

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

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

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

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

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

Opinions

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

Emphasis of Matter - Change in Accounting Principle

As discussed in Note 1 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.

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 Pennington 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 March 22, 2018, on our consideration of Pennington County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Pennington 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 Pennington County's internal control over financial reporting and compliance.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Pennington 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

March 22, 2018

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MANAGEMENT’S DISCUSSION AND ANALYSIS

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PENNINGTON COUNTY AUDITOR

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PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA

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

Pennington 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 Pennington County's basic financial statements that follow this section. All amounts, unless otherwise indicated, are expressed in whole dollars.

FINANCIAL HIGHLIGHTS

Pennington County's total net position is $63,176,926, of which, $54,557,885 is the net investment in capital assets, $4,524,815 is restricted for specific purposes, and $4,094,226 (unrestricted net position) may be used to meet Pennington County's ongoing obligations to citizens and creditors.

The County's net position increased by $1,953,647 for the year ended December 31, 2015, after restatement for Governmental Accounting Standards Board (GASB) Statements 68 and 71. Additional information about the restatement can be found in Note 1.E. to the financial statements. The increase was attributed mainly to an increase in highway infrastructure assets.

At the close of 2015, Pennington County's governmental funds reported combined ending fund balances of $11,644,872, a decrease of $414,796 in comparison with the prior year. Of the total fund balances amount, $301,903 is nonspendable, $1,897,170 is legally or contractually restricted, $2,937,816 is formally committed for specific purposes, and $4,852,313 is assigned for specific purposes. Maintaining an adequate fund balance is necessary to provide County services throughout the year.

At the close of 2015, unrestricted fund balance for the General Fund was $5,088,896, or 75.4 percent of total General Fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

This MD&A is intended to serve as an introduction to Pennington County's basic financial statements. The County's basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund level financial statements, and (3) notes to the financial statements. The MD&A (this section) is required to accompany the basic financial statements and is included as required supplementary information. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of Pennington County's finances in a manner similar to a private-sector business.

The Statement of Net Position presents information on all of Pennington 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 health of Pennington 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 result in cash flows only in future fiscal periods (for example, uncollected taxes and earned but unused vacation leave).

The County's government-wide financial statements report functions of the County that are principally supported by taxes and intergovernmental revenues. The governmental activities of Pennington 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 used to maintain control over resources that have been segregated for specific activities or objectives. Pennington 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 Pennington 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, County 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 fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Pennington County reports nine individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, and the Road and Bridge, Human Services, and Ditch Special Revenue Funds, all of which are considered to be major funds. Data from the other five governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements after the notes to the financial statements.

Pennington 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, other governments, or other funds. The County's fiduciary activities are reported in a separate Statement of Fiduciary Net Position. These activities are not reflected in the government-wide financial statements because those resources are not available to support the County's programs.

Fiduciary fund financial statements can be found as Exhibit 7 of this report.

Notes to the Financial Statements

The notes to the financial statements provide additional information essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information

In addition to the basic financial statements and notes, this report also presents certain required supplementary information. The County also provides supplementary information including combining statements, budgetary comparison schedules, a schedule of intergovernmental revenue, and a schedule of expenditures of federal awards and related notes.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Over time, net position serves as a useful indicator of the County's financial position. Pennington County's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $63,176,926 at the close of 2015. The largest portion of Pennington County's net position (86 percent) reflects its net investment in capital assets (land, infrastructure, buildings, and equipment). However, it should be noted that these assets are not available for future spending. Approximately 7 percent of the County's net position is restricted and 6 percent is unrestricted. The unrestricted net position amount of $4,094,226 may be used to meet the County's ongoing obligations to citizens.

Table A-1
Governmental Net Position

	2015	2014
Assets		
Current and other assets	$ 15,220,575	$ 14,761,114
Capital assets	55,729,322	54,064,577
Total Assets	$ 70,949,897	$ 68,825,691
Deferred Outflows of Resources		
Deferred pension outflows	$ 754,028	$ -
Liabilities		
Long-term liabilities outstanding	$ 7,272,199	$ 3,308,498
Other liabilities	769,745	571,012
Total Liabilities	$ 8,041,944	$ 3,879,510
Deferred Inflows of Resources		
Deferred pension inflows	$ 485,055	$ -
Net Position		
Net investment in capital assets	$ 54,557,885	$ 51,692,577
Restricted	4,524,815	2,226,514
Unrestricted	4,094,226	11,027,090
Total Net Position, as reported	$ 63,176,926	$ 64,946,181
Change in accounting principle*		(3,722,902)
Total Net Position, as restated		$ 61,223,279

*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.

Governmental Activities

Pennington County's activities increased net position by $1,953,647, or 3 percent, over the 2014 net position, after the restatement for GASB Statements 68 and 71. The key element of the increase was an increase in highway infrastructure assets.

Table A-2
Changes in Net Position

	2015	2014
Revenues		
Program revenues		
Fees, charges, fines, and other	$ 2,405,878	$ 2,337,101
Operating grants and contributions	6,278,300	3,972,113
Capital grants and contributions	1,224,836	2,588,475
General revenues		
Property taxes	7,608,393	7,423,991
Other taxes	197,817	18,820
Payments in lieu of tax	71,790	32,781
Grants and contributions not restricted to specific programs	1,042,458	995,827
Investment earnings	36,617	37,638
Miscellaneous	72,467	-
Total Revenues	$ 18,938,556	$ 17,406,746
Expenses		
General government	$ 2,779,519	$ 2,566,637
Public safety	3,665,541	3,266,391
Highways and streets	4,773,138	5,233,145
Sanitation	55,386	66,393
Human services	4,676,225	4,802,309
Health	2,792	51,064
Culture and recreation	185,493	204,724
Conservation of natural resources	668,335	671,206
Economic development	94,145	45,626
Interest	84,335	78,062
Total Expenses	$ 16,984,909	$ 16,985,557
Increase (Decrease) in Net Position	$ 1,953,647	$ 421,189
Net Position, January 1, as restated	61,223,279*	64,524,992
Net Position, December 31	$ 63,176,926	$ 64,946,181

*Amount includes a change in accounting principles.

Figure A-3
Revenues by Source for Fiscal Year 2015

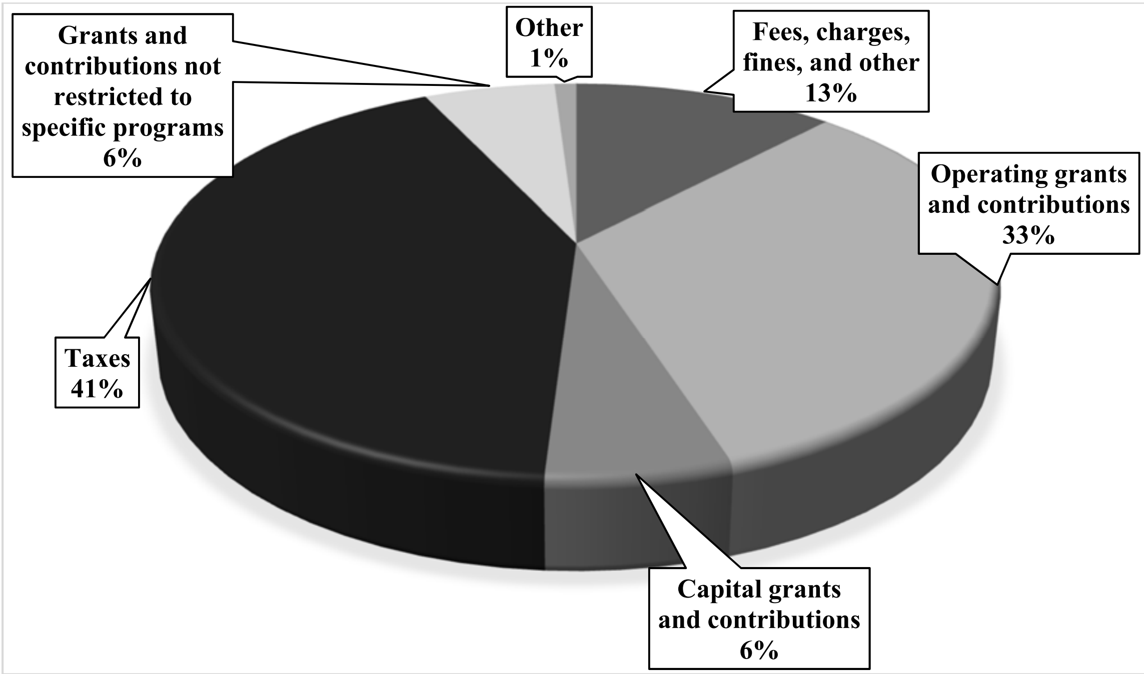


Figure A-4
Expenses by Function for Fiscal Year 2015

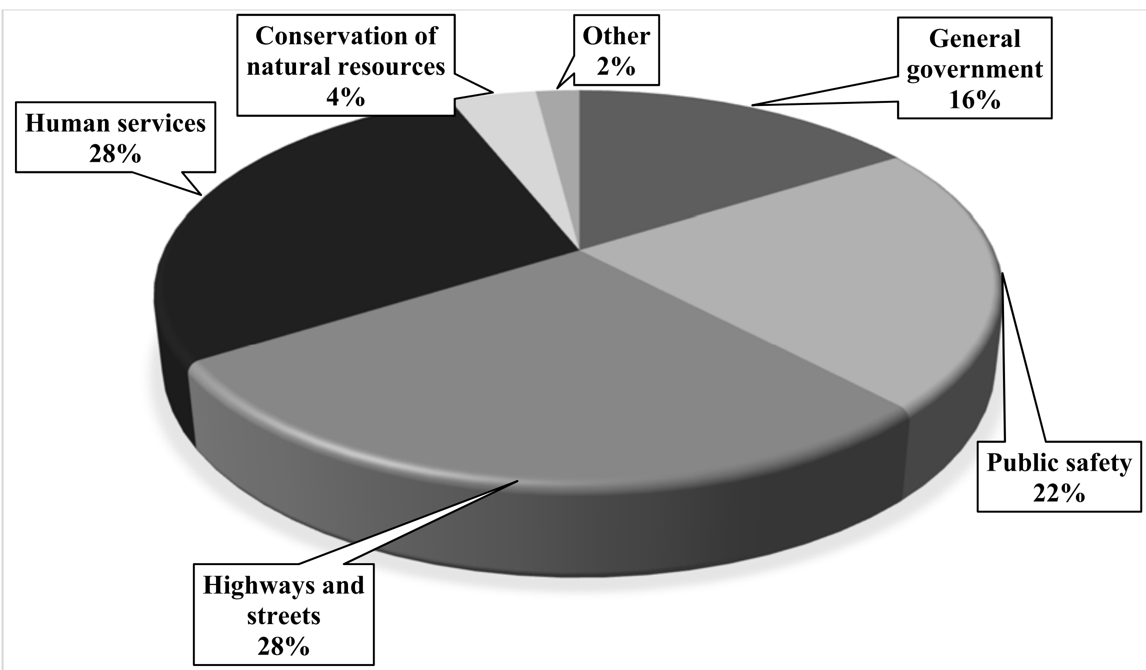


Figure A-5
Program Revenues and Expenses

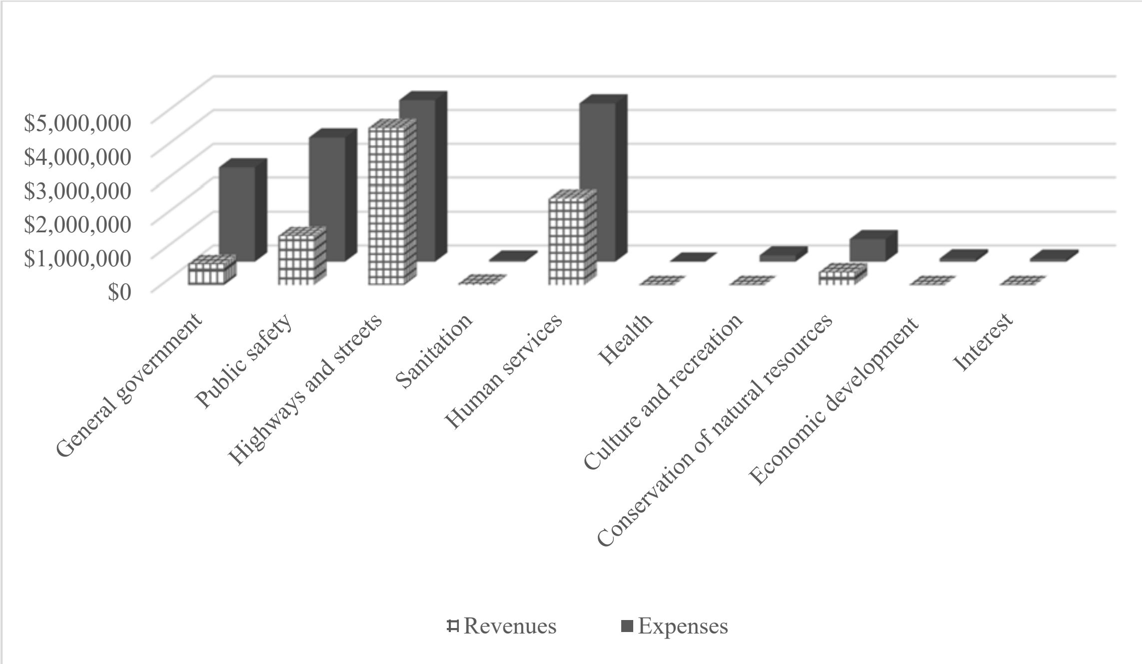
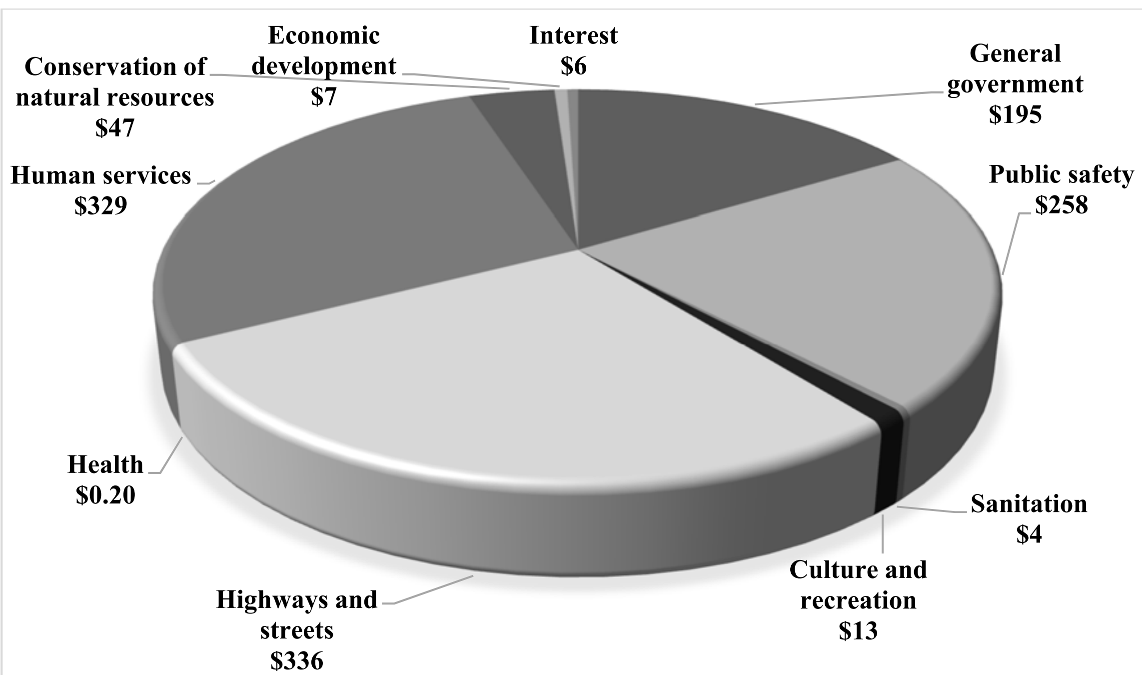


Figure A-6
Expenses Per Capita
14,219 Population as of July 1, 2015



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.

Governmental Funds

The focus of the County's governmental funds is to provide information on short-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unrestricted fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the County's governmental funds reported combined ending fund balances of $11,644,872, a decrease of $414,796 in comparison with the prior year.

The General Fund is the chief operating fund of Pennington County. At the end of the current fiscal year, unrestricted fund balance of the General Fund was $5,088,896, while total fund balance was $5,690,332. As a measure of the General Fund's liquidity, it may be useful to compare unrestricted fund balance to total fund expenditures. Unrestricted fund balance represents 75.4 percent of total General Fund expenditures. The County Board has determined that the County should maintain a minimum unrestricted fund balance of not less than 35 to 50 percent of the next year's budgeted expenditures of the General Fund. At December 31, 2015, the unrestricted fund balance for the General Fund was at or above the minimum fund balance established by the Board. In 2015, fund balance in the General Fund increased by $518,659 due to departmental spending under budget and a savings realized from budgeted E-911 equipment purchases that were not made.

The fund balance of the Road and Bridge Special Revenue Fund decreased by $310,826 in 2015 due to the completion of construction projects.

The fund balance of the Human Services Special Revenue Fund increased by $247,200 in 2015 due to fewer out-of-home placement expenditures and unfilled employee positions.

The fund balance of the Ditch Special Revenue Fund decreased by $123,410 in 2015 due to expenditures for ditch maintenance and repair.

General Fund Budgetary Highlights

Actual revenues in the General Fund were higher than budgeted revenues by $231,079, with the largest variance in intergovernmental revenue. Actual expenditures were lower than budgeted expenditures by $419,629, partially as a result of budgeted E-911 equipment purchases that were not made.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The County's investment in capital assets for its governmental activities as of December 31, 2015, was $55,729,322 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and infrastructure. The total increase in Pennington County's investment in capital assets for the current fiscal year was 3.1 percent.

Table A-7
Capital Assets
(Net of Depreciation)

	2015	2014
Land	$ 1,217,227	$ 464,569
Construction in progress	173,859	-
Infrastructure	50,833,229	50,348,698
Buildings and improvements	1,810,473	1,479,656
Machinery and equipment	1,694,534	1,771,654
Total	$ 55,729,322	$ 54,064,577

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, Pennington County had total debt outstanding of $2,133,698, which is backed by the full faith and credit of the government.

Table A-8
Long-Term Debt

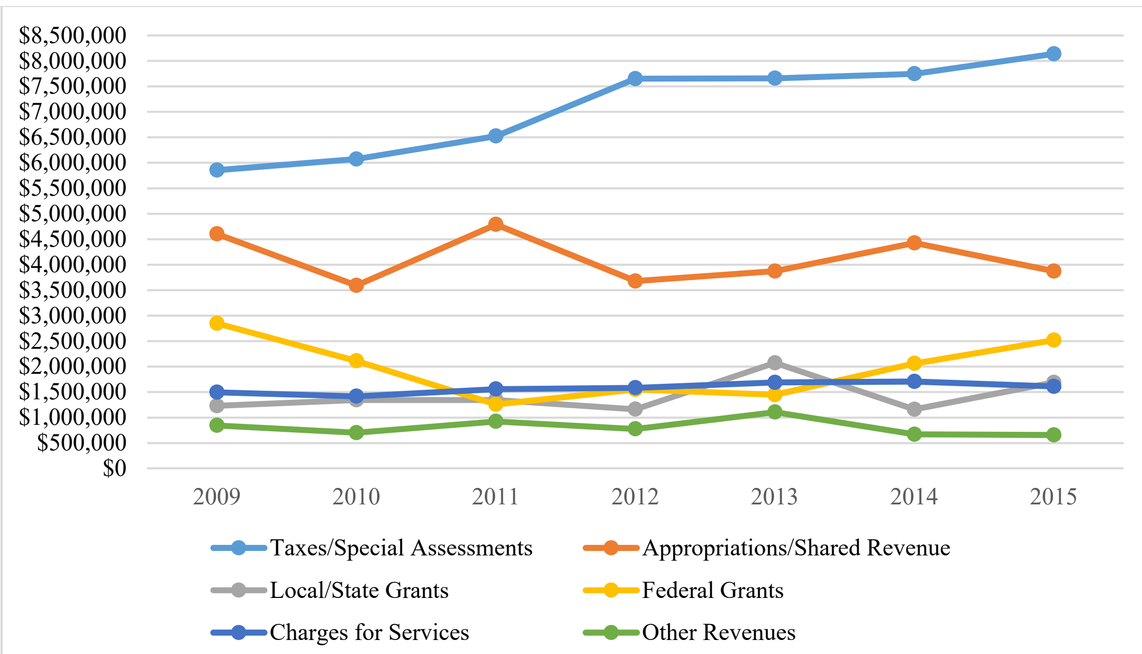
	2015	2014
General obligation bonds (including premiums)	$ 1,505,698	$ 1,651,168
General obligation Highway State-Aid Note	628,000	722,000
Total	$ 2,133,698	$ 2,373,168

Minnesota statutes limit the amount of debt that a County may have to 3 percent of its total market value, excluding revenue bonds. At the end of 2015, overall debt of the County was below the 3 percent debt limit.

Pennington County's bond rating is "AA-" from Standard & Poor's. The County was also able to utilize an underlying bond rating from the Minnesota Public Facilities Authority of "AA+" for a recent bond issue. Additional information on the County's long-term debt can be found in Note 3.C. to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

- Pennington 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 appropriations. It is also subject to changes in investment earnings and asset values associated with U.S. Treasury securities because of actions by foreign governments and other holders of publicly-held U.S. Treasury securities. The analysis below focuses on the revenues of the County's governmental funds.



- The unemployment rate for Pennington County was 7.5 percent as of December 31, 2015. This is higher than the statewide rate of 3.7 percent and the national average rate of 4.8 percent.

- Pennington County's population at July 1, 2015, was 14,219, an increase of 289 since 2010. This ranks Pennington County 58th of 87 counties in the State of Minnesota.

- In 2016, the County began planning for a major jail renovation and construction project which includes the issuance of $16,230,000 of general obligation bonds.

- On December 9, 2015, Pennington County set its 2016 revenue and expenditure budgets.

REQUESTS FOR INFORMATION

This annual financial report is designed to provide a general overview of Pennington County's finances 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 Kenneth Olson, Pennington County Auditor-Treasurer, P. O. Box 616, Thief River Falls, Minnesota 56701.

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BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA

EXHIBIT 1

STATEMENT OF NET POSITION
DECEMBER 31, 2015

Assets	
Cash and pooled investments	$ 11,455,346
Petty cash and change funds	2,275
Departmental cash	40,728
Taxes receivable - delinquent	211,535
Special assessments receivable	
Delinquent	13,877
Noncurrent	1,166,072
Accounts receivable	11,278
Due from other governments	2,017,561
Inventories	301,903
Capital assets	
Non-depreciable	1,391,086
Depreciable - net of accumulated depreciation	54,338,236
Total Assets	**$ 70,949,897**
Deferred Outflows of Resources	
Deferred pension outflows	**$ 754,028**
Liabilities	
Accounts payable	$ 398,063
Salaries payable	208,107
Due to other governments	121,214
Accrued interest payable	24,361
Unearned revenue	18,000
Long-term liabilities	
Due within one year	757,060
Due in more than one year	2,070,095
Net pension liability	4,119,152
Net other postemployment benefits obligation	325,892
Total Liabilities	**$ 8,041,944**
Deferred Inflows of Resources	
Deferred pension inflows	**$ 485,055**

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

PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA

EXHIBIT 1
(Continued)

STATEMENT OF NET POSITION
DECEMBER 31, 2015

Net Position

Net investment in capital assets	$	54,557,885
Restricted for		
General government		336,612
Public safety		264,824
Highways and streets		1,398,606
Sanitation		197,831
Human services		107,518
Conservation of natural resources		1,952,433
Debt service		266,991
Unrestricted		4,094,226
Total Net Position	**$**	**63,176,926**

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

EXHIBIT 2

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2015

	Expenses	Program Revenues: Fees, Charges, Fines, and Other	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
Functions/Programs					
Primary Government					
Governmental activities					
General government	$ 2,779,519	$ 528,486	$ 92,308	$ -	$ (2,158,725)
Public safety	3,665,541	784,438	668,281	-	(2,212,822)
Highways and streets	4,773,138	252,067	3,164,150	1,224,836	(132,085)
Sanitation	55,386	6,455	35,827	-	(13,104)
Human services	4,676,225	337,789	2,222,917	-	(2,115,519)
Health	2,792	-	-	-	(2,792)
Culture and recreation	185,493	-	-	-	(185,493)
Conservation of natural resources	668,335	496,643	94,817	-	(76,875)
Economic development	94,145	-	-	-	(94,145)
Interest	84,335	-	-	-	(84,335)
Total Primary Government	**$ 16,984,909**	**$ 2,405,878**	**$ 6,278,300**	**$ 1,224,836**	**$ (7,075,895)**

General Revenues	
Property taxes	$ 7,608,393
Gravel taxes	36,905
Mortgage registry and deed tax	10,127
Wheelage tax	150,785
Payments in lieu of tax	71,790
Grants and contributions not restricted to specific programs	1,042,458
Investment earnings	36,617
Miscellaneous	72,467
Total general revenues	**$ 9,029,542**
Change in Net Position	**$ 1,953,647**
Net Position - January 1, as restated (Note 1.E.)	**61,223,279**
Net Position - December 31	**$ 63,176,926**

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

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2015

	General	Road and Bridge
Assets		
Cash and pooled investments	$ 5,573,835	$ 1,198,261
Petty cash and change funds	2,275	-
Departmental cash	40,728	-
Taxes receivable		
Delinquent	109,993	34,028
Special assessments receivable		
Delinquent	-	-
Noncurrent	-	-
Accounts receivable	7,620	3,658
Due from other funds	21,619	-
Due from other governments	258,593	1,455,212
Inventories	-	301,903
Advances to other funds	-	-
Total Assets	**$ 6,014,663**	**$ 2,993,062**
Liabilities, Deferred Inflows of Resources, and Fund Balances		
Liabilities		
Accounts payable	$ 42,195	$ 103,606
Salaries payable	121,824	28,614
Due to other funds	-	38
Due to other governments	53,431	5,006
Advances from other funds	-	-
Unearned revenue	18,000	-
Total Liabilities	**$ 235,450**	**$ 137,264**
Deferred Inflows of Resources		
Unavailable revenue	**$ 88,881**	**$ 1,426,103**

EXHIBIT 3

Human Services	Ditch	Nonmajor Governmental Funds	Total Governmental Funds
$ 2,134,259	$ 611,463	$ 1,937,528	$ 11,455,346
-	-	-	2,275
-	-	-	40,728
61,715	-	5,799	211,535
-	13,877	-	13,877
-	1,166,072	-	1,166,072
-	-	-	11,278
-	-	-	21,619
265,521	2,408	35,827	2,017,561
-	-	-	301,903
-	-	111,114	111,114
$ 2,461,495	**$ 1,793,820**	**$ 2,090,268**	**$ 15,353,308**
$ 140,384	$ 30,660	$ 81,218	$ 398,063
57,669	-	-	208,107
21,581	-	-	21,619
59,600	1,968	1,209	121,214
-	111,114	-	111,114
-	-	-	18,000
$ 279,234	**$ 143,742**	**$ 82,427**	**$ 878,117**
$ 97,388	**$ 1,177,433**	**$ 40,514**	**$ 2,830,319**

PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2015

	General	Road and Bridge
Liabilities, Deferred Inflows of Resources, and Fund Balances (Continued)		
Fund Balances		
Nonspendable		
Inventories	$ -	$ 301,903
Restricted for		
Debt service	-	-
DARE program	11,169	-
Enhanced 911	170,433	-
Recorder's technology equipment	128,948	-
SCORE	-	-
Recorder's compliance	157,906	-
Attorney forfeiture	15,355	-
Permit to carry	60,954	-
Law library	30,075	-
Probation	16,159	-
Sheriff's forfeited property	6,109	-
CVSO enhancement grant	4,328	-
Child protection	-	-
Ditch maintenance and construction	-	-
Committed for		
Capital improvements	1,958,544	-
Public safety	979,272	-
Assigned to		
Jail canteen	110,054	-
Juvenile restitution	12,082	-
Parents forever	2,177	-
Highways and streets	-	1,127,792
Sanitation	-	-
Human services	-	-
Economic development	68,222	-
Capital projects	-	-
Unassigned	1,958,545	-
Total Fund Balances	**$ 5,690,332**	**$ 1,429,695**
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	**$ 6,014,663**	**$ 2,993,062**

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

EXHIBIT 3
(Continued)

Human Services	Ditch	Nonmajor Governmental Funds	Total Governmental Funds
$ -	$ -	$ -	$ 301,903
-	-	262,383	262,383
-	-	-	11,169
-	-	-	170,433
-	-	-	128,948
-	-	197,831	197,831
-	-	-	157,906
-	-	-	15,355
-	-	-	60,954
-	-	-	30,075
-	-	-	16,159
-	-	-	6,109
-	-	-	4,328
60,000	-	-	60,000
-	775,520	-	775,520
-	-	-	1,958,544
-	-	-	979,272
-	-	-	110,054
-	-	-	12,082
-	-	-	2,177
-	-	-	1,127,792
-	-	346,708	346,708
2,024,873	-	-	2,024,873
-	-	-	68,222
-	-	1,160,405	1,160,405
-	(302,875)	-	1,655,670
$ 2,084,873	**$ 472,645**	**$ 1,967,327**	**$ 11,644,872**
$ 2,461,495	**$ 1,793,820**	**$ 2,090,268**	**$ 15,353,308**

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PENNINGTON COUNTY
THIEF RIVER 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 (Exhibit 3)		**$ 11,644,872**
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.		55,729,322
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.		2,830,319
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
General obligation bonds and any related unamortized discounts/premiums	$ (1,505,698)	
General obligation notes	(628,000)	
Net other postemployment benefits obligation	(325,892)	
Compensated absences	(693,457)	
Net pension liability	(4,119,152)	
Accrued interest payable	(24,361)	(7,296,560)
Deferred outflows of resources and deferred inflows of resources are created as a result of various differences related to pensions that are not recognized in the governmental funds.		
Deferred outflows related to pensions	$ 754,028	
Deferred inflows related to pensions	(485,055)	268,973
Net Position of Governmental Activities (Exhibit 1)		**$ 63,176,926**

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

PENNINGTON COUNTY
THIEF RIVER 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	$ 4,170,474	$ 1,329,180
Special assessments	-	-
Licenses and permits	2,295	-
Intergovernmental	1,553,420	4,113,986
Charges for services	1,117,342	171,936
Fines and forfeitures	260	-
Gifts and contributions	16,941	-
Investment earnings	36,617	-
Miscellaneous	366,213	167,367
Total Revenues	**$ 7,263,562**	**$ 5,782,469**
Expenditures		
Current		
General government	$ 2,561,687	$ -
Public safety	3,431,359	-
Highways and streets	-	5,354,068
Sanitation	-	-
Human services	27,071	-
Health	2,792	-
Culture and recreation	185,493	-
Conservation of natural resources	357,760	-
Economic development	92,979	-
Capital outlay		
General government	11,207	-
Public safety	74,555	-
Highways and streets	-	336,311
Intergovernmental		
Highways and streets	-	198,448
Debt service		
Principal	-	94,000
Interest	-	22,671
Administrative and fiscal charges	-	-
Total Expenditures	**$ 6,744,903**	**$ 6,005,498**
Net Change in Fund Balances	**$ 518,659**	**$ (223,029)**
Fund Balances, January 1	**5,171,673**	**1,740,521**
Increase (decrease) in inventories	**-**	**(87,797)**
Fund Balances - December 31	**$ 5,690,332**	**$ 1,429,695**

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

EXHIBIT 5

Human Services	Ditch	Nonmajor Governmental Funds	Total Governmental Funds
$ 2,152,997	$ -	$ 152,674	$ 7,805,325
-	331,531	-	331,531
-	-	-	2,295
2,406,540	-	6,132	8,080,078
318,301	2,408	-	1,609,987
-	-	-	260
-	-	-	16,941
-	-	-	36,617
53,988	6,918	6,455	600,941
$ 4,931,826	**$ 340,857**	**$ 165,261**	**$ 18,483,975**
$ -	$ -	$ -	$ 2,561,687
-	-	-	3,431,359
-	-	-	5,354,068
-	-	54,318	54,318
4,684,626	-	-	4,711,697
-	-	-	2,792
-	-	-	185,493
-	395,462	-	753,222
-	-	-	92,979
-	-	457,504	468,711
-	-	258,463	333,018
-	-	-	336,311
-	-	-	198,448
-	45,000	120,000	259,000
-	22,875	20,900	66,446
-	930	495	1,425
$ 4,684,626	**$ 464,267**	**$ 911,680**	**$ 18,810,974**
$ 247,200	**$ (123,410)**	**$ (746,419)**	**$ (326,999)**
1,837,673	**596,055**	**2,713,746**	**12,059,668**
-	**-**	**-**	**(87,797)**
$ 2,084,873	**$ 472,645**	**$ 1,967,327**	**$ 11,644,872**

PENNINGTON COUNTY
THIEF RIVER 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)			**$**	**(326,999)**
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.				
Unavailable revenue - December 31	$	2,830,319		
Unavailable revenue - January 1		(2,157,861)		672,458
Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.				
Expenditures for general capital assets and infrastructure	$	3,984,586		
Current year depreciation expense		(2,473,579)		
Adjustment to prior year's accumulated depreciation		153,738		1,664,745
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.				
Principal payments				
General obligation bonds	$	165,000		
General obligation notes		94,000		259,000
Some expenses reported in the statement of activities do not require the use of current financial resources, so are not reported as expenditures in the governmental funds.				
Change in accrued interest payable	$	3,066		
Amortization of discounts/premiums		(19,530)		
Change in compensated absences		(53,019)		
Change in inventories		(87,797)		
Change in net other postemployment benefits obligation		(31,000)		
Change in deferred pension outflows, as restated		523,470		
Change in deferred pension inflows		(485,055)		
Change in net pension liability, as restated		(165,692)		(315,557)
Net Change in Net Position of Governmental Activities (Exhibit 2)			**$**	**1,953,647**

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

FIDUCIARY FUNDS

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EXHIBIT 7

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
DECEMBER 31, 2015

	Agency
Assets	
Cash and pooled investments	$ 697,648
Due from other funds	14,575
Total Assets	**$ 712,223**
Liabilities	
Accounts payable	$ 23,228
Due to other funds	14,575
Due to other governments	674,420
Total Liabilities	**$ 712,223**

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

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) as of and 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

Pennington County was established November 23, 1910, and is an organized county having the powers, duties, and privileges granted counties by Minn. Stat. ch. 373. The County is governed by a five-member Board of Commissioners elected from districts within the County. The Board is organized with a chair and vice chair elected at the annual meeting in January of each year.

Joint Ventures and Jointly-Governed Organizations

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 County. These statements include the financial activities of the overall County government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities.

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

In the government-wide statement of net position, the governmental activities: (a) are presented on a consolidated basis; and (b) are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The County's net position is reported in three parts: (1) 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; and (2) grants and contributions restricted to meeting the operational or capital requirements of a particular function or activity. Revenues not classified as program revenues, including all taxes, are presented as general revenues.

2. Fund Financial Statements

The fund financial statements provide information about the County's funds, including its fiduciary funds. Separate statements for each fund category--governmental and fiduciary--are presented. The emphasis of governmental fund financial statements is on major individual governmental funds, with each displayed as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor funds.

The County reports the following major governmental funds:

The General Fund is the County's primary operating fund. It accounts for all financial resources of the general government, except those accounted for in another fund.

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

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

The Ditch Special Revenue Fund is used to account for the operation and maintenance of County and joint County drainage systems.

Additionally, the County reports the following fund types:

The Debt Service Funds account for the resources accumulated and payments made for the principal and interest on long-term debt of the government.

The Capital Improvement 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.

C. Measurement Focus and Basis of Accounting

The government-wide and fiduciary fund 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.

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Pennington 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. 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 received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2015 were $36,617.

Pennington County invests in an external investment pool, the Minnesota Association of Governments Investing for Counties (MAGIC) Fund, which is created under a joint powers agreement pursuant to Minn. Stat. § 471.59. The investment in the pool is measured at the net asset value per share provided by the pool.

1. Summary of Significant Accounting Policies

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

2. Receivables and Payables

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

Advances between funds, as reported in the fund financial statements, are offset by a fund balance nonspendable account in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources, unless the funds are otherwise restricted, committed, or assigned.

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

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

3. Special Assessments Receivable

Special assessments receivable consist of delinquent special assessments payable in the years 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. Inventories

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.

1. Summary of Significant Accounting Policies

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

5. Capital Assets

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

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

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

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

Assets	Years
Infrastructure	50 - 75
Buildings and improvements	20 - 30
Machinery and equipment	5 - 12

6. 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)

7. Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated annual vacation, sick leave, and comp time 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 government-wide statement of net position reports both current and noncurrent portions of compensated absences. The current portion of the liability consists of vacation and comp time earned within the year. The compensated absences liability is liquidated by the General Fund and the Road and Bridge and the Human Services Special Revenue Funds.

8. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expenditure/expense) until then. 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

8. 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.

9. 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)

10. 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 the Human Services Special Revenue Funds.

11. Classification of Net Position

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

Net investment in capital assets - represents 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)

12. Classification of Fund Balances

Fund balance is divided into five classifications based primarily on the extent to which Pennington 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 County Auditor-Treasurer who has been delegated that authority by Board resolution.

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

1. Summary of Significant Accounting Policies

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

12. Classification of Fund Balances (Continued)

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

13. Minimum Fund Balance

The County has adopted a minimum fund balance policy to maintain an adequate level of fund balance to provide for cash flow requirements and contingency needs. The County is heavily reliant upon property tax revenues to fund current operations. However, current property tax revenues are not available for distribution until June. Therefore, the County Board has determined it needs to maintain a minimum level of unrestricted fund balance (committed, assigned, and unassigned) not less than 35 to 50 percent of the next year's budgeted expenditures of the General Fund. Unrestricted fund balance can be "spent down" if there is an anticipated budget shortfall. If spending unrestricted fund balance 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 property taxes or transfers from other funds within a three-year period of time. At December 31, 2015, the unrestricted fund balance for the General Fund was at or above the minimum fund balance level.

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.

1. Summary of Significant Accounting Policies (Continued)

E. 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 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 schedule.

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.

	Governmental Activities
Net Position, January 1, 2015, as previously reported	$ 64,946,181
Change in accounting principles	(3,722,902)
Net Position, January 1, 2015, as restated	$ 61,223,279

2. Stewardship, Compliance, and Accountability

A. Ditch Fund Equity

Of the 48 drainage systems, 17 have incurred expenditures in excess of revenues and available resources. These deficits will be eliminated with future special assessment levies against benefited properties. The following summary shows the fund balances of the Ditch Special Revenue Fund as of December 31, 2015:

31 ditches with positive fund balances	$	775,520
17 ditches with deficit fund balances		(302,875)
Net Fund Balance	$	472,645

B. Excess of Expenditures Over Budget

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

	Expenditures	Final Budget	Excess
Capital Improvement Capital Projects Fund			
Capital outlay			
Public safety	$ 258,463	$ -	$ 258,463

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

The County's total cash and investments follows:

Government-wide statement of net position		
Governmental activities		
Cash and pooled investments	$	11,455,346
Petty cash and change funds		2,275
Departmental cash		40,728
Statement of fiduciary net position		
Cash and pooled investments		697,648
Total Cash and Investments	$	12,195,997

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 not owned or controlled by the financial institution furnishing the collateral.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk. As of December 31, 2015, the County's deposits were not exposed to custodial credit risk.

b. Investments

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

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

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

(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.

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. The County's policy is to minimize its exposure to interest rate risk by investing in short-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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.

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 in the possession of an outside party. The County's policy is to minimize custodial credit risk for investments. At December 31, 2015, none of the County's investments were subject to custodial credit risk.

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the County's investment in a single issuer. The County's policy is to diversify its portfolio so the impact of potential losses from one type of security or issuer will be minimized.

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

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

Investment Type	Credit Risk: Credit Rating	Credit Risk: Rating Agency	Concentration Risk: Over 5 Percent of Portfolio	Interest Rate Risk: Maturity Date	Carrying (Fair) Value
U.S. government agency securities					
Federal Home Loan Bank	Aaa/AA+	Moody's/S&P	7.2%	06/21/2017	$ 344,810
Federal Home Loan Mortgage Corporation	Aaa/AA+	Moody's/S&P		03/07/2018	$ 1,290,874
Federal Home Loan Mortgage Corporation	Aaa/AA+	Moody's/S&P		06/29/2017	329,967
Federal Home Loan Mortgage Corporation	NR	N/A		03/01/2028	99,885
Federal Home Loan Mortgage Corporation	NR	N/A		12/01/2024	219,502
Total Federal Home Loan Mortgage Corporation			40.5%		$ 1,940,228
Federal National Mortgage Association	Aaa/AA+	Moody's/S&P		09/12/2019	$ 251,320
Federal National Mortgage Association	NR	N/A		09/01/2025	72,051
Total Federal National Mortgage Association			6.7%		$ 323,371
Municipal Bonds					
Birmingham Jefferson, AL Civic Taxable-Ref-Series B	NR/AA	Moody's/S&P	<5%	07/01/2018	$ 74,982
Chattanooga, TN Elec. Revenue Taxable-Ref-Series B	NR/AA+	Moody's/S&P	<5%	09/01/2019	74,778
Durham, NC Limited Obligation Revenue Taxable-Ref	NR/AA+	Moody's/S&P	<5%	06/01/2019	74,826
Honolulu City & County, HI Wstwtr. Taxable-Ref-First C	AA2/NR	Moody's/S&P	<5%	07/01/2020	75,100
Imperial, CA Irrigation District Elec. Rev. Series B-Txbl.	NR/AA-	Moody's/S&P	<5%	11/01/2019	74,458
Macomb County, MI Taxable-Limited Tax-Retirees	AA1/AA+	Moody's/S&P	<5%	11/01/2019	75,136
Maine State Housing Auth. Mtg. Purchase Txbl.-Series C	AA1/AA+	Moody's/S&P	<5%	11/15/2018	74,859
McKinney, TX Community Dev. Corp. Sal. Taxable	NR/AA-	Moody's/S&P	<5%	08/15/2018	75,178
Mississippi State Taxable-Ref-Series D	AA2/AA	Moody's/S&P	<5%	10/01/2019	74,860
Ohio State Special Obligation Ref.	AA2/AA	Moody's/S&P	<5%	10/01/2019	74,599
Oklahoma Dev. Fin. Auth. Lease Re Txbl.-St Sys Hgr Edu	NR/AA	Moody's/S&P	<5%	06/01/2020	74,861
Oxford, MI Community Schools Taxable-Ref-Series B	AA1/NR	Moody's/S&P	<5%	05/01/2020	75,708
Palatine, IL Park District Taxable-Ref-Series B	AA1/NR	Moody's/S&P	<5%	12/01/2018	74,832
Tampa Bay, FL Reg. Water Supply Ref-Taxable-Series B	AA1/AA+	Moody's/S&P	<5%	10/01/2018	74,942
Univ. of Mississippi Educ. Ed. Txbl - Campus Impt. Proj.	AA2/NR	Moody's/S&P	<5%	11/01/2020	49,302
Univ. of North Texas Ref-Taxable-Series B	AA2/NR	Moody's/S&P	<5%	04/15/2020	74,023
Westminster, CO Cops Taxable-Series B	NR/AA-	Moody's/S&P	<5%	12/01/2018	74,276
Wilkes-Barre, PA Taxable-Ref-Series C	NR/AA	Moody's/S&P	<5%	11/15/2019	76,175
Total Municipal Bonds					$ 1,322,895
Investment pools/mutual funds					
MAGIC Fund	NR	N/A	N/A	N/A	$ 804,758
Wells Fargo Money Market	NR	N/A	N/A	N/A	60,129
Total investment pools/mutual funds					$ 864,887
Total investments					$ 4,796,191

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Investment Type	Credit Risk: Credit Rating	Credit Risk: Rating Agency	Concentration Risk: Over 5 Percent of Portfolio	Interest Rate Risk: Maturity Date	Carrying (Fair) Value
Deposits					7,356,803
Change funds					2,275
Departmental cash					40,728
Total Cash and Investments					$ 12,195,997

N/A - Not Applicable
NR - Not Rated
<5% - Concentration is less than 5 percent of investments

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	$ 211,535	$ -
Special assessments	1,179,949	1,066,072
Accounts	11,278	-
Due from other governments	2,017,561	-
Total	$ 3,420,323	$ 1,066,072

3. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

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

	Beginning Balance	Adjustments*	Increase	Decrease	Ending Balance
Capital assets not depreciated					
Land	$ 464,569	$ 745,086	$ 7,572	$ -	$ 1,217,227
Construction in progress	-	-	173,859	-	173,859
Total capital assets not depreciated	$ 464,569	$ 745,086	$ 181,431	$ -	$ 1,391,086
Capital assets depreciated					
Buildings and improvements	$ 4,738,175	$ (227,948)	$ 542,108	$ -	$ 5,052,335
Machinery and equipment	4,571,357	196,111	630,406	174,450	5,223,424
Infrastructure	75,320,790	(947,689)	2,865,081	-	77,238,182
Total capital assets depreciated	$ 84,630,322	$ (979,526)	$ 4,037,595	$ 174,450	$ 87,513,941
Less: accumulated depreciation for					
Buildings and improvements	$ 3,258,519	$ (153,738)	$ 137,081	$ -	$ 3,241,862
Machinery and equipment	2,799,703	534,278	369,359	174,450	3,528,890
Infrastructure	24,972,092	(72,000)	1,504,861	-	26,404,953
Total accumulated depreciation	$ 31,030,314	$ 308,540	$ 2,011,301	$ 174,450	$ 33,175,705
Total capital assets depreciated, net	$ 53,600,008	$ (1,288,066)	$ 2,026,294	$ -	$ 54,338,236
Governmental Activities Capital Assets, Net	$ 54,064,577	$ (542,980)	$ 2,207,725	$ -	$ 55,729,322

*In 2015, the County is correcting previous years' errors in recording capital assets and accumulated depreciation.

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

General government	$ 33,855
Public safety	195,999
Sanitation	1,068
Highways and streets, including depreciation of infrastructure assets	2,220,848
Human services	21,809
Total Depreciation Expense	$ 2,473,579

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables and Payables

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

Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
General Fund	Road and Bridge Special Revenue Fund	$ 38
	Human Services Special Revenue Fund	21,581
Total Due To/From Other Funds		$ 21,619

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

Advances From/To Other Funds

Receivable Fund	Payable Fund	Amount
Solid Waste Special Revenue Fund	Ditch Special Revenue Fund	$ 111,114

The Solid Waste Special Revenue Fund advance is to provide working capital to ditch systems with low reserves and operating costs in excess of revenues.

3. Detailed Notes on All Funds (Continued)

C. Deferred Inflows of Resources and Long-Term Debt

1. Deferred Inflows of Resources - Unavailable Revenue

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	Grants and Allotments	Total
Major governmental funds				
General	$ 88,881	$ -	$ -	$ 88,881
Special Revenue				
Road and Bridge	27,497	-	1,398,606	1,426,103
Human Services	49,870	-	47,518	97,388
Ditch	-	1,177,433	-	1,177,433
Nonmajor governmental funds				
Solid Waste Special Revenue	78	-	35,828	35,906
Highway Capital Improvement Debt Service	3,362	-	-	3,362
Law Enforcement Radio Debt Service	490	-	-	490
Minimum Security Facility Debt Service	756	-	-	756
Total Unavailable Revenue	$ 170,934	$ 1,177,433	$ 1,481,952	$ 2,830,319

2. Long-Term Debt

Bonds Payable

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31
General obligation bonds					
2009A G.O. Refunding Bonds	2019	$120,000 - $185,000	1.45 - 3.80	$ 1,450,000	$ 540,000
2013A G.O. Drainage Ditch Bonds	2033	$ 40,000 - $ 65,000	2.00 - 3.00	1,035,000	945,000
Subtotal				$ 2,485,000	$ 1,485,000

3. Detailed Notes on All Funds

C. Deferred Inflows of Resources and Long-Term Debt

2. Long-Term Debt

Bonds Payable (Continued)

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31
Plus: Unamortized premiums					20,698
Total general obligation bonds					$ 1,505,698
2001 G.O. Highway State-Aid Note	2021	$ 64,687 - $113,000	3.14	$ 1,731,285	628,000
Total Bonds and Notes					$ 2,133,698

The 2009A G.O. Refunding Bonds are paid from the Highway Capital Improvement Debt Service Fund. The 2013A G.O. Drainage Ditch Bonds are paid from the Ditch Special Revenue Fund. The 2001 G.O. Highway State-Aid Note is paid from the Road and Bridge Special Revenue Fund.

3. Debt Service Requirements

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

Year Ending December 31	General Obligation Bonds Principal	General Obligation Bonds Interest	General Obligation Note Principal	General Obligation Note Interest
2016	$ 175,000	$ 38,845	$ 97,000	$ 19,719
2017	175,000	33,655	100,000	16,673
2018	180,000	28,115	103,000	13,533
2019	190,000	22,030	106,000	10,299
2020	45,000	18,375	109,000	6,971
2021 - 2025	255,000	77,306	113,000	3,548
2026 - 2030	285,000	46,456	-	-
2031 - 2033	180,000	7,800	-	-
Total	$ 1,485,000	$ 272,582	$ 628,000	$ 70,743

3. Detailed Notes on All Funds

C. Deferred Inflows of Resources and Long-Term Debt (Continued)

4. Changes in Long-Term Liabilities

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

	Beginning Balance	Additions	Reductions/ Adjustment*	Ending Balance	Due Within One Year
Bonds and notes payable					
General obligation bonds	$ 1,650,000	$ -	$ (165,000)	$ 1,485,000	$ 175,000
General obligation notes	722,000	-	(94,000)	628,000	97,000
Add: unamortized premium	1,168	-	19,530	20,698	-
Total bonds and notes payable	$ 2,373,168	$ -	$ (239,470)	$ 2,133,698	$ 272,000
Compensated absences	640,438	592,579	(539,560)	693,457	485,060
Total Long-Term Liabilities	$ 3,013,606	$ 592,579	$ (779,030)	$ 2,827,155	$ 757,060

*In 2015, the County is correcting previous years' error in amortizing bond premium.

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

1. Plan Description

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

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

1. Plan Description (Continued)

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

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

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

2. Benefits Provided

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

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

2. Benefits Provided (Continued)

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

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

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

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans (Continued)

3. Contributions

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

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

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

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

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

General Employees Retirement Fund	$ 316,909
Public Employees Police and Fire Fund	92,518
Public Employees Correctional Fund	79,823

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 $3,441,194 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 0.0664 percent. It was 0.0716 percent measured as of June 30, 2014. The County recognized pension expense of $419,362 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	$ -	$ 173,495
Difference between projected and actual investment earnings	325,763	-
Changes in proportion	-	183,202
Contributions paid to PERA subsequent to the measurement date	156,599	-
Total	$ 482,362	$ 356,697

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

4. Pension Costs

General Employees Retirement Fund (Continued)

The $156,599 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	$ (37,460)
2017	(37,460)
2018	(37,459)
2019	81,445

Public Employees Police and Fire Fund

At December 31, 2015, the County reported a liability of $602,204 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 0.053 percent. It was 0.051 percent measured as of June 30, 2014. The County recognized pension expense of $109,595 for its proportionate share of the Public Employees Police and Fire Fund's pension expense.

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

4. Pension Costs

Public Employees Police and Fire Fund (Continued)

The County also recognized $4,770 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	$ -	$ 97,658
Difference between projected and actual investment earnings	104,924	-
Changes in proportion	18,001	-
Contributions paid to PERA subsequent to the measurement date	47,647	-
Total	$ 170,572	$ 97,658

4. Pension Plans and Other Postemployment Benefits

   A. Defined Benefit Pension Plans

      4. Pension Costs

Public Employees Police and Fire Fund (Continued)

The $47,647 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	$ 10,299
2017	10,299
2018	10,299
2019	10,299
2020	(15,929)

Public Employees Correctional Fund

At December 31, 2015, the County reported a liability of $75,754 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 0.49 percent. It was 0.52 percent measured as of June 30, 2014. The County recognized pension expense of $87,569 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	$ -	$ 29,003
Difference between projected and actual investment earnings	63,146	-
Changes in proportion	-	1,697
Contributions paid to PERA subsequent to the measurement date	37,948	-
Total	$ 101,094	$ 30,700

The $37,948 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	$ 5,553
2017	5,553
2018	5,553
2019	15,787

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 $616,526.

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

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

6. Discount Rate

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

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans (Continued)

7. Pension Liability Sensitivity

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

	1% Decrease in Discount Rate (6.9%)	Discount Rate (7.9%)	1% Increase in Discount Rate (8.9%)
Proportionate share of the			
General Employees Retirement Fund net pension liability	$ 5,410,778	$ 3,441,194	$ 1,814,618
Public Employees Police and Fire Fund net pension liability	1,173,702	602,204	130,047
Public Employees Correctional Fund net pension liability (asset)	527,563	75,754	(285,876)

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

4. Pension Plans and Other Postemployment Benefits (Continued)

B. Defined Contribution Plan

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

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

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

	Employee	Employer
Contribution amount	$ 2,123	$ 2,123
Percentage of covered payroll	5%	5%

C. Other Postemployment Benefits (OPEB)

Plan Description

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

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB) (Continued)

Funding Policy

The contribution requirements of the plan members and the County are established and may be amended by the Pennington County Board of Commissioners. The required contribution is based on projected pay-as-you-go financing requirements. Retirees and their spouses contribute to the health care plan at the same rate as County employees. This results in the retirees receiving an implicit rate subsidy. For 2015, there were 129 participants in the plan, including 4 retirees.

Annual OPEB Cost and Net OPEB Obligation

The County's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial accrued liabilities (or funding excess) over a period not to exceed 30 years.

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

ARC	$ 70,458
Interest on net OPEB obligation	13,270
Adjustment to ARC	(18,797)
Annual OPEB cost (expense)	$ 64,931
Contributions made	(33,931)
Increase in net OPEB obligation	$ 31,000
Net OPEB Obligation - Beginning of Year	294,892
Net OPEB Obligation - End of Year	$ 325,892

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

Annual OPEB Cost and Net OPEB Obligation (Continued)

The County's annual OPEB cost for the year ended December 31, 2015, was $64,931. The percentage of annual OPEB cost contributed to the plan was 52.3 percent, and the net OPEB obligation for 2015 was $325,892. The County's annual OPEB cost; the percentage of annual OPEB cost contributed to the plan; and the net OPEB obligation for 2013, 2014, and 2015, was as follows:

Fiscal Year-End	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2013	$ 51,310	$ 29,652	57.8%	$ 250,313
December 31, 2014	65,897	21,318	32.4	294,892
December 31, 2015	64,931	33,931	52.3	325,892

Funded Status and Funding Progress

As of January 1, 2014, the most recent actuarial valuation date, the County had no assets to fund the plan. The actuarial accrued liability for benefits was $590,175, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of $590,175. The covered payroll (annual payroll of active employees covered by the plan) was $5,098,322, and the ratio of the UAAL to the covered payroll was 11.6 percent.

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.

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

Actuarial Methods and Assumptions (Continued)

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

In the January 1, 2014, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4.5 percent investment rate of return (net of investment expenses), which is Pennington 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 over 30 years on a closed basis. The remaining amortization period at December 31, 2015, was 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. For other risk, the County carries commercial insurance. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

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.

5. Risk Management (Continued)

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 grantor 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.

B. Joint Ventures

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

The HSEM Region 3 Emergency Managers Joint Powers Board was formed in 2007 under the authority of the Joint Powers Act, pursuant to Minn. Stat. § 471.59 and Minn. Stat. ch. 12. Members include Becker, Beltrami, Clay, Clearwater, Hubbard, Kittson, Lake of the Woods, Mahnomen, Marshall, Norman, Pennington, Polk, Red Lake, and Roseau Counties. The Board was established to provide for regional coordination of planning, training, purchase of equipment, and allocating emergency services and staff in order to better respond to emergencies and natural or other disasters within the region.

Control is vested in the Board, which is composed of 14 representatives appointed by each Board of County Commissioners. Pennington County's responsibility does not extend beyond making this appointment.

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

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

The HSEM Region 3 Emergency Managers Joint Powers Board has no long-term debt. Financing will be provided by a Homeland Security Grant Program and other grant programs and awards. Member counties do not receive a financial benefit or burden as a result of membership. In 2015, Pennington County did not make a contribution to the Board. Complete financial information can be obtained from the Clay County Sheriff's Office, 915 Ninth Avenue North, Moorhead, Minnesota 56560.

Inter-County Nursing Service

The Inter-County Nursing Service was formed in 1978 under the authority of Minn. Stat. § 145A.03, subd. 2, and includes Pennington and Red Lake Counties. The purpose of the Nursing Service is to provide, through visits to individuals' homes, skilled public nursing care on a part-time or intermittent basis to residents of Pennington and Red Lake Counties.

Control of the Nursing Service is vested in the Inter-County Nursing Service Board, which is composed of one County Commissioner and four others from each county, and a physician who may be from either county. In the event of dissolution of the Inter-County Nursing Service Board, the net position of the Nursing Service at that time shall be divided between the counties in proportion to the contribution of each.

The Nursing Service has no long-term debt. Financing is provided by state and federal grants, charges for services, and appropriations from the two counties. Pennington County contributed $46,906 to the Nursing Service for the year ended December 31, 2015. Pennington County, in an agent capacity, reports the cash transactions of the Nursing Service as an agency fund on its financial statements. Complete financial information can be obtained from the Pennington County Auditor-Treasurer's Office or the Nursing Service's Office, P. O. Box 616, Thief River Falls, Minnesota 56701.

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

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, 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 counties comprise the membership of the Board. St. Louis County handles all of the financial transactions for this organization through its Northern Counties Land Use Board Agency Fund.

Pennington County provided no funding to this organization during 2015. Complete financial information can be obtained from the Northern Counties Land Use Coordinating Board, St. Louis County Courthouse, 100 North Fifth Avenue West, Suite 214, Duluth, Minnesota 55802.

Northwest Minnesota Household Hazardous Waste Management Group

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

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

The Waste Management Group has no long-term debt. Financing is provided by appropriations from the member counties when needed. Pennington County paid an assessment of $7,100 to the Waste Management Group in 2015. Clearwater County, in an agent capacity, reports the cash transactions of the Waste Management Group as an agency fund on its financial statements. Separate financial information can be obtained from the Waste Management Group, P. O. Box 186, Bagley, Minnesota 56621.

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

Northwest Minnesota Regional Radio Board

The Northwest Minnesota Regional Radio Board's convening meeting was held February 6, 2008, pursuant to the authority conferred upon the member parties by Minn. Stat. §§ 403.39 and 471.59, and includes the City of Moorhead and Becker, Beltrami, Clay, Clearwater, Hubbard, Kittson, Lake of the Woods, Mahnomen, Marshall, Norman, Pennington, Polk, Red Lake, and Roseau Counties.

The purpose of the Northwest Minnesota Regional Radio Board is to provide for regional administration of enhancements to the Statewide Public Safety Radio and Communication System (ARMER) owned and operated by the State of Minnesota.

Control of the Northwest Minnesota Regional Radio Board is vested in the Northwest Minnesota Regional Radio Board, which is composed of one Commissioner of each county appointed by their respective County Board and one City Council member from each city appointed by their respective City Council, as provided in the Northwest Minnesota Regional Radio Board's bylaws.

In the event of dissolution of the Northwest Minnesota Regional Radio Board, all property, assets, and funds of the Board are to be distributed to the parties of the agreement upon termination in direct proportion to their participation and contribution. Any city or county that has withdrawn from the agreement prior to termination of the Board shall share in the distribution of property, assets, and funds of the Board only to the extent they shared in the original expense.

The Northwest Minnesota Regional Radio Board has no long-term debt. Financing is provided by appropriations from member parties and by state and federal grants. Pennington County's contribution for 2015 was $2,500.

Complete financial information can be obtained from the Northwest Minnesota Regional Radio Board, c/o Greater Northwest EMS, 2301 Johanneson Avenue Northwest, Suite 103, Bemidji, Minnesota 56601.

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

Northwest Minnesota Six County Joint Powers Board

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

The Northwest Minnesota Six County Joint Powers Board is composed of one representative appointed by each County Board from the six counties. Each county also has one alternate appointed to the Board, and the Board may choose to have non-voting advisory members on the Board. Pennington County's responsibility does not extend beyond making this appointment. In the event of dissolution, the net position shall be distributed to the respective member counties in proportion to the contribution of each.

Financing is provided by grants from the State of Minnesota or contributions, and no member realizes an additional financial benefit or burden. Complete financial information can be obtained from the Red Lake Watershed District, P. O. Box 803, Thief River Falls, Minnesota 56701.

Northwest Service Cooperative

The Northwest Service Cooperative (NWSC) was established in February 1977, pursuant to Minn. Stat. §§ 471.59 and 123.582 (now Minn. Stat. § 123A.21). The NWSC is located in State Development Regions One and Two, which include 12 counties covering a total of 14,853 square-miles. These are the most sparsely populated regions of the state, with only 11 persons per square-mile. The regions are known as "Pine to Prairie." The NWSC provides service to all school districts, and many cities, counties, and other governmental agencies in the northwest region. The NWSC'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

   Northwest Service Cooperative (Continued)

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

   Northwestern Counties Data Processing Security Association

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

   Control of the NCDPSA is vested in the NCDPSA Joint Powers Board, which is composed of one County Commissioner appointed by each member County Board. In the event of dissolution, the net position of the NCDPSA at that time are to be distributed to the respective member counties in proportion to their contributions.

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

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

Northwestern Minnesota Juvenile Center

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

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

In the event of dissolution, the net position of the Center will be divided among the member counties in the same proportion as their respective financial responsibilities.

Financing is provided by state and federal grants, charges for services, and appropriations from member counties. Adequate rates are charged so that the member counties do not experience any additional financial benefit or burden. Beltrami County, in an agent capacity, reports the cash transactions of the Northwestern Minnesota Juvenile Center as an agency fund on its financial statements. Complete financial information can be obtained from the Beltrami County Auditor-Treasurer's Office, Beltrami County Courthouse, P. O. Box 247, Bemidji, Minnesota 56601.

Pine to Prairie Drug and Violent Crime Task Force

The Pine to Prairie Drug and Violent Crime Task Force was formed under the authority of the Joint Powers Act, pursuant to Minn. Stat. § 471.59. The full members are Lake of the Woods, Norman, Pennington, Polk, and Roseau Counties; the Cities of Crookston, East Grand Forks, and Thief River Falls; and the federal agencies of the U.S. Customs and Border Protection and Homeland Security Investigations Department. Associate members are Red Lake County and the City of Ada, and liaison members are Kittson and Marshall Counties. The purpose of the Task Force is to coordinate efforts to investigate, apprehend, and prosecute drug, gang, and violent crime offenders.

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Pine to Prairie Drug and Violent Crime Task Force (Continued)

Control of the Task Force is vested in the Pine to Prairie Drug and Violent Crime Task Force Governing Board, which consists of not less than 6 members or more than 14 members designated by each participating full member, and up to 5 additional members selected by the Governing Board. Board members shall not be deemed to be employees of the Task Force and shall not be compensated by it. Full members assign a peace officer to be an agent on the Task Force. Associate members are not required to assign an officer, but participate in operations and activities and contribute funds annually. Liaison members shall participate upon request.

Dissolution would occur when two-thirds of the members agree by resolution to terminate the agreement or when necessitated by law or funding status, at which time the net assets of the Task Force are to be divided among the members in the same proportion as their respective full-time equivalent contributions. Any member may withdraw upon six months' written notice and shall not be entitled to any distribution of the net assets.

Financing is provided by state and federal grants, charges for services, appropriations from members, and donations. Members do not experience any additional financial benefit or burden. The City of Crookston is designated as the coordinating agency. Complete financial information can be obtained from the City of Crookston, 321 West Robert Street, Crookston, Minnesota 56716.

Quin County Community Health Service

The Quin County Community Health Service was formed in 1978 under the authority of the Joint Powers Act, pursuant to Minn. Stat. § 471.59, and includes Kittson, Marshall, Pennington, Red Lake, and Roseau Counties. The purpose of the Health Service is to develop and implement policies and procedures to promote efficiency and economy in the delivery of community health services.

Control of the Health Service is vested in the Quin County Board of Health, which is composed of one member appointed from each of the member counties (total of five members, as provided in the joint powers agreement). In the event of dissolution, the net position of the Health Service are to be divided among the member counties in the same proportion as their respective financial responsibilities as determined by county population.

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Quin County Community Health Service (Continued)

The Health Service has no long-term debt. Financing is provided by state and federal grants, charges for services, and appropriations from the member counties when needed. Adequate rates are charged so that the member counties do not experience any additional financial benefit or burden. Marshall County, in an agent capacity, reports the cash transactions of the Health Service as an agency fund on its financial statements.

Complete financial information can be obtained from the Marshall County Auditor/Treasurer's Office or the Health Service's office, 136 West Minnesota Avenue, Newfolden, Minnesota 56738.

Red Lake River Corridor

The Red Lake River Corridor Joint Powers Board was formed in 2003 under the authority of the Joint Powers Act, pursuant to Minn. Stat. § 471.59, and includes the Cities of Crookston, East Grand Forks, Fisher, Red Lake Falls, St. Hilaire, and Thief River Falls; Pennington, Polk, and Red Lake Counties; and the Red Lake Band of Chippewa Reservation. The purpose of the Board is for the development and enhancement of recreational and natural resources along the Red Lake River.

The Red Lake River Corridor Joint Powers Board is composed of one member from each participating entity. Each participant may also have one alternate who, in the absence of the appointed member, may attend meetings and have all the duties and rights of the member. In the event of dissolution, the net position is to be distributed to the respective members in proportion to the contribution of each.

Financing is provided by contributions from members. Pennington County did not contribute to the Board in 2015. Complete financial information can be obtained from the Pembina Trail RC&D, 2605 Wheat Drive, Red Lake Falls, Minnesota 56750.

Thief River Falls Regional Airport Authority

The Thief River Falls Regional Airport Authority was formed in 2010 pursuant to Minn. Stat. §§ 360.031 to 360.0427, and 471.59, and includes Pennington County and the City of Thief River Falls. The purpose of the Thief River Falls Regional Airport Authority is to acquire, establish, construct, maintain, improve, and operate the Airport.

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Thief River Falls Regional Airport Authority (Continued)

The Airport Authority consists of five Commissioners: two members from the County Board, two members from the City Council, and one lay member mutually appointed by the County and City. The Commissioners are each appointed to three-year terms.

In the event of dissolution of the Airport Authority, net position is to be divided between the participating governmental entities in proportion to their relative shares of the most recent levy.

Financing is provided by state and federal grants, charges for services, appropriations, and property tax levies, pursuant to Minn. Stat. § 275.066. Pennington County did not contribute to the Airport Authority for the year ended December 31, 2015. Complete financial information can be obtained from the Thief River Falls Regional Airport Authority, P. O. Box 672, Thief River Falls, Minnesota 56701.

C. Jointly-Governed Organizations

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

Job Training Partnership Act Joint Powers Agreement

The Job Training Partnership Act Joint Powers Agreement was formed in July 1994 under the authority of the Joint Powers Act, pursuant to Minn. Stat. § 471.59, and includes Kittson, Marshall, Norman, Pennington, Polk, Red Lake, and Roseau Counties. The purpose of the Joint Powers Agreement is to designate the members of the Northwest Regional Development Commission's Board of Directors as the local elected officials to work with the Northwest Private Industry Council for the Northwest Service Delivery Area, including specific duties as listed in the Joint Powers Agreement.

Financing is provided primarily from federal grants provided through the Job Training Partnership Act of 1982. In the event of dissolution of the Joint Powers Agreement, the net position of the Joint Powers Board at that time is to be disposed of in accordance with law.

6. Summary of Significant Contingencies and Other Items

   C. Jointly-Governed Organizations

   Job Training Partnership Act Joint Powers Agreement (Continued)

   Complete financial information can be obtained from the Northwest Regional Development Commission, 115 South Main, Warren, Minnesota 56762.

   Minnesota Counties Computer Cooperative

   Under Minnesota Joint Powers Law, Minn. Stat. § 471.59, Minnesota counties have created the Minnesota Counties Computer Cooperative (MCCC) to jointly provide for the establishment, operation, and maintenance of data processing systems, facilities, and management information systems. During the year, Pennington County expended $70,982 to the MCCC.

   Minnesota Rural Counties Caucus

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

   Multi-Cultural Events Center Joint Powers Board

   The Multi-Cultural Events Center Joint Powers Board was formed in 1995 under the authority of the Joint Powers Act, pursuant to Minn. Stat. § 471.59, and includes Pennington County, the City of Thief River Falls, Independent School District No. 564, Northland Community College, and Northwest Technical College. The Joint Powers Board is composed of one director appointed by the governing body of each member, with one alternate designated for each director, as provided in the Joint Powers Board's bylaws. Pennington County did not contribute to the Multi-Cultural Events Center Joint Powers Board in 2015.

6. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations (Continued)

Northwest Minnesota Multi-County Housing and Redevelopment Authority

The Northwest Minnesota Multi-County Housing and Redevelopment Authority (HRA) was formed pursuant to Minn. Stat. § 469.004, effective September 1972, and includes Kittson, Marshall, Pennington, Polk, Red Lake, and Roseau Counties. Control of the HRA is vested in the HRA Board, which is composed of six members with indefinite terms made up of one member appointed by each Board of County Commissioners. Pennington County's responsibility does not extend beyond making this appointment.

Northwest Regional Library

The Northwest Regional Library was formed pursuant to Minn. Stat. §§ 134.20 and 471.59, effective January 1, 1981, and includes Kittson, Marshall, Pennington, Red Lake, and Roseau Counties. Control of the Library is vested in the Northwest Regional Library Board, which is composed of 16 members with staggered terms made up of the following: one member appointed by each Board of County Commissioners who may be a member of the Board of Commissioners; one member appointed by each participating city; and one additional member appointed by each county and city for each 6,000 of population or major percentage (85 percent) thereof. Pennington County appropriated $105,000 to the Library for the year ended December 31, 2015.

Northwest Workforce Service Area

The Northwest Workforce Service Area was formed in July 2000 under the authority of the Workforce Investment Act of 1998 (Public Law 105-220) and includes Kittson, Marshall, Norman, Pennington, Polk, Red Lake, and Roseau Counties. The purpose of the Service Area is to increase a participant's employment, retention, earnings, and occupational skill attainment, and result in improved workforce quality, reduced welfare dependency, and enhanced productivity and competitiveness.

Control of the Northwest Workforce Service Area is vested in the Northwest Private Industry Council/Workforce Council, comprising 18 members, with one representative from each of the seven counties, three members at large, and eight members representing local agencies. In the event of dissolution of the Northwest Workforce Service Area, unexpended funds will be disposed of in accordance with law.

6. Summary of Significant Contingencies and Other Items

   C. Jointly-Governed Organizations

   Northwest Workforce Service Area (Continued)

   The Northwest Workforce Service Area has no long-term debt. Financing is provided by state and local grants.

   Complete financial information can be obtained from the Northwest Regional Development Commission, 115 South Main, Warren, Minnesota 56762.

   Pennington County Family Service Collaborative

   The Pennington County Family Service Collaborative was formed pursuant to Minn. Stat. § 124D.23, effective July 1, 1996, and includes Pennington County, Thief River Falls Independent School District No. 564, and the Inter-County Nursing Service. Control of the Collaborative is vested in the Family Service Collaborative Board and includes at least one member from the public entities along with other members of the general public. Pennington County has accepted responsibility as the fiscal agent for reporting, claiming, and receiving payments.

   Red Lake Watershed District

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

   D. Subsequent Event

   On July, 26, 2016, the County Board approved the issuance of General Obligation Jail Bonds, Series 2016A, in the amount of $11,015,000, and the issuance of General Obligation Capital Improvement Plan Bonds, Series 2016B, in the amount of $5,215,000.

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REQUIRED SUPPLEMENTARY INFORMATION

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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	$ 4,264,140	$ 4,264,140	$ 4,170,474	$ (93,666)
Licenses and permits	2,150	2,150	2,295	145
Intergovernmental	958,516	958,516	1,553,420	594,904
Charges for services	1,249,433	1,249,433	1,117,342	(132,091)
Fines and forfeits	17,000	17,000	260	(16,740)
Gifts and contributions	17,000	17,000	16,941	(59)
Investment earnings	25,000	25,000	36,617	11,617
Miscellaneous	499,244	499,244	366,213	(133,031)
Total Revenues	**$ 7,032,483**	**$ 7,032,483**	**$ 7,263,562**	**$ 231,079**
Expenditures				
Current				
General government				
Commissioners	$ 298,600	$ 298,600	$ 290,783	$ 7,817
Courts	17,500	17,500	20,658	(3,158)
Law library	15,400	15,400	14,478	922
County administration	1,300	1,300	1,716	(416)
County auditor	451,870	451,870	418,313	33,557
License bureau	223,191	223,191	249,929	(26,738)
County assessor	245,678	245,678	248,584	(2,906)
Elections	11,000	11,000	10,700	300
Data processing	197,480	197,480	164,908	32,572
Attorney	463,719	463,719	463,680	39
Recorder	225,179	225,179	199,169	26,010
Buildings and grounds	314,582	314,582	296,356	18,226
Veterans service officer	89,841	89,841	88,475	1,366
Other general government	93,244	93,244	93,938	(694)
Total general government	**$ 2,648,584**	**$ 2,648,584**	**$ 2,561,687**	**$ 86,897**

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

EXHIBIT A-1
(Continued)

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

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget
Expenditures				
Current (Continued)				
Public safety				
Sheriff	$ 882,746	$ 882,746	$ 972,502	$ (89,756)
Coroner	25,258	25,258	35,974	(10,716)
County jail	1,140,908	1,140,908	1,155,807	(14,899)
DARE program	8,000	8,000	3,910	4,090
Drug task force	100,935	100,935	80,810	20,125
E-911 system	403,519	403,519	97,868	305,651
Emergency services	80,229	80,229	77,039	3,190
Jail canteen fund	35,500	35,500	62,140	(26,640)
Juvenile justice	4,500	4,500	3,514	986
Law enforcement center	693,870	693,870	609,271	84,599
Probation and parole	39,000	39,000	44,296	(5,296)
Sentence to service	195,614	195,614	184,333	11,281
Toward zero deaths	17,754	17,754	16,941	813
Training	8,000	8,000	9,379	(1,379)
Victim assistance	72,955	72,955	77,575	(4,620)
Total public safety	**$ 3,708,788**	**$ 3,708,788**	**$ 3,431,359**	**$ 277,429**
Human services				
Buildings and grounds	**$ 35,900**	**$ 35,900**	**$ 27,071**	**$ 8,829**
Health				
Parenting education	**$ 3,000**	**$ 3,000**	**$ 2,792**	**$ 208**
Culture and recreation				
Auditorium	$ 34,550	$ 34,550	$ 28,545	$ 6,005
Historical society	13,000	13,000	13,000	-
Regional library	105,000	105,000	105,000	-
Senior citizens	1,000	1,000	-	1,000
Snowmobile and ski trails	66,232	66,232	38,948	27,284
Total culture and recreation	**$ 219,782**	**$ 219,782**	**$ 185,493**	**$ 34,289**
Conservation of natural resources				
Agricultural inspections	$ 50	$ 50	$ 55	$ (5)
Area agricultural information center	6,000	6,000	6,000	-
Cooperative extension	166,647	166,647	140,602	26,045
Soil and water conservation	172,935	172,935	211,103	(38,168)
Total conservation of natural resources	**$ 345,632**	**$ 345,632**	**$ 357,760**	**$ (12,128)**

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

PENNINGTON COUNTY
THIEF RIVER 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)				
Economic development				
Economic development	$ 100,000	$ 100,000	$ 90,479	$ 9,521
Red River Valley Development	800	800	800	-
Tri-Valley Opportunity Council	1,700	1,700	1,700	-
Total economic development	**$ 102,500**	**$ 102,500**	**$ 92,979**	**$ 9,521**
Capital outlay				
General government	$ 17,400	$ 17,400	$ 11,207	$ 6,193
Public safety	82,946	82,946	74,555	8,391
Total capital outlay	**$ 100,346**	**$ 100,346**	**$ 85,762**	**$ 14,584**
Total Expenditures	**$ 7,164,532**	**$ 7,164,532**	**$ 6,744,903**	**$ 419,629**
Net Change in Fund Balance	**$ (132,049)**	**$ (132,049)**	**$ 518,659**	**$ 650,708**
Fund Balance - January 1	**5,171,673**	**5,171,673**	**5,171,673**	**-**
Fund Balance - December 31	**$ 5,039,624**	**$ 5,039,624**	**$ 5,690,332**	**$ 650,708**

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

PENNINGTON COUNTY
THIEF RIVER 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	$ 1,340,487	$ 1,340,487	$ 1,329,180	$ (11,307)
Intergovernmental	4,312,060	4,312,060	4,113,986	(198,074)
Charges for services	63,000	63,000	171,936	108,936
Miscellaneous	59,000	59,000	167,367	108,367
Total Revenues	**$ 5,774,547**	**$ 5,774,547**	**$ 5,782,469**	**$ 7,922**
Expenditures				
Current				
Highways and streets				
Administration	$ 313,251	$ 313,251	$ 281,111	$ 32,140
Maintenance	342,883	342,883	336,590	6,293
Engineering/construction	2,862,000	2,862,000	3,019,015	(157,015)
Equipment, maintenance, and shop	1,738,743	1,738,743	1,634,780	103,963
Other highways and streets	101,000	101,000	82,572	18,428
Total highways and streets	**$ 5,357,877**	**$ 5,357,877**	**$ 5,354,068**	**$ 3,809**
Capital outlay				
Highways and streets	**$ 300,000**	**$ 300,000**	**$ 336,311**	**$ (36,311)**
Intergovernmental				
Highways and streets	$ -	**$ -**	**$ 198,448**	**$ (198,448)**
Debt service				
Principal	$ 105,335	$ 105,335	$ 94,000	$ 11,335
Interest	11,335	11,335	22,671	(11,336)
Total debt service	**$ 116,670**	**$ 116,670**	**$ 116,671**	**$ (1)**
Total Expenditures	**$ 5,774,547**	**$ 5,774,547**	**$ 6,005,498**	**$ (230,951)**
Net Change in Fund Balance	**$ -**	**$ -**	**$ (223,029)**	**$ (223,029)**
Fund Balance - January 1	**1,740,521**	**1,740,521**	**1,740,521**	**-**
Increase (decrease) in inventories	**-**	**-**	**(87,797)**	**(87,797)**
Fund Balance - December 31	**$ 1,740,521**	**$ 1,740,521**	**$ 1,429,695**	**$ (310,826)**

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

EXHIBIT A-3

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

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 2,219,533	$ 2,219,533	$ 2,152,997	$ (66,536)
Intergovernmental	2,259,676	2,259,676	2,406,540	146,864
Charges for services	301,000	301,000	318,301	17,301
Miscellaneous	63,000	63,000	53,988	(9,012)
Total Revenues	**$ 4,843,209**	**$ 4,843,209**	**$ 4,931,826**	**$ 88,617**
Expenditures				
Current				
Human services				
Income maintenance	$ 1,557,448	$ 1,557,448	$ 1,446,519	$ 110,929
Social services	3,285,761	3,285,761	3,238,107	47,654
Total Expenditures	**$ 4,843,209**	**$ 4,843,209**	**$ 4,684,626**	**$ 158,583**
Net Change in Fund Balance	**$ -**	**$ -**	**$ 247,200**	**$ 247,200**
Fund Balance - January 1	**1,837,673**	**1,837,673**	**1,837,673**	**-**
Fund Balance - December 31	**$ 1,837,673**	**$ 1,837,673**	**$ 2,084,873**	**$ 247,200**

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

EXHIBIT A-4

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

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Special assessments	$ 152,000	$ 152,000	$ 331,531	$ 179,531
Charges for services	-	-	2,408	2,408
Miscellaneous	-	-	6,918	6,918
Total Revenues	**$ 152,000**	**$ 152,000**	**$ 340,857**	**$ 188,857**
Expenditures				
Current				
Conservation of natural resources				
Ditch maintenance and repairs	**$ 152,000**	**$ 152,000**	**$ 395,462**	**$ (243,462)**
Debt service				
Principal	$ -	$ -	$ 45,000	$ (45,000)
Interest	-	-	22,875	(22,875)
Administrative and fiscal charges	-	-	930	(930)
Total debt service	**$ -**	**$ -**	**$ 68,805**	**$ (68,805)**
Total Expenditures	**$ 152,000**	**$ 152,000**	**$ 464,267**	**$ (312,267)**
Net Change in Fund Balance	**$ -**	**$ -**	**$ (123,410)**	**$ (123,410)**
Fund Balance - January 1	**596,055**	**596,055**	**596,055**	**-**
Fund Balance - December 31	**$ 596,055**	**$ 596,055**	**$ 472,645**	**$ (123,410)**

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

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, 2008	$ -	$ 518,648	$ 518,648	0.00%	$ 4,480,493	11.58%
January 1, 2011	-	493,738	493,738	0.00	4,675,993	10.56
January 1, 2014	-	590,175	590,175	0.00	5,098,322	11.58

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

PENNINGTON COUNTY
THIEF RIVER 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
2015	0.0664%	$ 3,441,194	$ 4,205,963	81.82%	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.

PENNINGTON COUNTY
THIEF RIVER 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	$ 316,909	$ 316,909	$ -	$ 4,225,440	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.

PENNINGTON COUNTY
THIEF RIVER 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
2015	0.053%	$ 602,204	$ 528,272	114.00%	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.

PENNINGTON COUNTY
THIEF RIVER 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	$ 92,518	$ 92,518	$ -	$ 571,095	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.

PENNINGTON COUNTY
THIEF RIVER 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
2015	0.49%	$ 75,754	$ 954,170	7.94%	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.

PENNINGTON COUNTY
THIEF RIVER 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	$ 79,823	$ 79,823	$ -	$ 912,265	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.

1. Budgetary Information

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

On or before the last Tuesday in August of each year, all departments and agencies submit requests for budget appropriations to the County Auditor-Treasurer so that a budget can be prepared. Before October 31, the proposed budget is presented to the County Board for review. The Board holds a public hearing, and a final budget must be prepared and adopted no later than December 31.

The appropriated budget is prepared by fund, function, and department. The County's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require approval of the County Board. The legal level of budgetary control (the level at which expenditures may not legally exceed appropriations) is the department level. During the year, the Board made no budgetary amendments.

2. Excess of Expenditures Over Budget

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

	Expenditures	Final Budget	Excess
General Fund			
Current			
General government			
Courts	$ 20,658	$ 17,500	$ 3,158
County administration	1,716	1,300	416
License bureau	249,929	223,191	26,738
County assessor	248,584	245,678	2,906
Other general government	93,938	93,244	694
Public safety			
Sheriff	972,502	882,746	89,756
Coroner	35,974	25,258	10,716
County jail	1,155,807	1,140,908	14,899
Jail canteen fund	62,140	35,500	26,640
Probation and parole	44,296	39,000	5,296
Training	9,379	8,000	1,379
Victim assistance	77,575	72,955	4,620

2. Excess of Expenditures Over Budget (Continued)

	Expenditures	Final Budget	Excess
General Fund			
Current (Continued)			
Conservation of natural resources			
Agricultural inspections	55	50	5
Soil and water conservation	211,103	172,935	38,168
Road and Bridge Fund			
Current			
Highways and streets			
Engineering/construction	3,019,015	2,862,000	157,015
Capital outlay			
Highways and streets	336,311	300,000	36,311
Intergovernmental			
Highways and streets	198,448	-	198,448
Debt service			
Interest	22,671	11,335	11,336
Ditch Fund			
Current			
Conservation of natural resources			
Ditch maintenance and repairs	395,462	152,000	243,462
Debt service			
Principal	45,000	-	45,000
Interest	22,875	-	22,875
Administrative and fiscal charges	930	-	930

3. Other Postemployment Benefits Funding Status

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

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

SUPPLEMENTARY INFORMATION

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NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUND

Solid Waste Fund - to account for and report the solid waste activities. Financing is provided by intergovernmental revenue and user service charges.

DEBT SERVICE FUNDS

Highway Capital Improvement Fund - to account for the accumulation of resources and the payment of principal and interest of highway state-aid notes.

Law Enforcement Radio Fund - to account for the accumulation of resources and the payment of principal and interest of general obligation bonds.

Minimum Security Facility Fund - to account for the accumulation of resources and the payment of principal and interest of general obligation bonds.

CAPITAL PROJECTS FUND

Capital Improvement Fund - to account for the accumulation of resources and the payment of County capital improvements. On January 1, 2015, this fund was reclassified from a special revenue fund to a capital projects fund.

PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2015

	Solid Waste Special Revenue	Highway Capital Improvement
Assets		
Cash and pooled investments	$ 435,460	$ 228,491
Taxes receivable		
Delinquent	96	4,160
Due from other governments	35,827	-
Advances to other funds	111,114	-
Total Assets	**$ 582,497**	**$ 232,651**
Liabilities, Deferred Inflows of Resources, and Fund Balances		
Liabilities		
Accounts payable	$ 843	$ -
Due to other governments	1,209	-
Total Liabilities	**$ 2,052**	**$ -**
Deferred Inflows of Resources		
Unavailable revenue	**$ 35,906**	**$ 3,362**
Fund Balances		
Restricted for		
Debt service	$ -	$ 229,289
SCORE	197,831	-
Assigned to		
Sanitation	346,708	-
Capital projects	-	-
Total Fund Balances	**$ 544,539**	**$ 229,289**
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	**$ 582,497**	**$ 232,651**

EXHIBIT B-1

Debt Service Law Enforcement Radio	Minimum Security Facility	Capital Improvement Capital Projects	Total
$ 16,657	$ 16,140	$ 1,240,780	$ 1,937,528
607	936	-	5,799
-	-	-	35,827
-	-	-	111,114
$ 17,264	**$ 17,076**	**$ 1,240,780**	**$ 2,090,268**
$ -	$ -	$ 80,375	$ 81,218
-	-	-	1,209
$ -	**$ -**	**$ 80,375**	**$ 82,427**
$ 490	**$ 756**	**$ -**	**$ 40,514**
$ 16,774	$ 16,320	$ -	$ 262,383
-	-	-	197,831
-	-	-	346,708
-	-	1,160,405	1,160,405
$ 16,774	**$ 16,320**	**$ 1,160,405**	**$ 1,967,327**
$ 17,264	**$ 17,076**	**$ 1,240,780**	**$ 2,090,268**

PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA

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

	Solid Waste Special Revenue	Highway Capital Improvement
Revenues		
Taxes	$ -	$ 152,414
Intergovernmental	-	6,132
Miscellaneous	6,455	-
Total Revenues	**$ 6,455**	**$ 158,546**
Expenditures		
Current		
Sanitation	$ 54,318	$ -
Capital outlay		
General government	-	-
Public safety	-	-
Debt service		
Principal	-	120,000
Interest	-	20,900
Administrative charges	-	495
Total Expenditures	**$ 54,318**	**$ 141,395**
Net Change in Fund Balances	**$ (47,863)**	**$ 17,151**
Fund Balances - January 1	**592,402**	**212,138**
Fund Balances - December 31	**$ 544,539**	**$ 229,289**

EXHIBIT B-2

Debt Service			
Law Enforcement Radio	Minimum Security Facility	Capital Improvement Capital Projects	Total
$ 108	$ 152	$ -	$ 152,674
-	-	-	6,132
-	-	-	6,455
$ 108	**$ 152**	**$ -**	**$ 165,261**
$ -	$ -	$ -	$ 54,318
-	-	457,504	457,504
-	-	258,463	258,463
-	-	-	120,000
-	-	-	20,900
-	-	-	495
$ -	**$ -**	**$ 715,967**	**$ 911,680**
$ 108	**$ 152**	**$ (715,967)**	**$ (746,419)**
16,666	**16,168**	**1,876,372**	**2,713,746**
$ 16,774	**$ 16,320**	**$ 1,160,405**	**$ 1,967,327**

PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA

EXHIBIT B-3

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

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Intergovernmental	$ 56,000	$ 56,000	$ -	$ (56,000)
Miscellaneous	6,000	6,000	6,455	455
Total Revenues	**$ 62,000**	**$ 62,000**	**$ 6,455**	**$ (55,545)**
Expenditures				
Current				
Sanitation				
Solid waste	$ 55,000	$ 55,000	$ 43,696	$ 11,304
Recycling	9,000	9,000	10,622	(1,622)
Total Expenditures	**$ 64,000**	**$ 64,000**	**$ 54,318**	**$ 9,682**
Net Change in Fund Balance	**$ (2,000)**	**$ (2,000)**	**$ (47,863)**	**$ (45,863)**
Fund Balance - January 1	**592,402**	**592,402**	**592,402**	**-**
Fund Balance - December 31	**$ 590,402**	**$ 590,402**	**$ 544,539**	**$ (45,863)**

PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA

EXHIBIT B-4

BUDGETARY COMPARISON SCHEDULE
HIGHWAY CAPITAL IMPROVEMENT DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2015

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 156,455	$ 156,455	$ 152,414	$ (4,041)
Intergovernmental	1,855	1,855	6,132	4,277
Total Revenues	**$ 158,310**	**$ 158,310**	**$ 158,546**	**$ 236**
Expenditures				
Debt service				
Principal	$ 120,000	$ 120,000	$ 120,000	$ -
Interest	20,900	20,900	20,900	-
Administrative and fiscal charges	250	250	495	(245)
Total Expenditures	**$ 141,150**	**$ 141,150**	**$ 141,395**	**$ (245)**
Net Change in Fund Balance	**$ 17,160**	**$ 17,160**	**$ 17,151**	**$ (9)**
Fund Balance - January 1	**212,138**	**212,138**	**212,138**	**-**
Fund Balance - December 31	**$ 229,298**	**$ 229,298**	**$ 229,289**	**$ (9)**

PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA

EXHIBIT B-5

BUDGETARY COMPARISON SCHEDULE
LAW ENFORCEMENT RADIO DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2015

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 100	$ 100	$ 108	$ 8
Fund Balance - January 1	16,666	16,666	16,666	-
Fund Balance - December 31	$ 16,766	$ 16,766	$ 16,774	$ 8

PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA

EXHIBIT B-6

BUDGETARY COMPARISON SCHEDULE
MINIMUM SECURITY FACILITY DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2015

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 100	$ 100	$ 152	$ 52
Fund Balance - January 1	16,168	16,168	16,168	-
Fund Balance - December 31	$ 16,268	$ 16,268	$ 16,320	$ 52

PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA

EXHIBIT B-7

BUDGETARY COMPARISON SCHEDULE
CAPITAL IMPROVEMENT CAPITAL PROJECTS FUND
FOR THE YEAR ENDED DECEMBER 31, 2015

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Expenditures				
Capital outlay				
General government	$ 860,000	$ 860,000	$ 457,504	$ 402,496
Public safety	-	-	258,463	(258,463)
Total Expenditures	**$ 860,000**	**$ 860,000**	**$ 715,967**	**$ 144,033**
Fund Balance - January 1	**1,876,372**	**1,876,372**	**1,876,372**	**-**
Fund Balance - December 31	**$ 1,016,372**	**$ 1,016,372**	**$ 1,160,405**	**$ 144,033**

FIDUCIARY FUNDS

AGENCY FUNDS

Group Insurance Fund - to account for the employer's share of group insurance.

Inter-County Nursing Service Fund - to account for the cash transactions of the Inter-County Nursing Service.

Northwest Minnesota Housing and Redevelopment Authority Fund - to account for the collection and payment of amounts due to the Northwest Minnesota Housing and Redevelopment Authority.

Northwest Regional Development Commission Fund - to account for the collection and payment of amounts due to the Northwest Regional Development Commission.

Prepaid Taxes Fund - to account for the payment of taxes prior to the preparation of tax statements or prior to January 1 of the year due.

School Districts Fund - to account for the collection and payment of amounts due to school districts.

State Fund - to account for the collection and payment of amounts due to the state.

Taxes and Penalties Fund - to account for the collection of taxes, penalties, and special assessments and their payment to the various taxing districts.

Towns and Cities Fund - to account for the collection and payment of amounts due to the towns and cities.

Watersheds Fund - to account for the collection and payment of amounts due to the watershed districts.

Airport Authority Fund - to account for the collection and payment of amounts due to the Airport Authority.

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PENNINGTON COUNTY
THIEF RIVER 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
GROUP INSURANCE				
Assets				
Cash and pooled investments	$ 27,106	$ 1,722,677	$ 1,726,555	$ 23,228
Liabilities				
Accounts payable	$ 27,106	$ 1,722,677	$ 1,726,555	$ 23,228
INTER-COUNTY NURSING SERVICE				
Assets				
Cash and pooled investments	$ 285,237	$ 1,031,433	$ 964,872	$ 351,798
Liabilities				
Due to other governments	$ 285,237	$ 1,031,433	$ 964,872	$ 351,798
NORTHWEST MINNESOTA HOUSING AND REDEVELOPMENT AUTHORITY				
Assets				
Cash and pooled investments	$ -	$ 48,042	$ 48,042	$ -
Liabilities				
Due to other governments	$ -	$ 48,042	$ 48,042	$ -

EXHIBIT C-1
(Continued)

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

	Balance January 1	Additions	Deductions	Balance December 31
NORTHWEST REGIONAL DEVELOPMENT COMMISSION				
Assets				
Cash and pooled investments	$ -	$ 24,871	$ 24,871	$ -
Liabilities				
Due to other governments	$ -	$ 24,871	$ 24,871	$ -
PREPAID TAXES				
Assets				
Cash and pooled investments	$ 17,490	$ 49,206	$ 52,121	$ 14,575
Liabilities				
Due to other funds	$ 17,490	$ 49,206	$ 52,121	$ 14,575
SCHOOL DISTRICTS				
Assets				
Cash and pooled investments	$ -	$ 4,676,437	$ 4,676,437	$ -
Liabilities				
Due to other funds	$ -	$ 4,676,437	$ 4,676,437	$ -

PENNINGTON COUNTY
THIEF RIVER 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				
Assets				
Cash and pooled investments	**$ 23,945**	**$ 2,236,800**	**$ 2,238,352**	**$ 22,393**
Liabilities				
Due to other governments	**$ 23,945**	**$ 2,236,800**	**$ 2,238,352**	**$ 22,393**
TAXES AND PENALTIES				
Assets				
Cash and pooled investments	$ 247,147	$ 18,032,582	$ 18,048,121	$ 231,608
Due from other funds	17,490	14,575	17,490	14,575
Total Assets	**$ 264,637**	**$ 18,047,157**	**$ 18,065,611**	**$ 246,183**
Liabilities				
Due to other governments	**$ 264,637**	**$ 18,047,157**	**$ 18,065,611**	**$ 246,183**
TOWNS AND CITIES				
Assets				
Cash and pooled investments	**$ 10,463**	**$ 2,875,802**	**$ 2,832,219**	**$ 54,046**
Liabilities				
Due to other governments	**$ 10,463**	**$ 2,875,802**	**$ 2,832,219**	**$ 54,046**

PENNINGTON COUNTY
THIEF RIVER 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
WATERSHEDS				
Assets				
Cash and pooled investments	**$ -**	**$ 466,986**	**$ 466,986**	**$ -**
Liabilities				
Due to other governments	**$ -**	**$ 466,986**	**$ 466,986**	**$ -**
AIRPORT AUTHORITY				
Assets				
Cash and pooled investments	**$ -**	**$ 252,791**	**$ 252,791**	**$ -**
Liabilities				
Due to other governments	**$ -**	**$ 252,791**	**$ 252,791**	**$ -**
TOTAL ALL AGENCY FUNDS				
Assets				
Cash and pooled investments	$ 611,388	$ 31,417,627	$ 31,331,367	$ 697,648
Due from other funds	17,490	14,575	17,490	14,575
Total Assets	**$ 628,878**	**$ 31,432,202**	**$ 31,348,857**	**$ 712,223**
Liabilities				
Accounts payable	$ 27,106	$ 1,722,677	$ 1,726,555	$ 23,228
Due to other funds	17,490	4,725,643	4,728,558	14,575
Due to other governments	584,282	24,983,882	24,893,744	674,420
Total Liabilities	**$ 628,878**	**$ 31,432,202**	**$ 31,348,857**	**$ 712,223**

SCHEDULES

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PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA

EXHIBIT D-1

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

Appropriations and Shared Revenue		
State		
Highway users tax	$	2,730,943
County program aid		718,691
Market value credit		154,846
PERA rate reimbursement		16,384
Disparity reduction aid		82,537
Police aid		61,811
Aquatic invasive species		21,715
E-911		86,264
Total appropriations and shared revenue	**$**	**3,873,191**
Reimbursement for Services		
State		
Minnesota Department of Human Services	**$**	**233,735**
Local		
Local contributions	$	70,000
Payments in lieu of taxes		71,790
Total local	**$**	**141,790**
Total reimbursement for services	**$**	**375,525**
Grants		
State		
Minnesota Department/Board of		
Administration	$	2,278
Corrections		196,367
Public Safety		72,762
Transportation		128,870
Natural Resources		70,466
Trial Courts		29,970
Human Services		748,367
Water and Soil Resources		637
Revenue		60
Peace Officer Standards and Training		2,999
Judicial Branch		60,000
Total state	**$**	**1,312,776**

EXHIBIT D-1
(Continued)

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

Grants (Continued)		
Federal		
Department of		
Agriculture	$	114,999
Transportation		1,109,142
Health and Human Services		1,078,298
Homeland Security		216,147
Total federal	**$**	**2,518,586**
Total state and federal grants	**$**	**3,831,362**
Total Intergovernmental Revenue	**$**	**8,080,078**

PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA

EXHIBIT D-2

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

Federal Grantor Pass-Through Agency Program or Cluster Title	Federal CFDA Number	Pass-Through Grant Numbers	Expenditures
U.S. Department of Agriculture			
Passed Through Minnesota Department of Human Services			
SNAP Cluster			
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	15152MN10152514	**$ 114,999**
U.S. Department of Transportation			
Passed Through Minnesota Department of Transportation			
Highway Planning and Construction Cluster			
Highway Planning and Construction	20.205	1000071	$ 1,162,164
Passed Through Minnesota Department of Public Safety			
Highway Safety Cluster			
State and Community Highway Safety	20.600	A-SAFE15-2015-PENNCOTZD	16,989
Total U.S. Department of Transportation			**$ 1,179,153**
U.S. Department of Health and Human Services			
Passed Through Minnesota Department of Human Services			
Promoting Safe and Stable Families	93.556	1401MNFPSS	$ 906
TANF Cluster			
Temporary Assistance for Needy Families	93.558	1502MNTANF	128,939
Child Support Enforcement	93.563	1504MN4005	374,550
Refugee and Entrant Assistance - State-Administered Programs	93.566	1501MNRCMA	182
CCDF Cluster			
Child Care and Development Block Grant	93.575	G1501MNCCDF	1,448
Stephanie Tubbs Jones Child Welfare Services Program	93.645	1401MNCWSS	597
Foster Care - Title IV-E	93.658	1501MNFOST	86,251
Social Services Block Grant	93.667	1501MNSOSR	107,250
Chafee Foster Care Independence Program	93.674	1401MN1420	974
Children's Health Insurance Program	93.767	1405MN5021	54
Medicaid Cluster			
Medical Assistance Program	93.778	1505MN5ADM	387,347
Total U.S. Department of Health and Human Services			**$ 1,088,498**

EXHIBIT D-2
(Continued)

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

Federal Grantor Pass-Through Agency Program or Cluster Title	Federal CFDA Number	Pass-Through Grant Numbers		Expenditures
U.S. Department of Homeland Security				
Passed Through Minnesota Department of Public Safety				
Emergency Management Performance Grants	97.042	A-EMPG-2015-PENNCO-00059	$	65,723
Passed Through Headwaters Regional Development Commission				
Homeland Security Grant Program	97.067	A-DECN-SHSP-2014-NWRRB-0004		150,424
Total U.S. Department of Homeland Security			**$**	**216,147**
Total Federal Awards			**$**	**2,598,797**

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

Totals by Cluster		
Total expenditures for SNAP Cluster	$	114,999
Total expenditures for Highway Planning and Construction Cluster		1,162,164
Total expenditures for Highway Safety Cluster		16,989
Total expenditures for TANF Cluster		128,939
Total expenditures for CCDF Cluster		1,448
Total expenditures for Medicaid Cluster		387,347

PENNINGTON COUNTY
THIEF RIVER 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 Pennington County. The County's reporting entity is defined in Note 1 to the financial statements.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Pennington 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 Pennington County, it is not intended to and does not present the financial position or changes in net position of Pennington 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 the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pennington 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	$	2,518,586
Grants received more than 60 days after year-end, deferred in 2015		
Highway Planning and Construction		70,011
Child Support Enforcement		10,200
Expenditures Per Schedule of Expenditures of Federal Awards	$	2,598,797

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Management and Compliance Section

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

Independent Auditor's Report

Board of County Commissioners
Pennington County
Thief River 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, each major fund, and the aggregate remaining fund information of Pennington 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 March 22, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Pennington 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 a deficiency in internal control over financial reporting that we consider to be a material weakness 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 deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2015-008 to be a material weakness and items 1996-001, 2007-001, and 2015-001 to 2015-007 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pennington 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 Pennington 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 2015-011 to 2015-015. 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 a management practices comment and an other matter. We believe these recommendations to be of benefit to the County, and they are reported for that purpose.

Pennington County's Response to Findings

Pennington County's responses to the internal control, legal compliance, and management practices findings and to the other matter 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	*/s/Greg Hierlinger*
REBECCA OTTO STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

March 22, 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
Pennington County
Thief River Falls, Minnesota

Report on Compliance for the Major Federal Program

We have audited Pennington County's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on the County's major federal program for the year ended December 31, 2015. Pennington County's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Pennington County's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Pennington County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Basis for Qualified Opinion on Highway Planning and Construction (CFDA No. 20.205)
As described in the accompanying Schedule of Findings and Questioned Costs, Pennington County did not comply with requirements regarding CFDA No. 20.205 Highway Planning and Construction as described in finding number 2015-009 for Procurement, Suspension, and Debarment and finding number 2015-010 for Identification of Federal Awards. Compliance with such requirements is necessary, in our opinion, for the County to comply with the requirements applicable to that program.

Qualified Opinion on Highway Planning and Construction (CFDA No. 20.205)
In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, Pennington 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 Program for the year ended December 31, 2015.

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

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 2015-009 and 2015-010 to be material weaknesses.

Pennington County's responses to the internal control over compliance findings identified in our audit are described in the accompanying Corrective Action Plan. Pennington 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

March 22, 2018

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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? **None reported**

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

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

The major federal program is:

Highway Planning and Construction	CFDA No. 20.205

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

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

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding Number 1996-001

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 in place.

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

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

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

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

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

View of Responsible Official: Concur

Finding Number 2007-001

Documenting and Monitoring Internal Controls

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

Condition: The County has documented policies relating to fund balance, meal and mileage reimbursement, and personnel. 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, 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 Pennington 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 began the process of developing 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 accounting functions. The County should correct its investment policy to conform with accounting standards. We further recommend that a formal plan be developed to assess and monitor the significant internal controls on a regular basis, no less than annually. The monitoring should be documented to show the results of the review, changes required, and who performed the work.

View of Responsible Official: Acknowledged

<u>ITEMS ARISING THIS YEAR</u>

Finding Number 2015-001

<u>Journal Entry Approval</u>

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

Condition: There was no documented review and approval for journal entries entered in the general ledger system.

Context: Support is submitted for journal entries.

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

Cause: The County has no requirement or formal process to document review and approval of journal entries.

Recommendation: We recommend internal controls be implemented to ensure that all journal entries are reviewed and approved by someone other than the person making the journal entry before being posted to the general ledger. The review and approval should be documented by a signature and date.

View of Responsible Official: Acknowledged

Finding Number 2015-002

Inventory Records

Criteria: Controls should be in place over the County Highway Department's inventory system and corresponding assets to ensure that information provided by the system is accurate and that County assets are adequately safeguarded.

Condition: Significant year-end inventory system adjustments were made by the County to correct inventory balances based on the annual physical inventory count. Significant adjustments indicate that inventory additions and withdrawals were not being accurately accounted for throughout the year.

Context: The Highway Department maintains an inventory system to monitor the movement of various County assets. Additions to the system are posted based on vendor invoices; withdrawals for fuel are tracked at the pump and are transferred to a fuel sheet. Withdrawals for other types of inventory are not tracked. The County performs a year-end inventory count and makes adjustments in the inventory system to reflect actual inventory balances on hand.

Effect: The inventory system did 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 current accounting practice for the inventory system was deemed by the County to be sufficient.

Recommendation: We recommend the County track withdrawals for all inventory. The year-end physical count should still be completed to verify that the perpetual inventory system has been updated correctly during the year.

View of Responsible Official: Acknowledged

Finding Number 2015-003

Fund Balance Reporting

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 four categories in the General Fund, and one category in the Capital Improvement Capital Projects Fund, for which County Board resolutions could not be located. In addition, funds were committed for operations, which does not meet the requirement of committed fund balance in accordance with GASB 54. Finally, the calculation of the remaining commitments did not match the resolution adopted by the County Board. To be effective, a resolution committing resources for capital improvements should identify either the specific projects or types of projects for which resources will be used. The County has also been reporting nonspendable fund balance for advances in the Solid Waste Special Revenue Fund; however, GASB 54 only allows this treatment of fund balance in the General Fund.

Context: On March 12, 2013, the County Board approved a resolution committing 40 percent of unassigned funds to capital improvements, 40 percent to operations, and 20 percent to public safety.

Effect: Significant reclassifications of fund balance were required in the General Fund and Capital Improvement Capital Projects Fund to adjust committed, assigned, and unassigned fund balance to reflect the commitments properly authorized by the County Board.

Cause: Several of the classifications 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 comply with GASB 54 requirements, and that the calculation of committed fund balances complies with the County Board resolution. Although the purpose of commitments are required to be approved by the Board prior to year-end, the amounts of the commitments can be determined at a later date.

View of Responsible Official: Acknowledged

Finding Number 2015-004

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 Capital Improvement Special Revenue Fund did not meet the requirements of a special revenue fund. It should be reported as a capital projects fund.

- The negative portion of the fund balance in the Ditch Special Revenue Fund should be reported as unassigned instead of restricted.

- Government securities valued at $3,931,304, along with the corresponding investment risk disclosures, were reported incorrectly as money market funds.

- The investment disclosure for interest-rate risk stated the County did not have a policy relating to this risk. The County has had a policy since 1989 that was updated in 2009.

- The premiums and discounts should not have been netted in the debt note. Also, the discounts include underwriter discounts; these should have been expensed in the year the bonds were issued.

- The defined contribution plan was incorrectly eliminated from the pension note and needed to be added back to the note.

- The agency fund for the Airport Authority was not included in the Agency Fund statements.

- Intergovernmental revenue was not properly reported in the schedule of intergovernmental revenue. Reimbursements for services was overstated by $437,671; state grants were understated by $642,652; and federal grants were overstated by $162,943.

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

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

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

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

View of Responsible Official: Acknowledged

Finding Number 2015-005

Departmental Checking Accounts

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

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

Context: The balances in these accounts totaled $40,728 at December 31, 2015, and are reported as departmental cash in the County's financial statements.

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

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

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

View of Responsible Official: Acknowledged

Finding Number 2015-006

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: All County staff with access to the Integrated Financial System had the ability to set up new vendors. Eleven of these 14 positions also had the ability to process disbursements.

Context: The County has the ability to implement controls and/or limit access to the vendor setup function.

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

Cause: The County indicated this was an oversight.

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 this segregation is not feasible, 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.

View of Responsible Official: Concur

Finding Number 2015-007

Payroll - Segregation of Duties and Time Report Approval

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 or time forms should be required to attest to the validity of 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 Payroll Manager, approve their own time. One instance out of 25 time sheets tested noted time was not approved by the employee or the supervisor. Two additional instances were noted where time was not approved by the supervisor.

Context: It is not unusual for organizations the size of Pennington County to allow salaried elected officials to approve their own time. The Law Enforcement Department submits a "time form" to the County Auditor-Treasurer as a cumulation of that department's time sheets that is signed off as approved by the department head.

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 for time was an oversight.

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 or time forms, as applicable, should be signed by two separate people attesting to the hours.

View of Responsible Official: Concur

Finding Number 2015-008

<u>Audit Adjustment</u>

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: A material audit adjustment was identified that resulted in significant changes to the County's 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 material misstatements in the financial statements increases the likelihood that the financial statements would not be fairly presented. The adjustment was found in the audit; however, independent external auditors cannot be considered part of the County's internal control.

Effect: An adjustment of $212,766 was made in the Ditch Special Revenue Fund to increase special assessments receivable - noncurrent and increase deferred inflows of resources - unavailable revenue to record additional special assessments receivable. This also increased special assessments receivable - noncurrent and revenues in the government-wide financial statements.

Cause: Ditch maintenance levies, which were approved by the County Board on December 29, 2015, were not accrued as special assessments receivable by the County. County staff was unaware that ditch maintenance levies should be recorded as receivables upon the Board of County Commissioner's approval of those assessments.

Recommendation: We recommend the County establish internal controls necessary to ensure the County's annual financial statements are reported in accordance with GAAP.

View of Responsible Official: Acknowledged

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

ITEMS ARISING THIS YEAR

Finding Number 2015-009

Uniform Guidance Written Procurement Policies and Procedures

Program: U.S. Department of Transportation's Highway Planning and Construction (CFDA No. 20.205), Award No. 1000071, 2015

Pass-Through Agency: Minnesota Department of Transportation

Criteria: Title 2 U.S. *Code of Federal Regulations* § 200.318 states that the non-federal entity must use its own documented procurement procedures which reflect applicable state, local, and tribal laws and regulations, provided that the procurements conform to 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 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 program; however, it impacts federal programs County-wide. Written policies that reflect the specific components of federal regulations improve controls to help ensure compliance with federal award requirements. The County did adopt procurement policies in October 2017; however, additional information related to the Uniform Guidance will need to be added.

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

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

Recommendation: We recommend the County 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 2015-010

Identification of Federal Awards

Program: U.S. Department of Transportation's Highway Planning and Construction (CFDA No. 20.205), Award No. 1000071, 2015

Pass-Through Agency: Minnesota Department of Transportation

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 Program.

Questioned Costs: Not applicable.

Context: The County provided a SEFA for 2015 that reported total federal expenditures for Highway Planning and Construction of $1,092,153. After audit adjustments, the program expenditures were $1,162,164, an increase of $70,011.

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: The County did not properly identify federal expenditures of $70,011 related to the Highway Planning and Construction Program.

Recommendation: We recommend the County review internal controls currently in place and design and implement procedures to improve controls over identifying the program 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 2015-011

Contract Compliance

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

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

- Contract Language: Minn. Stat. § 471.425, subd. 4a., requires that the contract between the government entity and a prime contractor contain language that requires the prime contractor to pay subcontractors within ten days of receipt of payment from the government entity or pay interest at the rate of 1.5 percent per month or any part of a month. For one of the three contracts tested, the County did not include this specific language in the contract with the prime contractor.

- Responsible Contractor Requirement: Minn. Stat. § 16C.285 requires that the contractor submit a verification of compliance signed under oath by an owner or officer verifying compliance with the minimum criteria set forth in Minn. Stat. § 16C.285, subd. 3. For one of the three contracts tested, the County did not have the required form from the contractor on file.

Context: The Highway Department generally oversees the contracting process for most County contracts; however, BKV Group was hired to oversee the contracting process for improvements to the Courthouse boiler system.

Effect: Noncompliance with Minn. Stat. §§ 471.425 and 16C.285.

Cause: Documentation of these requirements was not received from BKV Group.

Recommendation: We recommend the County develop a policy and procedures manual that includes contracting requirements so those overseeing the contracting process will be informed of the statutory requirements to ensure compliance with applicable statutes for all future contracts.

View of Responsible Official: Acknowledged

Finding Number 2015-012

Publishing Requirements

Criteria: Minnesota statutes contain requirements for publishing Board minutes and budgets.

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

- Pursuant to Minn. Stat. § 375.12, within 30 days of each meeting, the County Board must have the official proceedings of its sessions or a summary published in a qualified newspaper of general circulation in the County. The affidavits of publication related to the publishing of a summary of the County Board minutes for 2015 were reviewed. The summaries were not published in the County's official newspaper within the 30-day requirement.

- Pursuant to Minn. Stat. § 375.169, annually, upon adoption of the County budget, the County must publish a summary budget statement in a form prescribed by the State Auditor in the County's official newspaper. The County did not publish the 2015 budget.

Context: Five published summaries of the official proceedings of the County Board were reviewed; none were published within the 30-day requirement.

Effect: Noncompliance with Minn. Stat. §§ 375.12 and 375.169.

Cause: County staff stated this was an oversight.

Recommendation: We recommend the County publish summaries of the County Board minutes in compliance with Minn. Stat. § 375.12 and publish the summary budget statement in compliance with Minn. Stat. § 375.169.

View of Responsible Official: Acknowledged

Finding Number 2015-013

Prompt Payment of Invoices

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

Condition: Two of 25 invoices tested for compliance with this statute were not paid within 35 days.

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

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

Cause: The County could provide no explanation for the late payments.

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

View of Responsible Official: Concur

Finding Number 2015-014

Acceptance of Donations

Criteria: Minn. Stat. § 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 $16,941. Documentation of acceptance by the County Board could not be located for these donations.

Context: Eighty-three separate donations were received by the County for the DARE Program, the Sentence to Serve Program, and the Parents Forever Program.

Effect: Noncompliance with Minn. Stat. § 465.03.

Cause: County staff stated this was an oversight.

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 2015-015

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: The County does not have a formal written out-of-state travel policy in accordance with Minn. Stat. § 471.661.

Context: The January 6, 2015, County Board minutes contain a resolution addressing meal and mileage reimbursements, but does not address out-of-state travel. A formal out-of-state travel policy should clarify the County Board's position and could include the following additional items:

- which expenses are reimbursable;
- which expenses are prohibited;
- who is authorized to approve out-of-state travel expenses; and
- what type of documentation is required to support expenses.

Effect: Noncompliance with Minn. Stat. § 471.661.

Cause: County staff stated this was an oversight.

Recommendation: We recommend the County Board establish a formal out-of-state travel policy in accordance with Minn. Stat. § 471.661.

View of Responsible Official: Acknowledged

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding Number 1996-007

County Ditch Deficit Fund Balances

Criteria: Each individual ditch system should be maintained with a positive balance to meet its financial obligations.

Condition: As of December 31, 2015, the County had individual ditch systems where liabilities and deferred inflows of resources exceeded assets, resulting in individual deficit fund balance amounts.

Context: Seventeen of the 48 individual ditch systems had deficit fund balances as of December 31, 2015, totaling $302,875.

Effect: Ditch systems with deficit fund balances indicate that measures have not been taken to ensure they can meet financial obligations.

Cause: The County indicated that repairs on the ditch systems are made during the year, and assessments to cover the costs were not approved before year-end.

Recommendation: We recommend the County continue to monitor the balances of the ditch systems and eliminate the deficit fund balances by approving the necessary special assessments whenever practical.

View of Responsible Official: Concur

C. OTHER MATTER

ITEM ARISING THIS YEAR

Finding Number 2015-016

Identification of Federal Awards

Program: U.S. Department of Health and Human Service's Medical Assistance Program (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* § 200.510(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 Medical Assistance Program.

Questioned Costs: Not applicable.

Context: The County provided a SEFA for 2015 that reported total federal expenditures for the Medical Assistance Program of $533,948. After audit adjustments, the program expenditures were $387,347, a decrease of $146,601.

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: The County indicated that there was a misunderstanding in how revenues related to payments from the state for the Medical Assistance Program should be recorded. These revenues are used as a basis for determining the Program's expenditures.

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

View of Responsible Official: Acknowledged

PENNINGTON

PENNINGTON COUNTY AUDITOR

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REPRESENTATION OF PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA

CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED DECEMBER 31, 2015

Finding Number: 1996-001
Finding Title: Segregation of Duties

Name of Contact Person Responsible for Corrective Action:

Elected or Management Officials

Corrective Action Planned:

Pennington County is aware of the segregation of duties issue. Due to limited staffing in some Pennington County offices segregation of duties in not always possible. Management will implement oversight procedures where and whenever possible.

Anticipated Completion Date:

Ongoing

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

Name of Contact Person Responsible for Corrective Action:

Ken Olson, County Auditor-Treasurer

Corrective Action Planned:

The County will review the internal control policies to determine which require updating and which new policies are needed.

Anticipated Completion Date:

December 31, 2018

Finding Number: 2015-001
Finding Title: Journal Entry Approval

Name of Contact Person Responsible for Corrective Action:

Ken Olson, County Auditor-Treasurer

Corrective Action Planned:

Journal entries will be reviewed and approved by the County Auditor-Treasurer or the appropriate Supervisory personnel before being entered into the general ledger.

Anticipated Completion Date:

March 31, 2018

Finding Number: 2015-002
Finding Title: Inventory Records

Name of Contact Person Responsible for Corrective Action:

Mike Flaagan, Highway Engineer

Corrective Action Planned:

The Highway Department will track withdrawals of inventory on a quarterly basis and update the County inventory system.

Anticipated Completion Date:

July 1, 2018

Finding Number: 2015-003
Finding Title: Fund Balance Reporting

Name of Contact Person Responsible for Corrective Action:

Ken Olson, County Auditor-Treasurer

Corrective Action Planned:

The County will review fund balance commitments with the County Board committing resources to specific projects or types of projects.

Anticipated Completion Date:

December 31, 2018

Finding Number: 2015-004
Finding Title: Financial Statement Disclosures

Name of Contact Person Responsible for Corrective Action:

Ken Olson, County Auditor-Treasurer

Corrective Action Planned:

Staff will review the financial statement before it is issued.

Anticipated Completion Date:

December 31, 2018

Finding Number: 2015-005
Finding Title: Departmental Checking Accounts

Name of Contact Person Responsible for Corrective Action:

Ken Olson, County Auditor-Treasurer

Corrective Action Planned:

The County will meet with the respective departments to re-evaluate the need for departmental checking accounts.

Anticipated Completion Date:

December 31, 2018

Finding Number: 2015-006
Finding Title: Segregation of Duties - Vendor Setup

Name of Contact Person Responsible for Corrective Action:

Ken Olson, County Auditor-Treasurer

Corrective Action Planned:

The County will review the segregation of duties between disbursements and vendor setup to limit access to vendor setup if possible.

Anticipated Completion Date:

December 31, 2018

Finding Number: 2015-007
Finding Title: Payroll - Segregation of Duties and Time Report Approval

Name of Contact Person Responsible for Corrective Action:

Ken Olson, County Auditor-Treasurer

Corrective Action Planned:

The County is using an e-time sheet program in all departments except for the County Sheriff Department which is in process. The e-time sheet requires two approvals, Employee and Supervisor. A payroll report with any changes made and the reasons for the change will be submitted to the County Auditor-Treasurer monthly for review.

Anticipated Completion Date:

December 31, 2018

Finding Number: 2015-008
Finding Title: Audit Adjustment

Name of Contact Person Responsible for Corrective Action:

Ken Olson, County Auditor-Treasurer

Corrective Action Planned:

The Ditch Levies will be recognized as receivables in the year the County Board approves the levy.

Anticipated Completion Date:

September 30, 2018

Finding Number: 2015-009
Finding Title: Uniform Guidance Written Procurement Policies and Procedures
Program: Highway Planning and Construction (CFDA No. 20.205)

Name of Contact Person Responsible for Corrective Action:

Ken Olson, County Auditor-Treasurer
Mike Flaagan, County Engineer
Ken Yutrzenka, Human Services Director

Corrective Action Planned:

The County will review the current procurement policy and include the additional information related to Uniform Guidance.

Anticipated Completion Date:

October 30, 2018

Finding Number: 2015-010
Finding Title: Identification of Federal Awards
Program: Highway Planning and Construction (CFDA No. 20.205)

Name of Contact Person Responsible for Corrective Action:

Mike Flaagan, Highway Engineer

Corrective Action Planned:

Procedures to properly identify and track federal expenditures will be implemented.

Anticipated Completion Date:

June 30, 2018

Finding Number: 2015-011
Finding Title: Contract Compliance

Name of Contact Person Responsible for Corrective Action:

Ken Olson, County Auditor-Treasurer

Corrective Action Planned:

Working with the Highway Department we will establish a procedure manual that includes contracting requirements.

Anticipated Completion Date:

December 31, 2018

Finding Number: 2015-012
Finding Title: Publishing Requirements

Name of Contact Person Responsible for Corrective Action:

Ken Olson, County Auditor-Treasurer

Corrective Action Planned:

We will publish the minutes and summary budget as required by Minnesota Statute.

Anticipated Completion Date:

Immediately

Finding Number: 2015-013
Finding Title: Prompt Payment of Invoices

Name of Contact Person Responsible for Corrective Action:

Ken Olson, County Auditor-Treasurer and all County Departments

Corrective Action Planned:

All invoices will be marked when received. This issue will be shared with all departments so that invoices are paid within 35 days of being received.

Anticipated Completion Date:

April 30, 2018

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

Name of Contact Person Responsible for Corrective Action:

Ken Olson, County Auditor-Treasurer

Corrective Action Planned:

A form listing donations and any conditions will be developed for County departments to list donations that will be approved by the County Board.

Anticipated Completion Date:

May 31, 2018

Finding Number: 2015-015
Finding Title: Out-of-State Travel Policy

Name of Contact Person Responsible for Corrective Action:

Ken Olson, County Auditor-Treasurer

Corrective Action Planned:

The County will develop a written Out-of-State Travel Policy.

Anticipated Completion Date:

December 31, 2018

Finding Number: 1996-007
Finding Title: County Ditch Deficit Fund Balances

Name of Contact Person Responsible for Corrective Action:

Ken Olson, County Auditor-Treasurer

Corrective Action Planned:

The County Board reviews each ditch balance and sets a levy to eliminate the deficit fund balances. Sometimes this is not possible and a temporary loan is approved from other ditches.

Anticipated Completion Date:

Ongoing

Finding Number: 2015-016
Finding Title: Identification of Federal Awards
Program: Medical Assistance Program (CFDA No. 93.778)

Name of Contact Person Responsible for Corrective Action:

Ken Yutrzenka, Human Services Director

Corrective Action Planned:

Expenses are reported through the DHS 2550 Report. Revenue reporting through County Confirmation Report.

Anticipated Completion Date:

Completed

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REPRESENTATION OF PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA

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

Finding Number: 1996-001
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. Funding is not available to hire additional employees.
Was corrective action taken significantly different than the action previously reported?
Yes _______ No ___X___

Finding Number: 2007-001
Finding Title: Internal Controls

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

Summary of Corrective Action Previously Reported: None.

Status: Partially Corrected. We are in the process of developing additional written policies and procedures.

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

The County did not respond to this finding in the prior audit report.

Finding Number: 1996-007
Finding Title: Ditch Special Revenue Fund Balance Deficits

Summary of Condition: Fourteen of the 50 active individual ditch systems had deficit fund balances at December 31, 2014, totaling $217,833, the largest being $75,917.

Summary of Corrective Action Previously Reported: The County Board levies each year in an attempt to provide enough funds to cover estimated work planned for in the coming year. Sometimes more work is required than the County Board feels the benefited owners can afford to pay in one year. The Board then spreads the levy over a number of years.

Status: Not Corrected. The County Board continues to increase the levies for some of these ditch systems but the deficits still continue into 2016.

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