

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

AITKIN COUNTY
AITKIN, 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 700 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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**AITKIN COUNTY
AITKIN, MINNESOTA**

Year Ended December 31, 2015



**Audit Practice Division
Office of the State Auditor
State of Minnesota**

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**AITKIN COUNTY
AITKIN, MINNESOTA**

TABLE OF CONTENTS

	<u>Exhibit</u>	<u>Page</u>
Introductory Section		
Organization		1
Financial Section		
Independent Auditor's Report		2
Management's Discussion and Analysis		6
Basic Financial Statements		
Government-Wide Financial Statements		
Statement of Net Position	1	15
Statement of Activities	2	17
Fund Financial Statements		
Governmental Funds		
Balance Sheet	3	19
Reconciliation of Governmental Funds Balance Sheet to the Government-Wide Statement of Net Position--Governmental Activities	4	21
Statement of Revenues, Expenditures, and Changes in Fund Balance	5	22
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Government-Wide Statement of Activities--Governmental Activities	6	23
Proprietary Fund		
Long Lake Conservation Center Enterprise Fund		
Statement of Net Position	7	24
Statement of Revenues, Expenses, and Changes in Fund Net Position	8	26
Statement of Cash Flows	9	27
Fiduciary Funds		
Statement of Fiduciary Net Position	10	28
Notes to the Financial Statements		29

**AITKIN COUNTY
AITKIN, MINNESOTA**

TABLE OF CONTENTS

	Exhibit	Page
Financial Section (Continued)		
Required Supplementary Information		
Budgetary Comparison Schedules		
General Fund	A-1	76
Road and Bridge Special Revenue Fund	A-2	79
Health and Human Services Special Revenue Fund	A-3	80
Forfeited Tax Sale Special Revenue Fund	A-4	81
PERA General Employees Retirement Fund		
Schedule of Proportionate Share of Net Pension Liability	A-5	82
Schedule of Contributions	A-6	82
PERA Public Employees Police and Fire Fund		
Schedule of Proportionate Share of Net Pension Liability	A-7	83
Schedule of Contributions	A-8	83
PERA Public Employees Correctional Fund		
Schedule of Proportionate Share of Net Pension Liability	A-9	84
Schedule of Contributions	A-10	84
Notes to the Required Supplementary Information		85
Supplementary Information		
Governmental Funds		
Nonmajor Governmental Funds		
Combining Balance Sheet	B-1	87
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance	B-2	89
Budgetary Comparison Schedules		
Forest Development Special Revenue Fund	B-3	91
Unorganized Road, Bridge, and Fire Special Revenue Fund	B-4	92
Ditch Special Revenue Fund	B-5	93
Environmental Permanent Fund	B-7	94
Fiduciary Funds		
Combining Statement of Changes in Assets and Liabilities - All Agency Funds	C-1	95
Other Schedules		
Schedule of Intergovernmental Revenue	D-1	97
Balance Sheet - By Ditch - Ditch Special Revenue Fund	D-2	99
Schedule of Expenditures of Federal Awards	D-3	101
Notes to the Schedule of Expenditures of Federal Awards		103

**AITKIN COUNTY
AITKIN, MINNESOTA**

**TABLE OF CONTENTS
(Continued)**

	<u>Exhibit</u>	<u>Page</u>
Management and Compliance Section		
Schedule of Findings and Questioned Costs		104
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		116
Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance		119

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**AITKIN COUNTY
AITKIN, MINNESOTA**

**ORGANIZATION
AS OF DECEMBER 31, 2015**

		<u>Term Expires</u>
Elected		
Commissioners		
District 1	Mark Wedel*	December 2018
District 2	Laurie Westerlund	December 2016
District 3	Donald Niemi	December 2018
District 4	Brian Napstad	December 2016
District 5	Anne Marcotte**	December 2018
Attorney	Jim Ratz	December 2018
Auditor	Kirk Peysar	December 2018
Recorder	Michael Moriarty	December 2018
Sheriff	Scott Turner	December 2018
Treasurer	Lori Grams	December 2018
Appointed		
Administrator	Nathan Burkett	Indefinite
Assessor	Mike Dangers	December 2016
Engineer	John Welle	December 2016
Coroner	Dr. M. B. McGee	Indefinite
Health and Human Services		
Director	Tom Burke	Indefinite
Land Commissioner	Mark Jacobs	Indefinite
Veterans Service Officer	Penny Harms	Indefinite

*Chair

**Vice Chair

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Aitkin County
Aitkin, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Aitkin 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 did not audit the financial statements of the Aitkin Airport Commission (Airport), included in the City of Aitkin, Minnesota, financial statements as a discrete component unit, for the year ended December 31, 2015. The Airport, in which Aitkin County has an equity interest, is a joint venture between Aitkin County and the City of Aitkin, as discussed in Note 6.B. to the financial statements. The County's investment in the Airport, \$1,560,149, represents 1.2 percent and 1.3 percent, respectively, of the assets and net position of the governmental activities. The financial statements of the Airport were audited by other auditors, whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amount included as an investment in joint venture, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing

standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Aitkin County as of December 31, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter - Change in Accounting Principle

As discussed in Note 1.E.2. 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 Aitkin 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 August 30, 2016, on our consideration of Aitkin County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Aitkin County's internal control over financial reporting and compliance. It does not include the Aitkin Airport Commission joint venture, which was audited by other auditors.

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

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

REBECCA OTTO
STATE AUDITOR

August 30, 2016

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

MANAGEMENT'S DISCUSSION AND ANALYSIS

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AITKIN COUNTY
AITKIN, MINNESOTA

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

Aitkin County's Management's Discussion and Analysis (MD&A) provides an overview of the County's 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 the County's financial statements.

FINANCIAL HIGHLIGHTS

- Governmental activities have a total net position of \$118,081,902, of which \$94,755,363 is the investment in capital assets, and \$6,806,770 is restricted to specific purposes.
- Business-type activities have a total net position of \$2,508,787. Investment in capital assets represents \$3,492,137 of the total. Of the total business-type net position, \$2,036 is restricted for specific uses.
- Aitkin County's net position increased by \$5,937,103 for the year ended December 31, 2015. Of the increase, \$6,193,963 was in governmental activities, and there was a decrease of \$256,860 in business-type activities.
- The cost of governmental activities increased by \$2,037,162 to \$28,614,682 for the current fiscal year. Program revenues of \$17,418,346 offset those costs. A portion of the net cost was funded by general revenues and other items totaling \$17,390,299.
- Governmental funds' fund balances decreased by \$137,457.

OVERVIEW OF THE FINANCIAL STATEMENTS

This MD&A is intended to serve as an introduction to the basic financial statements. Aitkin County's basic financial statements consist of three parts: government-wide financial statements, fund financial statements, and notes to the financial statements. The MD&A (this section), certain budgetary comparison schedules, and certain information related to the County's net pension liability are required to accompany the basic financial statements and, therefore, are included as required supplementary information.

There are two government-wide financial statements. The Statement of Net Position and the Statement of Activities provide information about the activities of the County as a whole and present a longer-term view of the County's finances. Fund financial statements report the County's operation in more detail than the government-wide statements by providing information about the County's most significant funds. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. The remaining statements provide financial information about activities for which the County acts solely as a trustee or agent for the benefit of those outside of the government.

Government-Wide Financial Statements--Statement of Net Position and Statement of Activities

The Statement of Net Position and the Statement of Activities report information about the County as a whole and about the activities in a way that helps the reader determine whether the County's financial condition has improved or declined as a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the County's net position and changes in them. You can think of the County's net position, the difference between assets and liabilities, as one way to measure the County's financial health or financial position. Over time, increases or decreases in the County's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the County's property tax base and the condition of County roads, to assess the overall health of the County.

In the Statement of Net Position and the Statement of Activities, we divide the County into two kinds of activities:

Governmental activities--Most of the County's basic services are reported here, including general government, public safety, highways and streets, sanitation, human services, health, culture and recreation, conservation of natural resources, and economic development. Property taxes and state and federal grants finance most of these activities.

Business-type activities--The County charges a fee to customers to help it cover all or most of the costs of these services it provides. The Long Lake Conservation Center's activities are reported here.

Fund Financial Statements

The fund financial statements provide detailed information about the significant funds--not the County as a whole. Some funds are required to be established by state law and by bond covenants. However, the County Board establishes some funds to help it control and manage money for a particular purpose or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The County's two kinds of funds, governmental and proprietary, use different accounting methods.

Governmental funds--Most of the County's basic services are reported in governmental funds, which focus on how money flows in to and out of those funds and the balances left at year-end that are available for spending. These funds are reported using modified accrual accounting. This method measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the County's general government operations and the basic services it provides. Governmental fund information helps to determine whether there are more or fewer resources that can be spent in the near future to finance the County's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in a reconciliation statement following each governmental fund financial statement.

Proprietary funds--When the County charges customers for the services it provides, whether to outside customers or to other units of the County, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the County's enterprise fund (a component of proprietary funds) is the same as the business-type activities we report in the government-wide statements but provides more detail and additional information, such as cash flows.

Reporting the County's Fiduciary Responsibilities

The County is the trustee, or fiduciary, over certain assets. All of the County's fiduciary activities are reported in a separate Statement of Fiduciary Net Position. We exclude these activities from the County's other financial statements because the County cannot use these assets to finance its operations. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

THE COUNTY AS A WHOLE

Our analysis focuses on the net position (Table 1) and changes in net position (Table 2) of the County's governmental and business-type activities for the year ended December 31, 2015, with comparative amounts for 2014. Unless otherwise indicated, all amounts are in thousands.

Table 1
Net Position
(in thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2015	2014	2015	2014	2015	2014
Assets						
Current and other assets	\$ 35,528	\$ 33,056	\$ (616)	\$ (504)	\$ 34,912	\$ 32,552
Capital assets	<u>94,755</u>	<u>88,419</u>	<u>3,492</u>	<u>3,628</u>	<u>98,247</u>	<u>92,047</u>
Total Assets	<u>\$ 130,283</u>	<u>\$ 121,475</u>	<u>\$ 2,876</u>	<u>\$ 3,124</u>	<u>\$ 133,159</u>	<u>\$ 124,599</u>
Deferred outflows of resources	<u>\$ 1,550</u>	<u>\$ -</u>	<u>\$ 45</u>	<u>\$ -</u>	<u>\$ 1,595</u>	<u>\$ -</u>
Liabilities						
Long-term debt outstanding	\$ 9,163	\$ 1,243	\$ 327	\$ 16	\$ 9,490	\$ 1,259
Other liabilities	<u>3,623</u>	<u>1,585</u>	<u>55</u>	<u>41</u>	<u>3,678</u>	<u>1,626</u>
Total Liabilities	<u>\$ 12,786</u>	<u>\$ 2,828</u>	<u>\$ 382</u>	<u>\$ 57</u>	<u>\$ 13,168</u>	<u>\$ 2,885</u>
Deferred inflows of resources	<u>\$ 965</u>	<u>\$ -</u>	<u>\$ 30</u>	<u>\$ -</u>	<u>\$ 995</u>	<u>\$ -</u>
Net Position						
Investment in capital assets	\$ 94,755	\$ 88,419	\$ 3,492	\$ 3,628	\$ 98,247	\$ 92,047
Restricted	6,807	6,415	2	2	6,809	6,417
Unrestricted	<u>16,520</u>	<u>23,813</u>	<u>(985)</u>	<u>(563)</u>	<u>15,535</u>	<u>23,250</u>
Total Net Position, as reported	<u>\$ 118,082</u>	<u>\$ 118,647</u>	<u>\$ 2,509</u>	<u>\$ 3,067</u>	<u>\$ 120,591</u>	<u>\$ 121,714</u>
Prior period adjustment*		1,312		-		1,312
Change in accounting principle**		<u>(8,071)</u>		<u>(301)</u>		<u>(8,372)</u>
Total Net Position, as restated		<u>\$ 111,888</u>		<u>\$ 2,766</u>		<u>\$ 114,654</u>

*The January 1, 2015, governmental activities' investment in joint venture was recorded to include the County's interest in the Aitkin Municipal Airport Commission.

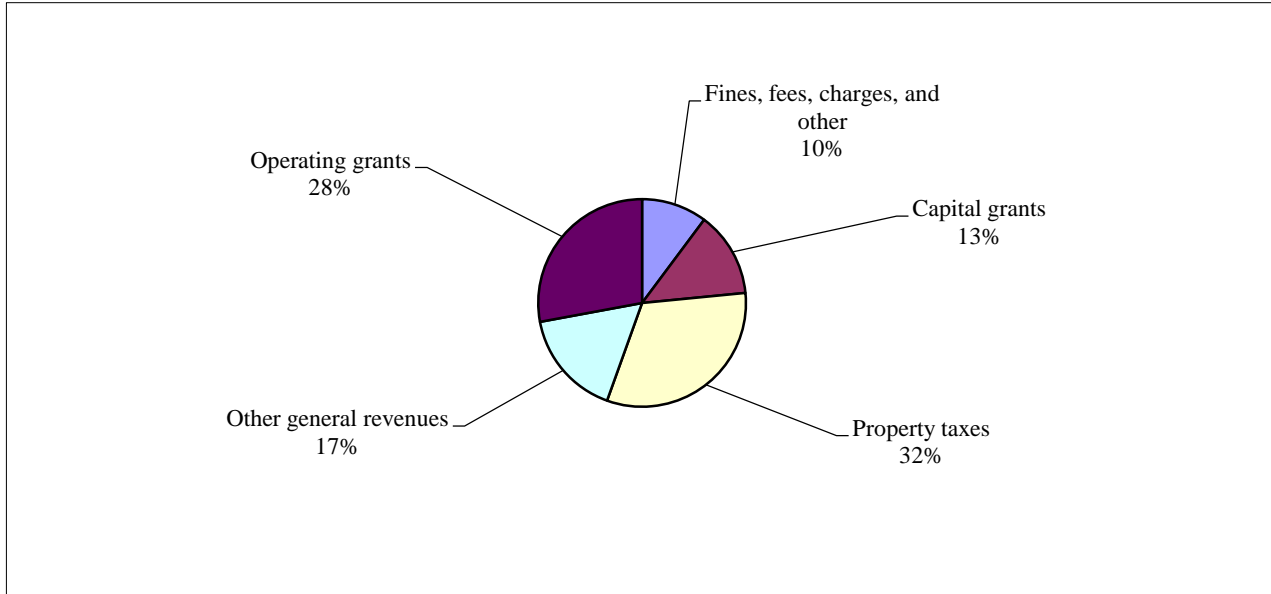
**This is the first year the County implemented the new pension accounting and financial reporting standards, Governmental Accounting Standards Board (GASB) Statements 68, 71, and 82. The County had to make a prior year change in accounting principles to record the County's net pension liability and related deferred outflows of resources.

Table 2
Changes in Net Position
(in thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2015	2014	2015	2014	2015	2014
Revenues						
Program revenues						
Fines, fees, charges, and other	\$ 3,060	\$ 3,019	\$ 587	\$ 608	\$ 3,647	\$ 3,627
Operating grants	9,976	7,736	8	22	9,984	7,758
Capital grants	4,382	2,753	-	-	4,382	2,753
General revenues						
Property taxes	11,457	11,170	-	-	11,457	11,170
Other taxes	1,688	1,873	-	-	1,688	1,873
Grants and contributions	1,847	1,567	-	-	1,847	1,567
Other general revenues	2,399	2,111	4	-	2,403	2,111
Total Revenues	\$ 34,809	\$ 30,229	\$ 599	\$ 630	\$ 35,408	\$ 30,859
Expenses						
General government	\$ 5,854	\$ 5,238	\$ -	\$ -	\$ 5,854	\$ 5,238
Public safety	5,614	5,752	-	-	5,614	5,752
Highways and streets	6,490	6,084	-	-	6,490	6,084
Sanitation	364	336	-	-	364	336
Human services	5,900	5,324	-	-	5,900	5,324
Health	868	772	-	-	868	772
Culture and recreation	967	780	-	-	967	780
Conservation of natural resources	2,294	2,186	856	878	3,150	3,064
Economic development	264	110	-	-	264	110
Interest	-	(4)	-	-	-	(4)
Total Expenses	\$ 28,615	\$ 26,578	\$ 856	\$ 878	\$ 29,471	\$ 27,456
Increase (Decrease) in Net Position	\$ 6,194	\$ 3,651	\$ (257)	\$ (248)	\$ 5,937	\$ 3,403
Net Position, January 1, as restated*	111,888	114,996	2,766	3,315	114,654	118,311
Net Position, December 31, as reported	\$ 118,082	\$ 118,647	\$ 2,509	\$ 3,067	\$ 120,591	\$ 121,714

*Amount includes a prior period adjustment in the governmental activities, a change in accounting principle in the governmental activities and business-type activities. See Note 1.E.

Total County Revenues by Source



Governmental Activities (in thousands)

The cost of all activities this year was \$28,615. However, as shown in the Statement of Activities, the amount that taxpayers ultimately financed for these activities through County taxes was \$11,457, because some of the cost was paid by those who directly benefited from the programs (\$3,060) or by other governments and organizations that subsidized certain programs with grants and contributions (\$14,358).

Table 3 presents the cost of each of the County’s five largest program functions, as well as each function’s net cost (total cost, less revenues generated by the activities). The net cost shows the financial burden that was placed on the County’s taxpayers by each of these functions.

**Table 3
Governmental Activities
(in thousands)**

Activity	Total Cost of Services		Net Cost of Services	
	2015	2014	2015	2014
General government	\$ 5,854	\$ 5,238	\$ 4,635	\$ 3,965
Public safety	5,614	5,752	4,327	4,664
Highways and streets	6,490	6,084	(3,374)	(580)
Human services	5,900	5,324	2,358	2,252
Conservation of natural resources	2,294	2,186	1,669	1,301
Totals	\$ 26,152	\$ 24,584	\$ 9,615	\$ 11,602

Business-Type Activities

The revenues of the County's business-type activities decreased by 4.9 percent, income from fees decreased 3.5 percent, and expenses decreased by 2.5 percent.

The County's Funds (in thousands)

As the County completed the year, its governmental funds reported a combined fund balance of \$28,500, which is below last year's total of \$28,637. The Road and Bridge Special Revenue Fund's change in fund balance (an increase of \$222 for 2015) represented the largest increase in governmental fund balances. Most of the Road and Bridge Special Revenue Fund's increase is due to receiving federal and state highway funds. The Health and Human Services Special Revenue Fund balance decreased \$375. The General Fund saw a decrease in fund balance of \$227.

General Fund Budgetary Highlights (in thousands)

The actual charges to appropriations (expenditures) were \$5 under the final budget amounts. Significant positive variances include the following: intergovernmental revenues and charges for services were greater than budgeted.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets (in thousands)

At the end of 2015, the County had \$98,247 invested in a broad range of capital assets, including land, construction in progress, buildings, machinery, furniture, equipment, and infrastructure (see Table 4). This amount represents a net increase of \$6,200, or 6.7 percent, over the last year.

Table 4
Capital Assets at Year-End
(Net of Depreciation)
(in thousands)

	Governmental Activities		Business-Type Activities		Totals	
	2015	2014	2015	2014	2015	2014
Land	\$ 3,401	\$ 3,287	\$ 15	\$ 15	\$ 3,416	\$ 3,302
Construction in progress	548	979	-	-	548	979
Buildings	7,492	7,706	3,453	3,583	10,945	11,289
Machinery, furniture, and equipment	4,910	4,927	24	30	4,934	4,957
Infrastructure	78,404	71,520	-	-	78,404	71,520
Totals	<u>\$ 94,755</u>	<u>\$ 88,419</u>	<u>\$ 3,492</u>	<u>\$ 3,628</u>	<u>\$ 98,247</u>	<u>\$ 92,047</u>

This year's major additions include:

SP 001-628-012	Mill and overlay	\$	2,124
SAP-001-030-005	Culvert replacement		767
SAP-001-600-017	Grading and aggregate		476

The County's fiscal year 2016 capital budget calls for it to spend another \$4,305 for capital projects, principally for highway and street improvements. Additional information on capital assets is found in Note 3.A.3. to the financial statements.

Debt (in thousands)

At year-end, the County had \$253 in loans outstanding, versus \$244 last year, an increase of 3.7 percent, as shown in Table 5.

**Table 5
Outstanding Debt at Year-End
(in thousands)**

	Governmental Activities	
	2015	2014
AgBMP Septic Loans	\$ 253	\$ 244

The County's general obligation bond rating is "A1," a rating assigned by national rating agencies to the County's debt. The state limits the amount of net debt the County can issue to three percent of the market value of all taxable property in the County. The County's outstanding net debt is significantly below this \$81,388 state-imposed limit.

Other obligations include accrued vacation and sick leave payable. More detailed information about the County's long-term liabilities is presented in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The County's elected and appointed officials considered many factors when setting the fiscal year 2016 budget, tax rates, and fees that will be charged for the business-type activities.

- Further increases in the unemployment rate in 2016 could impact the level of services requested by County residents.
- Aitkin County's demographic population has a high median age, creating increased demands for services across several service areas.

- The general stabilization in real market values could result in a more moderate tax rate increase.
- The need to address future capital and infrastructure funding.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the County's finances and to show the County's accountability for the money it receives. If you have questions about this report, or need additional information, contact Kirk Peysar, Aitkin County Auditor, Aitkin County Courthouse, 209 Second Street N.W., Room 202, Aitkin, Minnesota 56431.

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BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

**AITKIN COUNTY
AITKIN, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET POSITION
DECEMBER 31, 2015**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Cash and pooled investments	\$ 28,867,323	\$ -	\$ 28,867,323
Petty cash and change funds	6,000	1,350	7,350
Departmental cash	9,648	-	9,648
Cash with fiscal agent	143,308	-	143,308
Taxes receivable			
Prior - net	581,939	-	581,939
Special assessments receivable			
Prior - net	12,438	-	12,438
Noncurrent - net	455	-	455
Accounts receivable - net	1,647,054	-	1,647,054
Accrued interest receivable	83,102	-	83,102
Loan receivable	110,187	-	110,187
Internal balances	626,105	(626,105)	-
Due from other governments	1,442,403	30	1,442,433
Inventories	436,771	6,667	443,438
Prepaid items	780	-	780
Investment in joint venture	1,560,149	-	1,560,149
Restricted assets			
Cash and pooled investments	-	2,036	2,036
Capital assets			
Non-depreciable	3,949,447	15,400	3,964,847
Depreciable - net of accumulated depreciation	90,805,916	3,476,737	94,282,653
Total Assets	\$ 130,283,025	\$ 2,876,115	\$ 133,159,140
<u>Deferred Outflows of Resources</u>			
Deferred pension outflows	\$ 1,550,482	\$ 45,152	\$ 1,595,634

**AITKIN COUNTY
AITKIN, MINNESOTA**

**EXHIBIT 1
(Continued)**

**STATEMENT OF NET POSITION
DECEMBER 31, 2015**

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
<u>Liabilities</u>			
Accounts payable	\$ 769,496	\$ 16,404	\$ 785,900
Salaries payable	730,488	15,660	746,148
Contracts payable	541,336	-	541,336
Due to other governments	396,882	701	397,583
Timber permit bonds	101,793	-	101,793
Unearned revenue	2,059	-	2,059
Long-term liabilities			
Due within one year	1,081,201	22,454	1,103,655
Due in more than one year	206,501	-	206,501
Net pension liability	8,956,392	326,968	9,283,360
Total Liabilities	\$ 12,786,148	\$ 382,187	\$ 13,168,335
<u>Deferred Inflows of Resources</u>			
Deferred pension inflows	\$ 965,457	\$ 30,293	\$ 995,750
<u>Net Position</u>			
Investment in capital assets	\$ 94,755,363	\$ 3,492,137	\$ 98,247,500
Restricted for			
General government	798,335	-	798,335
Public safety	614,663	-	614,663
Highways and streets	780,765	-	780,765
Sanitation	626,075	-	626,075
Culture and recreation	219,600	-	219,600
Conservation of natural resources	2,357,301	-	2,357,301
Economic development	685,035	-	685,035
Unorganized road, bridge, and fire	581,688	-	581,688
Debt service	143,308	-	143,308
Other purposes	-	2,036	2,036
Unrestricted	16,519,769	(985,386)	15,534,383
Total Net Position	\$ 118,081,902	\$ 2,508,787	\$ 120,590,689

**AITKIN COUNTY
AITKIN, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2015**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Fees, Charges, Fines, and Other</u>
Primary government		
Governmental activities		
General government	\$ 5,854,123	\$ 1,070,031
Public safety	5,613,557	809,895
Highways and streets	6,489,661	389,813
Sanitation	364,242	17,766
Human services	5,899,672	599,587
Health	868,143	129,802
Culture and recreation	966,930	31,953
Conservation of natural resources	2,294,103	-
Economic development	264,251	11,638
Total governmental activities	\$ 28,614,682	\$ 3,060,485
Business-type activities		
Long Lake Conservation Center	856,122	586,985
Total Primary Government	\$ 29,470,804	\$ 3,647,470

General Revenues

Property taxes
Mortgage registry and deed tax
Other taxes
Payments in lieu of tax
Grants and contributions not restricted to
specific programs
Unrestricted investment earnings
Miscellaneous

Total general revenues

Change in net position

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

Net Position - Ending

EXHIBIT 2

<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Position</u>		
<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Primary Government</u>		
		<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
\$ 148,999	\$ -	\$ (4,635,093)	\$ -	\$ (4,635,093)
476,760	-	(4,326,902)	-	(4,326,902)
5,092,565	4,381,592	3,374,309	-	3,374,309
-	-	(346,476)	-	(346,476)
2,942,577	-	(2,357,508)	-	(2,357,508)
312,109	-	(426,232)	-	(426,232)
-	-	(934,977)	-	(934,977)
625,564	-	(1,668,539)	-	(1,668,539)
377,695	-	125,082	-	125,082
\$ 9,976,269	\$ 4,381,592	\$ (11,196,336)	\$ -	\$ (11,196,336)
8,327	-	-	(260,810)	(260,810)
\$ 9,984,596	\$ 4,381,592	\$ (11,196,336)	\$ (260,810)	\$ (11,457,146)
		\$ 11,456,674	\$ -	\$ 11,456,674
		17,553	-	17,553
		16,410	-	16,410
		1,654,084	-	1,654,084
		1,846,729	-	1,846,729
		382,042	-	382,042
		2,016,807	3,950	2,020,757
		\$ 17,390,299	\$ 3,950	\$ 17,394,249
		\$ 6,193,963	\$ (256,860)	\$ 5,937,103
		111,887,939	2,765,647	114,653,586
		\$ 118,081,902	\$ 2,508,787	\$ 120,590,689

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

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**AITKIN COUNTY
AITKIN, MINNESOTA**

EXHIBIT 3

**BALANCE SHEET
DECEMBER 31, 2015**

	<u>General</u>	<u>Road and Bridge</u>	<u>Health and Human Services</u>	<u>Forfeited Tax Sale</u>	<u>Nonmajor Funds</u>	<u>Total</u>
<u>Assets</u>						
Cash and pooled investments	\$ 8,776,607	\$ 10,623,793	\$ 4,544,194	\$ 3,034,049	\$ 1,888,680	\$ 28,867,323
Petty cash and change funds	3,000	-	3,000	-	-	6,000
Departmental cash	9,648	-	-	-	-	9,648
Cash with fiscal agent	143,308	-	-	-	-	143,308
Taxes receivable						
Prior	353,213	115,290	110,689	-	2,747	581,939
Special assessments						
Prior	-	-	-	-	12,438	12,438
Noncurrent	-	-	-	-	455	455
Accounts receivable	14,271	-	22,787	1,601,337	8,659	1,647,054
Accrued interest receivable	83,102	-	-	-	-	83,102
Loans receivable	110,187	-	-	-	-	110,187
Due from other funds	1,020,661	27,014	-	-	510,970	1,558,645
Due from other governments	254,644	794,989	378,707	6,198	7,865	1,442,403
Prepaid items	-	-	780	-	-	780
Inventories	-	436,771	-	-	-	436,771
Total Assets	\$ 10,768,641	\$ 11,997,857	\$ 5,060,157	\$ 4,641,584	\$ 2,431,814	\$ 34,900,053
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>						
Liabilities						
Accounts payable	\$ 199,908	\$ 397,123	\$ 155,134	\$ 8,201	\$ 9,130	\$ 769,496
Salaries payable	385,556	106,361	189,504	34,021	15,046	730,488
Contracts payable	-	541,336	-	-	-	541,336
Due to other funds	-	-	-	905,526	27,014	932,540
Due to other governments	63,337	50,707	112	282,726	-	396,882
Unearned revenue	2,059	-	-	-	-	2,059
Timber permit bonds	-	-	-	101,793	-	101,793
Total Liabilities	\$ 650,860	\$ 1,095,527	\$ 344,750	\$ 1,332,267	\$ 51,190	\$ 3,474,594
Deferred Inflows of Resources						
Unavailable revenue	\$ 330,278	\$ 873,808	\$ 105,140	\$ 1,601,337	\$ 15,113	\$ 2,925,676

**AITKIN COUNTY
AITKIN, MINNESOTA**

**EXHIBIT 3
(Continued)**

**BALANCE SHEET
DECEMBER 31, 2015**

	<u>General</u>	<u>Road and Bridge</u>	<u>Health and Human Services</u>	<u>Forfeited Tax Sale</u>	<u>Nonmajor Funds</u>	<u>Total</u>
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>						
(Continued)						
Fund Balances						
Nonspendable						
Inventories	\$ -	\$ 436,771	\$ -	\$ -	\$ -	\$ 436,771
Prepaid items	-	-	780	-	-	780
Missing heirs	-	-	-	21,519	-	21,519
Restricted for						
Debt service	143,308	-	-	-	-	143,308
Recorder's technology	346,346	-	-	-	-	346,346
Prosecutorial purposes	5,000	-	-	-	-	5,000
Enhanced 911	475,778	-	-	-	-	475,778
Law enforcement	5,000	-	-	-	-	5,000
Administering the carrying of weapons	121,063	-	-	-	-	121,063
Conservation of natural resources	28,231	-	-	-	-	28,231
Loans receivable	110,187	-	-	-	-	110,187
Solid waste	626,075	-	-	-	-	626,075
Recorder's equipment purchases	378,138	-	-	-	-	378,138
Parks	219,600	-	-	-	-	219,600
Sobriety court fees	12,822	-	-	-	-	12,822
County development	-	-	-	685,035	-	685,035
Law library	-	-	-	67,036	-	67,036
Unclaimed property	-	-	-	1,815	-	1,815
Administering forfeited tax sale	-	-	-	72,538	-	72,538
Unorganized road, bridge, and fire	-	-	-	-	581,688	581,688
Ditch maintenance and repairs	-	-	-	-	57,733	57,733
Environmental uses	-	-	-	-	487,275	487,275
Assigned for						
Highways and streets	1,446,551	9,591,751	-	-	-	11,038,302
Public safety	1,652,721	-	-	-	-	1,652,721
Health and human services	-	-	4,609,487	-	-	4,609,487
Workers' compensation	-	-	-	860,037	-	860,037
Forest development	-	-	-	-	1,250,767	1,250,767
Unassigned	4,216,683	-	-	-	(11,952)	4,204,731
Total Fund Balances	\$ 9,787,503	\$ 10,028,522	\$ 4,610,267	\$ 1,707,980	\$ 2,365,511	\$ 28,499,783
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 10,768,641	\$ 11,997,857	\$ 5,060,157	\$ 4,641,584	\$ 2,431,814	\$ 34,900,053

**AITKIN COUNTY
AITKIN, MINNESOTA**

EXHIBIT 4

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

Fund balances - total governmental funds (Exhibit 3)		\$ 28,499,783
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.		94,755,363
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		
Deferred inflows of resources - unavailable revenue		2,925,676
Investment in joint venture is not available to pay for current period expenditures and, therefore, is not reported in the governmental funds.		1,560,149
Deferred outflows resulting from pension obligations are not available resources and, therefore, are not reported in the governmental funds.		1,550,482
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
Loans payable	\$ (253,495)	
Net pension liability	(8,956,392)	
Compensated absences	<u>(1,034,207)</u>	(10,244,094)
Deferred inflows resulting from pension obligations are not due and payable in the current period and, therefore, are not reported in the governmental funds.		<u>(965,457)</u>
Net Position of Governmental Activities (Exhibit 1)		<u><u>\$ 118,081,902</u></u>

**AITKIN COUNTY
AITKIN, MINNESOTA**

EXHIBIT 5

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>General</u>	<u>Road and Bridge</u>	<u>Health and Human Services</u>	<u>Forfeited Tax Sale</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Revenues						
Taxes	\$ 7,231,376	\$ 2,262,606	\$ 1,985,450	\$ -	\$ 69,223	\$ 11,548,655
Special assessments	-	-	-	-	658	658
Licenses and permits	372,254	-	-	-	800	373,054
Intergovernmental	3,530,811	9,602,618	3,631,577	326,661	243,926	17,335,593
Charges for services	1,265,917	232,157	261,186	29,887	-	1,789,147
Gifts and contributions	8,828	-	-	-	-	8,828
Investment earnings	404,098	-	-	-	14,661	418,759
Miscellaneous	398,127	157,636	396,063	1,861,221	3,897	2,816,944
Total Revenues	\$ 13,211,411	\$ 12,255,017	\$ 6,274,276	\$ 2,217,769	\$ 333,165	\$ 34,291,638
Expenditures						
Current						
General government	\$ 5,447,446	\$ -	\$ -	\$ 24,907	\$ 2,871	\$ 5,475,224
Public safety	5,396,844	-	-	-	27,285	5,424,129
Highways and streets	-	12,966,403	-	-	54,132	13,020,535
Sanitation	367,721	-	-	-	-	367,721
Human services	-	-	5,815,744	-	-	5,815,744
Health	4,244	-	833,470	-	-	837,714
Culture and recreation	963,867	-	-	-	-	963,867
Conservation of natural resources	465,292	-	-	1,146,090	644,737	2,256,119
Economic development	115,153	-	-	-	-	115,153
Intergovernmental						
Highways and streets	-	363,907	-	-	-	363,907
Debt service						
Principal	16,918	-	-	-	-	16,918
Total Expenditures	\$ 12,777,485	\$ 13,330,310	\$ 6,649,214	\$ 1,170,997	\$ 729,025	\$ 34,657,031
Excess of Revenues Over (Under) Expenditures	\$ 433,926	\$ (1,075,293)	\$ (374,938)	\$ 1,046,772	\$ (395,860)	\$ (365,393)
Other Financing Sources (Uses)						
Loans issued	\$ 26,700	\$ -	\$ -	\$ -	\$ -	\$ 26,700
Transfers in	409,189	1,096,530	-	-	514,547	2,020,266
Transfers out	(1,096,530)	-	-	(909,103)	(14,633)	(2,020,266)
Total Other Financing Sources (Uses)	\$ (660,641)	\$ 1,096,530	\$ -	\$ (909,103)	\$ 499,914	\$ 26,700
Net Change in Fund Balance	\$ (226,715)	\$ 21,237	\$ (374,938)	\$ 137,669	\$ 104,054	\$ (338,693)
Fund Balance - January 1	10,014,218	9,806,049	4,985,205	1,570,311	2,261,457	28,637,240
Increase (decrease) in inventories	-	201,236	-	-	-	201,236
Fund Balance - December 31	\$ 9,787,503	\$ 10,028,522	\$ 4,610,267	\$ 1,707,980	\$ 2,365,511	\$ 28,499,783

**AITKIN COUNTY
AITKIN, MINNESOTA**

EXHIBIT 6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE 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) \$ (338,693)

Amounts reported for governmental activities in the statement of activities are different because:

In the 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 revenue between the fund statements and the statement of activities is the increase or decrease in unavailable revenue.

Unavailable revenue - December 31	\$ 2,925,676	
Unavailable revenue - January 1	<u>(2,833,057)</u>	92,619

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. Also, in the statement of activities, only the gain or loss on the disposal of assets is reported; whereas, in the governmental funds, the proceeds from the sale increase financial resources. Therefore, the change in net position differs from the change in fund balance by the net book value of the assets sold.

Expenditures for general capital assets and infrastructure	\$ 9,510,853	
Current year depreciation	<u>(3,174,831)</u>	6,336,022

Issuing long-term debt provides current financial resources to governmental funds, while the repayment of debt consumes current financial resources. Neither transaction has any effect on net position. Also, governmental funds report the net effect of premiums, discounts, and similar items when debt is first issued; whereas, those amounts are deferred and amortized over the life of the debt in the statement of net position.

Debt issued		
AgBMP Septic Loans	\$ (26,700)	
Principal repayments		
Loans	<u>16,918</u>	(9,782)

Increase in joint venture does not provide current financial resources and is not reported as revenue or expenses in the funds.		247,813
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Change in compensated absences	\$ (35,146)	
Change in inventories	201,236	
Change in deferred outflows of resources, as restated	1,112,095	
Change in net pension liability, as restated	(446,744)	
Change in deferred inflows of resources	<u>(965,457)</u>	<u>(134,016)</u>

Change in Net Position of Governmental Activities (Exhibit 2) \$ 6,193,963

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PROPRIETARY FUND

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**LONG LAKE CONSERVATION CENTER
ENTERPRISE FUND**

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**AITKIN COUNTY
AITKIN, MINNESOTA**

EXHIBIT 7

**STATEMENT OF NET POSITION
LONG LAKE CONSERVATION CENTER ENTERPRISE FUND
DECEMBER 31, 2015**

Assets

Current assets

Petty cash and change funds	\$ 1,350
Due from other governments	30
Inventories	<u>6,667</u>

Total current assets **\$ 8,047**

Restricted assets

Cash and pooled investments	\$ <u>2,036</u>
-----------------------------	------------------------

Noncurrent assets

Capital assets	
Nondepreciable	\$ 15,400
Depreciable - net	<u>3,476,737</u>

Total noncurrent assets **\$ 3,492,137**

Total Assets **\$ 3,502,220**

Deferred Outflows of Resources

Deferred pension outflows	\$ <u>45,152</u>
---------------------------	-------------------------

Liabilities

Current liabilities

Accounts payable	\$ 16,404
Salaries payable	15,660
Compensated absences payable - current	22,454
Due to other funds	626,105
Due to other governments	<u>701</u>

Total current liabilities **\$ 681,324**

Noncurrent liabilities

Net pension liability	<u>326,968</u>
-----------------------	----------------

Total Liabilities **\$ 1,008,292**

Deferred Inflows of Resources

Deferred pension inflows	\$ <u>30,293</u>
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**AITKIN COUNTY
AITKIN, MINNESOTA**

***EXHIBIT 7
(Continued)***

**STATEMENT OF NET POSITION
LONG LAKE CONSERVATION CENTER ENTERPRISE FUND
DECEMBER 31, 2015**

Net Position

Investment in capital assets	\$ 3,492,137
Restricted for Publications	2,036
Unrestricted	<u>(985,386)</u>
Total Net Position	<u><u>\$ 2,508,787</u></u>

**AITKIN COUNTY
AITKIN, MINNESOTA**

EXHIBIT 8

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
LONG LAKE CONSERVATION CENTER ENTERPRISE FUND
FOR THE YEAR ENDED DECEMBER 31, 2015**

Operating Revenues	
Tenant rent	\$ 7,200
Program packages	512,525
Resale	39,223
Miscellaneous	28,037
	28,037
Total Operating Revenues	\$ 586,985
Operating Expenses	
Personal services	\$ 383,160
Employee benefits and payroll taxes	109,281
Other services and charges	36,821
Supplies	71,809
Utilities	42,015
Advertising	6,334
Insurance	16,640
Staff training	1,313
Postage	512
Depreciation	162,441
Resale	25,796
	25,796
Total Operating Expenses	\$ 856,122
Operating Income (Loss)	\$ (269,137)
Nonoperating Revenues (Expenses)	
Intergovernmental	\$ 4,426
Gifts and contributions	3,901
Insurance proceeds	3,950
	3,950
Total Nonoperating Revenues (Expenses)	\$ 12,277
Change in Net Position	\$ (256,860)
Net Position - January 1, as restated (Note 1.E.)	2,765,647
	2,765,647
Net Position - December 31	\$ 2,508,787
	2,508,787

**AITKIN COUNTY
AITKIN, MINNESOTA**

EXHIBIT 9

**STATEMENT OF CASH FLOWS
LONG LAKE CONSERVATION CENTER ENTERPRISE FUND
FOR THE YEAR ENDED DECEMBER 31, 2015
Increase (Decrease) in Cash and Cash Equivalents**

Cash Flows from Operating Activities	
Receipts from customers and users	\$ 601,493
Payments to suppliers	(203,995)
Payments to employees	(381,682)
Payments for fringe benefits and payroll taxes	<u>(98,803)</u>
Net cash provided by (used in) operating activities	<u>\$ (82,987)</u>
Cash Flows from Noncapital Financing Activities	
Intergovernmental	\$ 4,426
Contributions	3,901
Insurance proceeds	3,950
Receipt of interfund payable	<u>97,300</u>
Net cash provided by (used in) noncapital financing activities	<u>\$ 109,577</u>
Cash Flows from Capital and Related Financing Activities	
Acquisition of capital assets	<u>\$ (26,590)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ -
Cash and Cash Equivalents at January 1	<u>3,386</u>
Cash and Cash Equivalents at December 31	<u><u>\$ 3,386</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities	
Operating income (loss)	<u>\$ (269,137)</u>
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities	
Depreciation expense	\$ 162,441
(Increase) decrease in accounts receivable	14,538
(Increase) decrease in due from other governments	(30)
(Increase) decrease in inventories	(97)
(Increase) decrease in deferred pension outflows	(32,005)
Increase (decrease) in accounts payable	(2,706)
Increase (decrease) in salaries payable	(5,215)
Increase (decrease) in due to other governments	48
Increase (decrease) in compensated absences payable	6,693
Increase (decrease) in net pension liability	12,190
Increase (decrease) in deferred pension inflows	<u>30,293</u>
Total adjustments	<u>\$ 186,150</u>
Net Cash Provided by (Used in) Operating Activities	<u><u>\$ (82,987)</u></u>

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

Page 27

FIDUCIARY FUNDS

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**AITKIN COUNTY
AITKIN, MINNESOTA**

EXHIBIT 10

**STATEMENT OF FIDUCIARY NET POSITION
AGENCY FUNDS
DECEMBER 31, 2015**

Assets

Cash and pooled investments	\$ 705,078
Due from other governments	<u>3,275</u>
Total Assets	<u><u>\$ 708,353</u></u>

Liabilities

Accounts payable	\$ 67,675
Due to other governments	<u>640,678</u>
Total Liabilities	<u><u>\$ 708,353</u></u>

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AITKIN COUNTY
AITKIN, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2015

1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with generally accepted accounting principles (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

Aitkin County was established May 23, 1857, and is an organized county having the powers, duties, and privileges granted counties by Minn. Stat. ch. 373. As required by accounting principles generally accepted in the United States of America, these financial statements present Aitkin County. Aitkin County has no component units. 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, Jointly-Governed Organizations, and Related Organization

The County participates in several joint ventures described in Note 6.B. The County also participates in a jointly-governed organization described in Note 6.C. and a related organization described in Note 6.D.

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (the statement of net position and the statement of activities) display information about the primary government. 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. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external parties for support.

**AITKIN COUNTY
AITKIN, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

In the government-wide statement of net position, both the governmental and business-type activities columns: (a) are presented on a consolidated basis by column; and (b) are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The County's net position is reported in three parts: (1) investment in capital assets, (2) restricted net position, and (3) unrestricted net position. The County first utilizes restricted resources to finance qualifying activities.

The statement of activities demonstrates the degree to which the direct expenses of each function of the County's governmental activities and its business-type 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, proprietary, and fiduciary--are presented. The emphasis of governmental and proprietary fund financial statements is on major individual governmental and enterprise funds, with each displayed in a separate column 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.

AITKIN COUNTY
AITKIN, MINNESOTA

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 Health and Human Services Special Revenue Fund is used to account for economic assistance, community social services, and public health programs.

The Forfeited Tax Sale Special Revenue Fund is used to account for proceeds from the sale or rental of lands forfeited to the State of Minnesota, pursuant to Minn. Stat. ch. 282. The distribution of the net proceeds, after deducting the expenses of the County for managing the tax-forfeited lands, is governed by Minn. Stat. § 282.08. Title to the tax-forfeited lands remains with the state until sold by the County.

The County reports the following major enterprise fund:

The Long Lake Conservation Center Enterprise Fund is used to account for the operation of a conservation school primarily for young adults.

Additionally, the County reports the following fund types:

The Environmental Permanent Fund is used to account for funds collected from the sale of County-owned lakeshore leased lots. In accordance with 1998 Minn. Laws ch. 389, art. 16, § 31, the principal on these sales must remain in an environmental trust, and the interest may be spent only on improvements of natural resources.

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.

**AITKIN COUNTY
AITKIN, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Aitkin County considers all revenues as available if collected within 60 days after the end of the current period. Property and other taxes, intergovernmental revenues, 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 general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or incidental activities.

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.

**AITKIN COUNTY
AITKIN, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

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

1. Cash and Cash Equivalents

Cash and cash equivalents are identified only for the purpose of the Statement of Cash Flows reporting by the proprietary fund. The County has defined cash and cash equivalents to include cash on hand, petty cash, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Additionally, each fund's equity in the County's investment pool is treated as a cash equivalent because the funds can be deposited or effectively withdrawn from cash at any time without prior notice or penalty.

2. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2015, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds receive investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2015 were \$404,098.

Aitkin 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.

3. Receivables and Payables

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

All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

**AITKIN COUNTY
AITKIN, MINNESOTA**

1. Summary of Significant Accounting Policies

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

3. Receivables and Payables (Continued)

All receivables are shown net of an allowance for uncollectibles.

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 taxes receivable - prior.

Special assessments receivable consists of prior special assessments payable in the years 2009 through 2015 and noncurrent special assessments payable in 2016 and after. Unpaid special assessments at December 31 are classified in the financial statements as special assessments - prior.

4. Inventories and Prepaid Items

All inventories are valued at cost. The Road and Bridge Special Revenue Fund uses an average cost method to value inventory, and the Long Lake Conservation Center Enterprise Fund uses the first in/first out method. Inventories in governmental funds are reported as expenditures when purchased rather than when consumed. Inventories in proprietary funds and at the government-wide level are reported as expenses when consumed.

Certain payments to vendors reflect costs applicable to future accounting periods and are reported as prepaid items in both government-wide and fund financial statements.

5. Restricted Assets

Certain funds of the County are classified as restricted assets on the statement of net position because the restriction is either imposed by law through constitutional provisions or enabling legislation or imposed externally by creditors, grantors, contributors, or laws or regulations of other governments. Therefore, their use is limited by applicable laws and regulations.

**AITKIN COUNTY
AITKIN, MINNESOTA**

1. Summary of Significant Accounting Policies

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

6. Capital Assets

Capital assets, which include land, construction in progress, buildings, machinery, furniture, equipment, and infrastructure (such as roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements and in the proprietary fund, as well. Capital assets are defined by the government as assets with an initial, individual cost of more than \$3,000 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 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. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current period, the County had no capitalized interest.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	25 - 75
Machinery, furniture, and equipment	3 - 15
Infrastructure	15 - 75

7. Unearned Revenue

Governmental funds and government-wide financial statements report unearned revenue in connection with resources that have been received, but not yet earned.

**AITKIN COUNTY
AITKIN, MINNESOTA**

1. Summary of Significant Accounting Policies

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

8. Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated vacation and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. Compensated absences are accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. Based on a trend analysis of current usage, the County estimates the entire compensated absences balance will be used in the subsequent year. 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.

9. Pension Plan

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deletions 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 pension liability is liquidated through the General Fund, other governmental funds that have personal services, and the Long Lake Conservation Center Enterprise Fund.

10. 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 so will not be recognized as an outflow of resources (expense/expenditure) until then. Currently, the County has one item,

AITKIN COUNTY
AITKIN, MINNESOTA

1. Summary of Significant Accounting Policies

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

10. Deferred Outflows/Inflows of Resources (Continued)

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 and also the differences between projected and actual earnings on pension plan investments and, accordingly, are reported only in the statement of net position.

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. The County has two such items that qualify for reporting in this category. The governmental funds report unavailable revenue from delinquent taxes receivable, delinquent and deferred special assessments receivable, and grant monies for amounts that are not considered to be available to liquidate liabilities of the current period. The unavailable revenue amount is deferred and recognized as an inflow of resources in the period that the amounts become available. Unavailable revenue arises only under the modified accrual basis of accounting and, accordingly, is reported only in the governmental funds balance sheet. 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.

11. Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type 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.

**AITKIN COUNTY
AITKIN, MINNESOTA**

1. Summary of Significant Accounting Policies

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

11. Long-Term Obligations (Continued)

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

12. Classification of Net Position

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

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

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

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

13. Classification of Fund Balances

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

Nonspendable - amounts that cannot be spent because they are not in spendable form, such as fund balance associated with inventories, prepaids, or permanent funds.

**AITKIN COUNTY
AITKIN, MINNESOTA**

1. Summary of Significant Accounting Policies

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

13. Classification of Fund Balances (Continued)

Restricted - amounts that are restricted by external parties such as creditors or imposed by grants, law, or legislation.

Committed - amounts that can be used only for the specific purposes determined by a formal action of Aitkin County's highest level of decision-making authority, which is the Aitkin County Board of Commissioners. Fund balance commitments are established, modified, or rescinded by County Board action through a Board resolution.

Assigned - amounts intended to be used by the government for specific purposes but 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 of fund balance that is not restricted or committed. When it is appropriate for fund balance to be assigned, the Board delegates this authority to the County Auditor.

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

In circumstances where an expenditure is to be made for a purpose for which amounts are available in multiple fund balance classifications, the order in which resources will be expended is as follows: restricted, committed, and then assigned; unless the specific items have been identified in another classification.

The County has adopted a minimum fund balance policy for the General Fund. The County Board has determined it needs to maintain a minimum level of unassigned fund balance in the General Fund of 35 to 50 percent of the prior year's General Fund total operating expenditures. At December 31, 2015, the unassigned fund balance for the General Fund was below the minimum fund balance level.

AITKIN COUNTY
AITKIN, MINNESOTA

1. Summary of Significant Accounting Policies

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

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 and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

E. Restatement of Net Position

1. Prior Period Adjustment

Restatement of Investment in Joint Venture and Net Position

The January 1, 2015, governmental activities' investment in joint venture and net position were increased by \$1,312,336 to reflect the County's interest in the Aitkin County Municipal Airport Commission, a discrete component unit of the City of Aitkin, Minnesota.

2. 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.

**AITKIN COUNTY
AITKIN, MINNESOTA**

1. Summary of Significant Accounting Policies

E. Restatement of Net Position

2. Change in Accounting Principles (Continued)

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

GASB Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*, modifies the measure of payroll that is presented in the required supplementary information schedules.

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

3. Cumulative Effect on Net Position

Restatements of net position for the governmental activities and the business-type activities are as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Net Position, January 1, 2015, as previously reported	\$ 118,646,864	\$ 3,067,278
Prior period adjustment		
Adjustment for investment in joint venture	1,312,336	-
Change in accounting principles		
Net pension liability	(8,509,648)	(314,778)
Deferred outflows of resources	438,387	13,147
Net Position, January 1, 2015, as restated	<u>\$ 111,887,939</u>	<u>\$ 2,765,647</u>

**AITKIN COUNTY
AITKIN, MINNESOTA**

2. Stewardship, Compliance, and Accountability

A. Deficit Fund Equity

Ditch Special Revenue Fund

Six of 13 drainage systems of the Ditch Special Revenue Fund 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 balance as of December 31, 2015:

Account balances		\$	57,733
Account deficits			(11,952)
Fund Balance		\$	45,781

B. Expenditures in Excess of Budget

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

	Expenditures	Final Budget	Excess
Special Revenue Funds			
Forest Development	\$ 641,360	\$ 633,969	\$ 7,391
Unorganized Road, Bridge, and Fire	84,288	73,150	11,138

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Government-wide statement of net position	
Governmental activities	
Cash and pooled investments	\$ 28,867,323
Petty cash and change funds	6,000
Departmental cash	9,648
Cash with fiscal agent	143,308

**AITKIN COUNTY
AITKIN, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Business-type activities	
Petty cash and change funds	1,350
Cash and pooled investments - restricted assets	2,036
Statement of fiduciary net position	
Cash and pooled investments	<u>705,078</u>
 Total Cash and Investments	 <u>\$ 29,734,743</u>

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. It is the County's policy that collateral or bonds will be required for all uninsured amounts on deposit, and the additional insurance will be documented to show compliance with state law and a perfected security interest under federal law. As of December 31, 2015, the County's deposits were not exposed to custodial credit risk.

**AITKIN COUNTY
AITKIN, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

b. Investments

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

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

**AITKIN COUNTY
AITKIN, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. The County minimizes its exposure to interest rate risk by investing in both short-term and long-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.

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 or collateral securities in the possession of an outside party. The County's policy is that brokers may hold County investments only to the extent there is Securities Investor Protection Corporation (SIPC) coverage and excess SIPC coverage available, with the exception of investments held within the MAGIC Fund. As of December 31, 2015, none of the County's investments were subject to custodial credit risk.

**AITKIN COUNTY
AITKIN, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the County's investment in a single issuer. It is the County's policy that U.S. Treasury securities, U.S. agency securities, and obligations backed by U.S. Treasury and/or U.S. agency securities may be held without limit, and corporate securities may be held up to \$2,000,000 per issuer.

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		Concentration Risk Over 5 Percent of Portfolio	Interest Rate Risk Maturity Date	Carrying (Fair) Value
	Credit Rating	Rating Agency			
U.S. government agency securities					
Federal Farm Credit Bank Bonds	AA+	S&P		02/13/2020	\$ 991,300
Federal Home Loan Mortgage Corporation Pool	N/R	N/A		04/01/2017	\$ 20
Federal Home Loan Bank Bonds	AA+	S&P		10/03/2019	\$ 1,991,600
Federal Home Loan Bank Bonds	AA+	S&P		10/11/2019	867,304
Federal Home Loan Bank Bonds	AA+	S&P		10/15/2019	219,419
Federal Home Loan Bank Bonds	AA+	S&P		01/30/2020	988,200
Total Federal Home Loan Bank Bonds			15.43%		\$ 4,066,523
Federal Home Loan Bank Note	AA+	S&P	9.90%	03/09/2018	\$ 2,609,498
Federal National Mortgage Association	AA+	S&P		08/28/2019	\$ 2,243,700
Federal National Mortgage Association	AA+	S&P		10/04/2019	998,600
Federal National Mortgage Association	AA+	S&P		02/12/2020	988,800
Federal National Mortgage Association	AA+	S&P		04/17/2020	993,500
Federal National Mortgage Association	AA+	S&P		06/26/2020	499,800
Total Federal National Mortgage Association			21.72%		\$ 5,724,400
Total U.S. government agency securities					\$ 13,391,741

**AITKIN COUNTY
AITKIN, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5 Percent of Portfolio	Maturity Date	
Investment pools/mutual funds					
Wells Fargo - Advantage Prime Fund	AAA	S&P	N/A	N/A	\$ 24,851
MAGIC Fund	N/R	N/A	N/A	N/A	12,939,786
Total investment pools/mutual funds					\$ 12,964,637
Total investments					\$ 26,356,378
Deposits					3,218,059
Petty cash and change funds					7,350
Departmental cash					9,648
Cash with fiscal agent					143,308
Total Cash and Investments					\$ 29,734,743

N/A - Not Applicable
N/R - Not Rated
S&P - Standard and Poor's

2. Receivables

Receivables, net of uncollectible amounts, 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
Governmental Activities		
Taxes	\$ 581,939	\$ -
Special assessments	12,893	455
Accounts	1,647,054	-
Accrued interest	83,102	-
Loans	110,187	78,319
Due from other governments	1,442,403	-
Total Governmental Activities	\$ 3,877,578	\$ 78,774

An allowance for uncollectible receivables related to timber sales is included in the above figures. The allowance at December 31, 2015, is \$164,840.

**AITKIN COUNTY
AITKIN, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

2. Receivables (Continued)

Loans Receivable

The County has entered into an agreement with the Minnesota Department of Agriculture and a local lending institution to jointly administer a loan program to individuals to implement projects that prevent or mitigate nonpoint source water pollution. The County is responsible for collecting any delinquent loans transferred back to the County.

3. Capital Assets

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

Governmental Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 3,287,146	\$ 113,817	\$ -	\$ 3,400,963
Construction in progress	979,103	170,894	601,513	548,484
Total capital assets not depreciated	\$ 4,266,249	\$ 284,711	\$ 601,513	\$ 3,949,447
Capital assets depreciated				
Buildings	\$ 15,158,212	\$ 159,783	\$ -	\$ 15,317,995
Machinery, furniture, and equipment	12,799,998	762,229	487,707	13,074,520
Infrastructure	94,926,287	8,905,643	-	103,831,930
Total capital assets depreciated	\$ 122,884,497	\$ 9,827,655	\$ 487,707	\$ 132,224,445
Less: accumulated depreciation for				
Buildings	\$ 7,451,579	\$ 374,797	\$ -	\$ 7,826,376
Machinery, furniture, and equipment	7,873,360	778,465	487,707	8,164,118
Infrastructure	23,406,466	2,021,569	-	25,428,035
Total accumulated depreciation	\$ 38,731,405	\$ 3,174,831	\$ 487,707	\$ 41,418,529
Total capital assets depreciated, net	\$ 84,153,092	\$ 6,652,824	\$ -	\$ 90,805,916
Governmental Activities Capital Assets, Net	\$ 88,419,341	\$ 6,937,535	\$ 601,513	\$ 94,755,363

**AITKIN COUNTY
AITKIN, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

Business-Type Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 15,400	\$ -	\$ -	\$ 15,400
Capital assets depreciated				
Buildings	\$ 6,200,231	\$ 26,593	\$ -	\$ 6,226,824
Machinery, furniture, and equipment	164,267	-	570	163,697
Total capital assets depreciated	\$ 6,364,498	\$ 26,593	\$ 570	\$ 6,390,521
Less: accumulated depreciation for				
Buildings	\$ 2,617,414	\$ 156,489	\$ -	\$ 2,773,903
Machinery, furniture, and equipment	134,499	5,952	570	139,881
Total accumulated depreciation	\$ 2,751,913	\$ 162,441	\$ 570	\$ 2,913,784
Total capital assets depreciated, net	\$ 3,612,585	\$ (135,848)	\$ -	\$ 3,476,737
Business-Type Activities				
Capital Assets, Net	\$ 3,627,985	\$ (135,848)	\$ -	\$ 3,492,137

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

Governmental Activities	
General government	\$ 401,396
Public safety	264,223
Highways and streets, including depreciation of infrastructure assets	2,389,631
Sanitation	12,373
Human services	37,836
Culture and recreation	2,124
Conservation of natural resources	67,248
	<hr/>
Total Depreciation Expense - Governmental Activities	\$ 3,174,831
	<hr/>
Business-Type Activities	
Long Lake Conservation Center	\$ 162,441
	<hr/>

**AITKIN COUNTY
AITKIN, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

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

1. Due To/From Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	Forfeited Tax Sale	\$ 394,556	Forfeited tax sale apportionment
	Long Lake Conservation Center	<u>626,105</u>	Fund deficit cash balance
Total due to General Fund		\$ 1,020,661	
Road and Bridge Fund	Nonmajor governmental funds	27,014	Services provided
Nonmajor governmental funds	Forfeited Tax Sale	<u>510,970</u>	Forfeited tax sale apportionment
Total Due To/From Other Funds		<u>\$ 1,558,645</u>	

2. Interfund Transfers

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

Transfers to General Fund from			
Forfeited Tax Sale Fund	\$ 394,556		Forfeited tax sale apportionment
Nonmajor governmental funds	<u>14,633</u>		Reimbursement for expenditures
Total transferred to General Fund	\$ 409,189		
Transfers to Road and Bridge Fund from			
General Fund	1,096,530		Reimbursement for expenditures for the Great River Road Project
Transfer to nonmajor governmental funds from			
Forfeited Tax Sale Fund	<u>514,547</u>		Forfeited tax sale apportionment
Total Interfund Transfers	<u>\$ 2,020,266</u>		

**AITKIN COUNTY
AITKIN, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

C. Liabilities and Deferred Inflows of Resources

1. Long-Term Debt

Governmental Activities

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2015</u>
AgBMP septic loans	2026	\$717 - \$18,415	0.00	\$ 343,707	\$ 253,495

2. Debt Service Requirements

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

Governmental Activities

<u>Year Ending December 31</u>	<u>AgBMP Septic Loans</u>	
	<u>Principal</u>	<u>Interest</u>
2016	\$ 46,994	\$ -
2017	35,450	-
2018	33,822	-
2019	34,165	-
2020	29,507	-
2021 - 2025	72,840	-
2026	717	-
Totals	\$ 253,495	\$ -

**AITKIN COUNTY
AITKIN, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources (Continued)

3. Changes in Long-Term Liabilities

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

Governmental Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
AgBMP septic loans	\$ 243,713	\$ 26,700	\$ 16,918	\$ 253,495	\$ 46,994
Compensated absences	999,061	1,231,496	1,196,350	1,034,207	1,034,207
Governmental Activities Long-Term Liabilities	<u>\$ 1,242,774</u>	<u>\$ 1,258,196</u>	<u>\$ 1,213,268</u>	<u>\$ 1,287,702</u>	<u>\$ 1,081,201</u>

Business-Type Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated absences	\$ 15,761	\$ 18,587	\$ 11,894	\$ 22,454	\$ 22,454

The AgBMP septic loans are paid from the General Fund. Compensated absences are paid from the General Fund; the Road and Bridge, Health and Human Services, and Forest Development Special Revenue Funds; and the Long Lake Conservation Center Enterprise Fund.

4. Construction Commitments

The County has active construction projects as of December 31, 2015. The remaining commitment for highway projects is state-funded and, therefore, not obligations of the County at December 31, 2015.

**AITKIN COUNTY
AITKIN, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources (Continued)

5. Unearned Revenues/Deferred Inflows of Resources

Deferred inflows of resources consist of taxes, special assessments, interest, and state and federal grants receivable not collected soon enough after year-end to pay liabilities of the current period. Unearned revenues consist of state grants received but not yet earned. Unearned revenues and deferred inflows of resources at December 31, 2015, are summarized below by fund:

	<u>Taxes</u>	<u>Special Assessments</u>	<u>Interest</u>	<u>Grants</u>	<u>Total</u>
Major governmental funds					
General	\$ 283,830	\$ -	\$ 46,448	\$ 2,059	\$ 332,337
Road and Bridge	93,043	-	-	780,765	873,808
Health and Human Services	91,236	-	-	13,904	105,140
Forfeited Tax Sale	1,601,337	-	-	-	1,601,337
Nonmajor governmental funds					
Unorganized Road, Bridge, and Fire	2,220	-	-	-	2,220
Ditch	-	12,893	-	-	12,893
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	<u>\$ 2,071,666</u>	<u>\$ 12,893</u>	<u>\$ 46,448</u>	<u>\$ 796,728</u>	<u>\$ 2,927,735</u>
Liability					
Unearned revenue	\$ -	\$ -	\$ -	\$ 2,059	\$ 2,059
Deferred inflows of resources					
Unavailable revenue	<u>2,071,666</u>	<u>12,893</u>	<u>46,448</u>	<u>794,669</u>	<u>2,925,676</u>
Total	<u>\$ 2,071,666</u>	<u>\$ 12,893</u>	<u>\$ 46,448</u>	<u>\$ 796,728</u>	<u>\$ 2,927,735</u>

**AITKIN COUNTY
AITKIN, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description

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

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

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.

**AITKIN COUNTY
AITKIN, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans (Continued)

Benefits Provided

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

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

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.

**AITKIN COUNTY
AITKIN, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Benefits Provided (Continued)

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.

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.

**AITKIN COUNTY
AITKIN, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Contributions (Continued)

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

General Employees Retirement Fund	\$	666,739
Public Employees Police and Fire Fund		196,140
Public Employees Correctional Fund		111,052

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

Pension Costs

General Employees Retirement Fund

At December 31, 2015, the County reported a liability of \$7,675,311 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 0.1481 percent. It was 0.1573 percent measured as of June 30, 2014. The County recognized pension expense of \$912,707 for its proportionate share of the General Employees Retirement Fund's pension expense.

**AITKIN COUNTY
AITKIN, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Pension Costs

General Employees Retirement Fund (Continued)

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	\$ -	\$ 386,966
Difference between projected and actual investment earnings	726,586	-
Changes in proportion	-	324,128
Contributions paid to PERA subsequent to the measurement date	333,299	-
Total	\$ 1,059,885	\$ 711,094

A total of \$333,299 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	\$ (55,385)
2017	(55,385)
2018	(55,385)
2019	181,647

**AITKIN COUNTY
AITKIN, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Pension Costs (Continued)

Public Employees Police and Fire Fund

At December 31, 2015, the County reported a liability of \$1,499,829 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 0.132 percent. It was 0.128 percent measured as of June 30, 2014. The County recognized pension expense of \$264,868 for its proportionate share of the Public Employees Police and Fire Fund's pension expense.

The County also recognized \$11,880 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	\$ -	\$ 243,223
Difference between projected and actual investment earnings	261,320	-
Changes in proportion	34,561	-
Contributions paid to PERA subsequent to the measurement date	95,508	-
Total	\$ 391,389	\$ 243,223

**AITKIN COUNTY
AITKIN, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Pension Costs

Public Employees Police and Fire Fund (Continued)

A total of \$95,508 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:

<u>Year Ended December 31</u>	<u>Pension Expense Amount</u>
2016	\$ 23,598
2017	23,598
2018	23,598
2019	23,598
2020	(41,734)

Public Employees Correctional Fund

At December 31, 2015, the County reported a liability of \$108,220 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 0.70 percent. It was 0.70 percent measured as of June 30, 2014. The County recognized pension expense of \$117,097 for its proportionate share of the Public Employees Correctional Fund's pension expense.

**AITKIN COUNTY
AITKIN, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

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	\$ -	\$ 41,433
Difference between projected and actual investment earnings	90,209	-
Contributions paid to PERA subsequent to the measurement date	54,151	-
Total	\$ 144,360	\$ 41,433

A total of \$54,151 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	\$ 8,741
2017	8,741
2018	8,741
2019	22,553

**AITKIN COUNTY
AITKIN, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans (Continued)

Total Pension Expense

The total pension expense for all plans recognized by the County for the year ended December 31, 2015, was \$1,294,672.

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.

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.

AITKIN COUNTY
AITKIN, MINNESOTA

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Actuarial Assumptions (Continued)

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:

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

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.

**AITKIN COUNTY
AITKIN, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans (Continued)

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	\$ 12,068,317	\$ 7,675,311	\$ 4,047,363
Public Employees Police and Fire Fund net pension liability	2,923,182	1,499,829	323,891
Public Employees Correctional Fund net pension liability	753,662	108,220	(408,394)

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.

B. Defined Contribution Plan

Five Board members of Aitkin 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.

**AITKIN COUNTY
AITKIN, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

B. Defined Contribution Plan (Continued)

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:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 7,160	\$ 7,160
Percentage of covered payroll	5%	5%

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. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

**AITKIN COUNTY
AITKIN, MINNESOTA**

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

B. Joint Ventures

Northeast Minnesota Office of Job Training

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

The governing body is composed of seven members, one member from the Board of Commissioners of each of the participating counties.

Separate financial information can be obtained from:

Northeast Minnesota Office of Job Training
820 North 9th Street, Suite 210
Virginia, Minnesota 55792

**AITKIN COUNTY
AITKIN, MINNESOTA**

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 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.

Aitkin County provided no funding to this organization during 2015.

Separate financial information can be obtained from:

Northern Counties Land Use Coordinating Board
St. Louis County Courthouse
100 North 5th Avenue West, #214
Duluth, Minnesota 55802

Joint Counties Natural Resources Board

The Joint Counties Natural Resources Board was formed in 1985 under the authority of the Joint Powers Act, pursuant to Minn. Stat. § 471.59, and includes Aitkin, Beltrami, Clearwater, Koochiching, Lake of the Woods, Mahnomon, Marshall, and Roseau Counties. The purpose of the Joint Counties Natural Resources Board is to gather information on and formulate policies for the development, utilization, and protection of natural resources in this area of Minnesota and to ensure that there is an interrelated plan for the use and protection of both public and private resources.

The Joint Counties Natural Resources Board is composed of at least one resident of each county appointed by its respective County Board, as provided in the Joint Counties Natural Resources Board's bylaws.

**AITKIN COUNTY
AITKIN, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Joint Counties Natural Resources Board (Continued)

In the event of dissolution of the Joint Counties Natural Resources Board, the net position of the Joint Counties Natural Resources Board at that time shall be distributed to the respective member counties in proportion to the contribution of each. Aitkin County provided \$1,000 to this organization during 2015.

The Joint Counties Natural Resources Board has no long-term debt. Financing is provided by appropriations from member counties.

Complete financial information can be obtained from:

Joint Counties Natural Resources Board
Scott Peters, Treasurer
Marshall County Auditor's Office
208 East Colvin, Suite 11
Warren, Minnesota 56762

Aitkin-Itasca-Koochiching Community Health Services Board

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

The Community Health Services Board is composed of two members from Aitkin and Koochiching Counties and three members from Itasca County, each appointed by the participating counties. Itasca County maintains the accounting records of the Community Health Services Board. Funding is obtained through federal, state, local, and private sources. Aitkin County provided no funding to this organization during 2015.

**AITKIN COUNTY
AITKIN, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Aitkin-Itasca-Koochiching Community Health Services Board (Continued)

Complete financial information can be obtained from:

Aitkin-Itasca-Koochiching Community Health Services Board
Community Health Board Administrator
1209 S.E. 2nd Avenue
Grand Rapids, Minnesota 55744

Mississippi Headwaters Board

The Mississippi Headwaters Board was established on February 22, 1980, by Aitkin, Beltrami, Cass, Clearwater, Crow Wing, Hubbard, Itasca, and Morrison Counties, pursuant to the provisions of Minn. Stat. § 471.59. The purpose of the Board is to prepare, adopt, and implement a comprehensive land use plan designed to protect and enhance the Mississippi River and related shoreland areas within the counties.

The Mississippi Headwaters Board consists of eight members, one appointed from each participating county. Crow Wing County maintains the accounting records of the Board. Funding is obtained through federal, state, local, and private sources. Aitkin County provided \$1,500 to this organization during 2015.

Complete financial information can be obtained from:

Mississippi Headwaters Board
Land Services Building
322 Laurel Street
Brainerd, Minnesota 56401

Snake River Watershed Management Board

The Snake River Watershed Management Board was established in April 1983 by Aitkin, Kanabec, Mille Lacs, and Pine Counties, pursuant to the provisions of Minn. Stat. § 471.59. The purpose of the Board is to coordinate the member counties' water plans and to develop objectives to promote sound hydrologic management of water and related land resources.

**AITKIN COUNTY
AITKIN, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Snake River Watershed Management Board (Continued)

The four-member Board consists of one County Commissioner from each of the participating counties. The Kanabec County Auditor is the fiscal agent for the Board. The Board is funded through an annual budget and participation in the administrative cost in the following percentages:

Aitkin County	20.8%
Kanabec County	49.5
Mille Lacs County	9.2
Pine County	20.5

Aitkin County provided no funding to this organization during 2015. Upon dissolution, the personal property shall be returned to the member county contributing the same.

Complete financial information can be obtained from:

Snake River Watershed Management Board
Kanabec County Courthouse
18 North Vine Street
Mora, Minnesota 55051

Minnesota Counties Information System (MCIS)

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

MCIS is governed by a 13-member Board, composed of a member appointed by each of the participating county's Board of Commissioners. Financing is obtained through user charges to the member. Cass County is the fiscal agent for MCIS.

Each county's share of the assets and liabilities cannot be accurately determined since it will depend on the number of counties that are members when the agreement is dissolved.

**AITKIN COUNTY
AITKIN, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Minnesota Counties Information System (MCIS) (Continued)

Separate financial information can be obtained from:

Minnesota Counties Information System
413 Southeast 7th Avenue
Grand Rapids, Minnesota 55744

Central Minnesota Community Corrections Agency

The Central Minnesota Community Corrections Agency was established by Crow Wing and Morrison Counties in 1974 under the authority of the Joint Powers Act, pursuant to Minn. Stat. § 471.59, for the purpose of administering, budgeting, staffing, and operating correctional facilities. Effective January 1, 1992, Aitkin County became a member of the Agency. Crow Wing County maintains the accounting records of the Agency.

The governing board is composed of five County Commissioners from each of the participating counties.

The Central Minnesota Community Corrections Agency is funded through state grants and contributions from Aitkin, Crow Wing, and Morrison Counties. Aitkin County appropriated \$149,343 to the Agency in 2015.

In the event of dissolution of the Agency, the unexpended balance of monies and assets held by the Agency will be divided between the counties in proportion to their contributions.

Complete financial information can be obtained from:

Central Minnesota Community Corrections Agency
Elizabeth DeRuyck, Aitkin Director
204 First Street N.W.
Aitkin, Minnesota 56431

**AITKIN COUNTY
AITKIN, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

East Central Regional Library

The East Central Regional Library was established by a joint powers agreement among Aitkin, Chisago, Isanti, Kanabec, Mille Lacs, and Pine Counties to provide an efficient and improved regional public library service. The Library Board comprises 18 members--one County Board member and two appointees from each member county. Aitkin County's contribution for 2015 was \$231,602.

Complete financial statements of the East Central Regional Library can be obtained from:

East Central Regional Library
244 South Birch
Cambridge, Minnesota 55008

North Central Drug Task Force

Aitkin County, Kanabec County, Mille Lacs County, and the Mille Lacs Band of Ojibwe entered into a joint powers agreement, pursuant to Minn. Stat. § 471.59, for the purpose of developing and implementing a group of local law enforcement officers, which shall be available to assist any of the parties in the investigation of major drug and gang crimes within the three-county area and tribal lands. The governing board consists of the Sheriff of each member county, the police chief of the Mille Lacs Tribal Police, and the County Attorney of the host agency.

At least annually, in January, each law enforcement member county contributes \$1,500, or its proportionate share thereof, to maintain the fund at \$6,000 per calendar year. In addition to the yearly \$1,500, each participating law enforcement agency contributes towards a matching grant fund, not to exceed \$6,000.

Northeast Minnesota Regional Radio Board

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

**AITKIN COUNTY
AITKIN, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Northeast Minnesota Regional Radio Board (Continued)

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

Itasca County is the fiscal agent for the Northeast Minnesota Regional Radio Board. Funding is provided by grants and contributions from participating members. Aitkin County contributed no funding in 2015.

Separate financial information can be obtained from:

Itasca County
123 N.E. 4th Street
Grand Rapids, Minnesota 55744-2847

Aitkin Municipal Airport Commission

The Aitkin Municipal Airport Commission is authorized by Minn. Stat. ch. 360. The Airport Commission is governed by a five-member Board of Directors--three members are appointed by the Aitkin County Board and two are appointed by the City of Aitkin. The proprietary interest in the Airport Commission's assets is divided two-thirds to Aitkin County and one-third to the City of Aitkin as per the contractual agreement. All cash of the Airport Commission is on deposit with the City of Aitkin at December 31, 2015. The City of Aitkin has opted to report the activities of the Aitkin Municipal Airport Commission as a discrete component unit in its annual financial report.

Investment in the joint venture on the statement of net position is 66.67 percent of the County's undivided interest of the Airport Commission. The investment in the Airport Commission was valued at \$1,560,149 on December 31, 2015, and is reported as an investment in joint venture on the government-wide statement of net position.

**AITKIN COUNTY
AITKIN, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Aitkin Municipal Airport Commission (Continued)

Complete financial statements of the City of Aitkin can be obtained from:

City of Aitkin
109 First Avenue N.W.
Aitkin, Minnesota 56431

C. Jointly-Governed Organization

Aitkin County Family Services Collaborative

The Aitkin County Family Services Collaborative was established to create opportunities to enhance family strengths and support through service coordination and access to informal communication. Aitkin County has no operational or financial control over the Collaborative. Aitkin County is the fiscal agent for the Collaborative and accounts for it in an agency fund.

D. Related Organization

Aitkin County Housing and Redevelopment Authority

The Aitkin County Housing and Redevelopment Authority (HRA) is a separate legal entity as authorized under Minn. Stat. ch. 469. The HRA operates a low-income housing program and elderly housing in the County. The HRA Board is appointed by the County Board. Aitkin County does not provide funding, has no obligation for the debt of the HRA, and cannot impose its will on the HRA.

E. Tax-Forfeited Land

The County manages approximately 221,200 acres of state-owned, tax-forfeited land. This land generates revenues primarily from recreational land leases and land and timber sales. Land management costs, including forestry costs, such as site preparation, seedlings, tree planting, and logging roads, are accounted for as current operating expenditures. Revenues in excess of expenditures are distributed to the County and cities, towns, and school districts within the County according to state statute.

**AITKIN COUNTY
AITKIN, MINNESOTA**

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

F. Subsequent Event

On January 26, 2016, the Board of County Commissioners adopted a resolution to approve the termination of the Central Minnesota Community Corrections Joint Powers Agreement (CMCC), dated October 1, 2009, effective July 1, 2016. The Board of County Commissioners will consider details of the dissolution of assets and liabilities as those become more clearly defined through subsequent resolution. The other two counties (Crow Wing and Morrison) had previously adopted resolutions to approve the termination of CMCC as well.

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REQUIRED SUPPLEMENTARY INFORMATION

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**AITKIN COUNTY
AITKIN, MINNESOTA**

EXHIBIT A-1

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 7,254,803	\$ 7,254,803	\$ 7,231,376	\$ (23,427)
Licenses and permits	459,630	459,630	372,254	(87,376)
Intergovernmental	2,744,908	2,744,908	3,530,811	785,903
Charges for services	864,587	864,587	1,265,917	401,330
Gifts and contributions	3,200	3,200	8,828	5,628
Investment earnings	330,000	330,000	404,098	74,098
Miscellaneous	308,500	308,500	398,127	89,627
Total Revenues	\$ 11,965,628	\$ 11,965,628	\$ 13,211,411	\$ 1,245,783
Expenditures				
Current				
General government				
Commissioners	\$ 246,894	\$ 246,894	\$ 234,188	\$ 12,706
Courts	85,100	85,100	77,540	7,560
County administration	398,957	398,957	394,115	4,842
County auditor	502,790	502,790	494,446	8,344
Motor vehicle	164,017	164,017	167,707	(3,690)
County treasurer	249,943	249,943	245,598	4,345
County assessor	830,499	830,499	822,208	8,291
Elections	20,600	20,600	16,999	3,601
Data processing	601,428	601,428	620,356	(18,928)
Central services	310,979	310,979	215,240	95,739
County attorney	931,141	931,141	919,374	11,767
County recorder	248,030	248,030	283,053	(35,023)
Planning and zoning	419,434	419,434	457,099	(37,665)
Buildings and plant	72,000	72,000	12,350	59,650
Maintenance	366,051	366,051	330,659	35,392
Veterans service officer	93,490	93,490	99,633	(6,143)
Motor pool	53,261	53,261	55,271	(2,010)
Housing and development	1,600	1,600	1,610	(10)
Total general government	\$ 5,596,214	\$ 5,596,214	\$ 5,447,446	\$ 148,768

**AITKIN COUNTY
AITKIN, MINNESOTA**

**EXHIBIT A-1
(Continued)**

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Public safety				
County sheriff	\$ 2,099,117	\$ 2,099,117	\$ 2,112,913	\$ (13,796)
Boat and water safety	83,346	83,346	75,009	8,337
Snowmobile	33,033	33,033	30,291	2,742
Coroner	58,000	58,000	44,752	13,248
E-911 system	331,700	331,700	111,324	220,376
Community corrections	2,656,468	2,656,468	2,860,207	(203,739)
Crime victim	67,502	67,502	64,928	2,574
Civil defense	47,223	47,223	31,697	15,526
Other public safety	27,537	27,537	65,723	(38,186)
Total public safety	\$ 5,403,926	\$ 5,403,926	\$ 5,396,844	\$ 7,082
Sanitation				
Solid waste	\$ 273,988	\$ 273,988	\$ 298,633	\$ (24,645)
Environmental health	76,724	76,724	69,088	7,636
Total sanitation	\$ 350,712	\$ 350,712	\$ 367,721	\$ (17,009)
Health				
Water wells	\$ 6,150	\$ 6,150	\$ 4,244	\$ 1,906
Culture and recreation				
Historical society	\$ 18,550	\$ 18,550	\$ 18,353	\$ 197
Parks	520,482	520,482	702,653	(182,171)
Regional library	233,102	233,102	232,617	485
Tourism	13,800	13,800	10,244	3,556
Total culture and recreation	\$ 785,934	\$ 785,934	\$ 963,867	\$ (177,933)
Conservation of natural resources				
Cooperative extension	\$ 55,281	\$ 55,281	\$ 53,388	\$ 1,893
Soil and water conservation	109,613	109,613	387,666	(278,053)
Agricultural inspections	4,800	4,800	-	4,800
Agricultural society/County fair	21,756	21,756	24,238	(2,482)
Total conservation of natural resources	\$ 191,450	\$ 191,450	\$ 465,292	\$ (273,842)

**AITKIN COUNTY
AITKIN, MINNESOTA**

**EXHIBIT A-1
(Continued)**

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Economic development				
Senior and youth programs	\$ 37,900	\$ 37,900	\$ 37,900	\$ -
Airports	28,007	28,007	28,007	-
Other	38,817	38,817	49,246	(10,429)
Total economic development	\$ 104,724	\$ 104,724	\$ 115,153	\$ (10,429)
Debt service				
Principal	\$ 335,000	\$ 335,000	\$ 16,918	\$ 318,082
Interest	8,375	8,375	-	8,375
Total debt service	\$ 343,375	\$ 343,375	\$ 16,918	\$ 326,457
Total Expenditures	\$ 12,782,485	\$ 12,782,485	\$ 12,777,485	\$ 5,000
Excess of Revenues Over (Under)				
Expenditures	\$ (816,857)	\$ (816,857)	\$ 433,926	\$ 1,250,783
Other Financing Sources (Uses)				
Loans issued	\$ -	\$ -	\$ 26,700	\$ 26,700
Transfers in	288,225	288,225	409,189	120,964
Transfers out	-	-	(1,096,530)	(1,096,530)
Total Other Financing Sources (Uses)	\$ 288,225	\$ 288,225	\$ (660,641)	\$ (948,866)
Net Change in Fund Balance	\$ (528,632)	\$ (528,632)	\$ (226,715)	\$ 301,917
Fund Balance - January 1	10,014,218	10,014,218	10,014,218	-
Fund Balance - December 31	\$ 9,485,586	\$ 9,485,586	\$ 9,787,503	\$ 301,917

**AITKIN COUNTY
AITKIN, MINNESOTA**

EXHIBIT A-2

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 2,282,745	\$ 2,282,745	\$ 2,262,606	\$ (20,139)
Intergovernmental	7,097,777	7,097,777	9,602,618	2,504,841
Charges for services	312,100	312,100	232,157	(79,943)
Miscellaneous	50,000	50,000	157,636	107,636
Total Revenues	\$ 9,742,622	\$ 9,742,622	\$ 12,255,017	\$ 2,512,395
Expenditures				
Current				
Highways and streets				
Administration	\$ 470,550	\$ 470,550	\$ 478,207	\$ (7,657)
Engineering	501,571	501,571	483,346	18,225
Maintenance	2,973,940	2,973,940	2,748,858	225,082
Construction	8,954,800	8,954,800	8,496,301	458,499
Equipment and maintenance shops	497,300	497,300	759,691	(262,391)
Total highways and streets	\$ 13,398,161	\$ 13,398,161	\$ 12,966,403	\$ 431,758
Intergovernmental				
Highways and streets	340,000	340,000	363,907	(23,907)
Total Expenditures	\$ 13,738,161	\$ 13,738,161	\$ 13,330,310	\$ 407,851
Excess of Revenues Over (Under) Expenditures	\$ (3,995,539)	\$ (3,995,539)	\$ (1,075,293)	\$ 2,920,246
Other Financing Sources (Uses)				
Transfers in	-	-	1,096,530	1,096,530
Net Change in Fund Balance	\$ (3,995,539)	\$ (3,995,539)	\$ 21,237	\$ 4,016,776
Fund Balance - January 1	9,806,049	9,806,049	9,806,049	-
Increase (decrease) in inventories	-	-	201,236	201,236
Fund Balance - December 31	\$ 5,810,510	\$ 5,810,510	\$ 10,028,522	\$ 4,218,012

**AITKIN COUNTY
AITKIN, MINNESOTA**

EXHIBIT A-3

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 1,995,600	\$ 1,995,600	\$ 1,985,450	\$ (10,150)
Intergovernmental	3,277,707	3,277,707	3,631,577	353,870
Charges for services	196,400	196,400	261,186	64,786
Miscellaneous	299,844	299,844	396,063	96,219
Total Revenues	\$ 5,769,551	\$ 5,769,551	\$ 6,274,276	\$ 504,725
Expenditures				
Current				
Human services				
Income maintenance	\$ 1,742,682	\$ 1,742,682	\$ 1,952,095	\$ (209,413)
Social services	3,713,764	3,713,764	3,863,649	(149,885)
Total human services	\$ 5,456,446	\$ 5,456,446	\$ 5,815,744	\$ (359,298)
Health				
Women, infants, and children	\$ 3,628	\$ 3,628	\$ 2,992	\$ 636
Nursing service	11,582	11,582	60,339	(48,757)
Transportation	37,000	37,000	35,772	1,228
Maternal and child health	7,932	7,932	10,673	(2,741)
Miscellaneous	654,663	654,663	723,694	(69,031)
Total health	\$ 714,805	\$ 714,805	\$ 833,470	\$ (118,665)
Total Expenditures	\$ 6,171,251	\$ 6,171,251	\$ 6,649,214	\$ (477,963)
Net Change in Fund Balance	\$ (401,700)	\$ (401,700)	\$ (374,938)	\$ 26,762
Fund Balance - January 1	4,985,205	4,985,205	4,985,205	-
Fund Balance - December 31	\$ 4,583,505	\$ 4,583,505	\$ 4,610,267	\$ 26,762

**AITKIN COUNTY
AITKIN, MINNESOTA**

EXHIBIT A-4

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$ 245,000	\$ 245,000	\$ 326,661	\$ 81,661
Charges for services	30,000	30,000	29,887	(113)
Miscellaneous	1,457,500	1,457,500	1,861,221	403,721
Total Revenues	\$ 1,732,500	\$ 1,732,500	\$ 2,217,769	\$ 485,269
Expenditures				
Current				
General government				
Law library	\$ 30,000	\$ 30,000	\$ 24,907	\$ 5,093
Conservation of natural resources				
County development	\$ 313,110	\$ 313,110	\$ 244,811	\$ 68,299
Forfeited tax	1,465,365	1,465,365	901,279	564,086
Total conservation of natural resources	\$ 1,778,475	\$ 1,778,475	\$ 1,146,090	\$ 632,385
Total Expenditures	\$ 1,808,475	\$ 1,808,475	\$ 1,170,997	\$ 637,478
Excess of Revenues Over (Under) Expenditures	\$ (75,975)	\$ (75,975)	\$ 1,046,772	\$ 1,122,747
Other Financing Sources (Uses)				
Transfers out	-	-	(909,103)	(909,103)
Net Change in Fund Balance	\$ (75,975)	\$ (75,975)	\$ 137,669	\$ 213,644
Fund Balance - January 1	1,570,311	1,570,311	1,570,311	-
Fund Balance - December 31	\$ 1,494,336	\$ 1,494,336	\$ 1,707,980	\$ 213,644

**AITKIN COUNTY
AITKIN, MINNESOTA**

EXHIBIT A-5

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

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	Covered Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.1481%	\$ 7,675,311	\$ 8,702,625	88.20%	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.

**AITKIN COUNTY
AITKIN, MINNESOTA**

EXHIBIT A-6

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

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b-a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
2015	\$ 666,739	\$ 666,739	-	\$ 8,889,853	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.

**AITKIN COUNTY
AITKIN, MINNESOTA**

EXHIBIT A-7

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

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	Covered Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.132%	\$ 1,499,829	\$ 1,205,275	124.44%	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.

**AITKIN COUNTY
AITKIN, MINNESOTA**

EXHIBIT A-8

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

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b-a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
2015	\$ 196,140	\$ 196,140	-	\$ 1,210,738	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.

**AITKIN COUNTY
AITKIN, MINNESOTA**

EXHIBIT A-9

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

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	Covered Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.70%	\$ 108,220	\$ 1,262,333	8.57%	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.

**AITKIN COUNTY
AITKIN, MINNESOTA**

EXHIBIT A-10

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

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b-a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
2015	\$ 111,052	\$ 111,052	\$ -	\$ 1,269,158	8.75%

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

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**AITKIN COUNTY
AITKIN, MINNESOTA**

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

1. Budgetary Information

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

By July of each year, all departments submit requests for appropriations to the County Administrator so that a budget can be prepared. Before September 30, the proposed budget is presented to the County Board for review. A final budget is adopted by the Board and certified to the Auditor no later than December 31.

The appropriated budget is prepared by fund, function, and 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 fund level.

2. Excess of Expenditures Over Appropriations

The following major fund had expenditures in excess of budget for the year ended December 31, 2015. These expenditures in excess of appropriations were funded by revenues that exceeded the revenue budget.

	<u>Expenditures</u>	<u>Final Budget</u>	<u>Excess</u>
Health and Human Services Special Revenue Fund	\$ 6,649,214	\$ 6,171,251	\$ 477,963

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SUPPLEMENTARY INFORMATION

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GOVERNMENTAL FUNDS

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**AITKIN COUNTY
AITKIN, MINNESOTA**

NONMAJOR GOVERNMENTAL FUNDS

The Forest Development Special Revenue Fund is used to account for funds used in developing forests in the County. Financing is provided by forfeited tax settlements, grants, and payments in lieu of taxes.

The Unorganized Road, Bridge, and Fire Special Revenue Fund is used to account for funds used to provide road maintenance and fire protection for unorganized townships. Financing is provided by property taxes and grants.

The Ditch Special Revenue Fund is used to account for funds used for public improvements and services for the ditch system. Financing is provided by special assessments against the benefited property owners.

The Environmental Permanent Fund is used to account for funds collected from the sale of County-owned lakeshore leased lots. In accordance with 1998 Minn. Laws ch. 389, art. 16, § 31, the principal on these sales must remain in an environmental trust, and the interest may be spent only on improvement of natural resources.

**AITKIN COUNTY
AITKIN, MINNESOTA**

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2015**

	Forest Development	Special Unorganized Road, Bridge, and Fire
<u>Assets</u>		
Cash and pooled investments	\$ 777,293	\$ 578,331
Taxes receivable		
Prior	-	2,747
Special assessments receivable		
Prior	-	-
Noncurrent	-	-
Accounts receivable	8,659	-
Due from other funds	480,934	30,036
Due from other governments	7,865	-
	\$ 1,274,751	\$ 611,114
 <u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>		
Liabilities		
Accounts payable	\$ 8,938	\$ 192
Salaries payable	15,046	-
Due to other funds	-	27,014
	\$ 23,984	\$ 27,206
 Deferred Inflows of Resources		
Unavailable revenue (Note 3.C.)	\$ -	\$ 2,220
 Fund Balances		
Restricted for		
Unorganized road, bridge, and fire	\$ -	\$ 581,688
Ditch maintenance and repairs	-	-
Environmental uses	-	-
Assigned for		
Forest development	1,250,767	-
Unassigned	-	-
	\$ 1,250,767	\$ 581,688
Total Fund Balances	\$ 1,250,767	\$ 581,688
 Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 1,274,751	\$ 611,114

EXHIBIT B-1

<u>Revenue Funds</u>			<u>Permanent Fund Environmental</u>	<u>Total Nonmajor Governmental Funds (Exhibit 3)</u>
<u>Ditch</u>	<u>Total</u>			
\$ 45,781	\$ 1,401,405	\$ 487,275	\$ 1,888,680	
-	2,747	-	2,747	
12,438	12,438	-	12,438	
455	455	-	455	
-	8,659	-	8,659	
-	510,970	-	510,970	
-	7,865	-	7,865	
<u>\$ 58,674</u>	<u>\$ 1,944,539</u>	<u>\$ 487,275</u>	<u>\$ 2,431,814</u>	
\$ -	\$ 9,130	\$ -	\$ 9,130	
-	15,046	-	15,046	
-	27,014	-	27,014	
<u>\$ -</u>	<u>\$ 51,190</u>	<u>\$ -</u>	<u>\$ 51,190</u>	
<u>\$ 12,893</u>	<u>\$ 15,113</u>	<u>\$ -</u>	<u>\$ 15,113</u>	
\$ -	\$ 581,688	\$ -	\$ 581,688	
57,733	57,733	-	57,733	
-	-	487,275	487,275	
-	1,250,767	-	1,250,767	
(11,952)	(11,952)	-	(11,952)	
<u>\$ 45,781</u>	<u>\$ 1,878,236</u>	<u>\$ 487,275</u>	<u>\$ 2,365,511</u>	
<u>\$ 58,674</u>	<u>\$ 1,944,539</u>	<u>\$ 487,275</u>	<u>\$ 2,431,814</u>	

**AITKIN COUNTY
AITKIN, MINNESOTA**

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

	<u>Forest Development</u>	<u>Special Unorganized Road, Bridge, and Fire</u>
Revenues		
Taxes	\$ -	\$ 69,223
Special assessments	-	-
Licenses and permits	800	-
Intergovernmental	191,361	52,565
Investment earnings	-	-
Miscellaneous	3,877	20
Total Revenues	\$ 196,038	\$ 121,808
Expenditures		
Current		
General government	\$ -	\$ 2,871
Public safety	-	27,285
Highways and streets	-	54,132
Conservation of natural resources	641,360	-
Total Expenditures	\$ 641,360	\$ 84,288
Excess of Revenues Over (Under) Expenditures	\$ (445,322)	\$ 37,520
Other Financing Sources (Uses)		
Transfers in	\$ 480,934	\$ 30,036
Transfers out	-	-
Total Other Financing Sources (Uses)	\$ 480,934	\$ 30,036
Net Change in Fund Balance	\$ 35,612	\$ 67,556
Fund Balance - January 1	1,215,155	514,132
Fund Balance - December 31	\$ 1,250,767	\$ 581,688

EXHIBIT B-2

<u>Revenue Funds</u>			<u>Permanent Fund Environmental</u>	<u>Total Nonmajor Governmental Funds (Exhibit 5)</u>
<u>Ditch</u>	<u>Total</u>			
\$ -	\$ 69,223	\$ -	\$ 69,223	
658	658	-	658	
-	800	-	800	
-	243,926	-	243,926	
22	22	14,639	14,661	
-	3,897	-	3,897	
<u>\$ 680</u>	<u>\$ 318,526</u>	<u>\$ 14,639</u>	<u>\$ 333,165</u>	
\$ -	\$ 2,871	\$ -	\$ 2,871	
-	27,285	-	27,285	
-	54,132	-	54,132	
<u>3,377</u>	<u>644,737</u>	<u>-</u>	<u>644,737</u>	
<u>\$ 3,377</u>	<u>\$ 729,025</u>	<u>\$ -</u>	<u>\$ 729,025</u>	
<u>\$ (2,697)</u>	<u>\$ (410,499)</u>	<u>\$ 14,639</u>	<u>\$ (395,860)</u>	
\$ 3,577	\$ 514,547	\$ -	\$ 514,547	
-	-	(14,633)	(14,633)	
<u>\$ 3,577</u>	<u>\$ 514,547</u>	<u>\$ (14,633)</u>	<u>\$ 499,914</u>	
\$ 880	\$ 104,048	\$ 6	\$ 104,054	
<u>44,901</u>	<u>1,774,188</u>	<u>487,269</u>	<u>2,261,457</u>	
<u>\$ 45,781</u>	<u>\$ 1,878,236</u>	<u>\$ 487,275</u>	<u>\$ 2,365,511</u>	

**AITKIN COUNTY
AITKIN, MINNESOTA**

EXHIBIT B-3

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Licenses and permits	\$ 1,000	\$ 1,000	\$ 800	\$ (200)
Intergovernmental	179,000	179,000	191,361	12,361
Miscellaneous	3,000	3,000	3,877	877
Total Revenues	\$ 183,000	\$ 183,000	\$ 196,038	\$ 13,038
Expenditures				
Current				
Conservation of natural resources				
Forest resource	\$ 200,457	\$ 200,457	\$ 214,112	\$ (13,655)
Reforestation	252,267	252,267	265,394	(13,127)
Memorial forest	134,282	134,282	92,163	42,119
Forest road	46,963	46,963	69,691	(22,728)
Total Expenditures	\$ 633,969	\$ 633,969	\$ 641,360	\$ (7,391)
Excess of Revenues Over (Under) Expenditures	\$ (450,969)	\$ (450,969)	\$ (445,322)	\$ 5,647
Other Financing Sources (Uses)				
Transfers in	301,913	301,913	480,934	179,021
Net Change in Fund Balance	\$ (149,056)	\$ (149,056)	\$ 35,612	\$ 184,668
Fund Balance - January 1	1,215,155	1,215,155	1,215,155	-
Fund Balance - December 31	\$ 1,066,099	\$ 1,066,099	\$ 1,250,767	\$ 184,668

**AITKIN COUNTY
AITKIN, MINNESOTA**

EXHIBIT B-4

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 73,150	\$ 73,150	\$ 69,223	\$ (3,927)
Intergovernmental	-	-	52,565	52,565
Miscellaneous	-	-	20	20
Total Revenues	\$ 73,150	\$ 73,150	\$ 121,808	\$ 48,658
Expenditures				
Current				
General government				
Other general government	\$ 2,700	\$ 2,700	\$ 2,871	\$ (171)
Public safety				
Emergency services	29,450	29,450	27,285	2,165
Highways and streets				
Other highways and streets	41,000	41,000	54,132	(13,132)
Total Expenditures	\$ 73,150	\$ 73,150	\$ 84,288	\$ (11,138)
Excess of Revenues Over (Under)				
Expenditures	\$ -	\$ -	\$ 37,520	\$ 37,520
Other Financing Sources (Uses)				
Transfers in	-	-	30,036	30,036
Net Change in Fund Balance	\$ -	\$ -	\$ 67,556	\$ 67,556
Fund Balance - January 1	514,132	514,132	514,132	-
Fund Balance - December 31	\$ 514,132	\$ 514,132	\$ 581,688	\$ 67,556

**AITKIN COUNTY
AITKIN, MINNESOTA**

EXHIBIT B-5

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Special assessments	\$ 19	\$ 19	\$ 658	\$ 639
Investment earnings	-	-	22	22
Total Revenues	\$ 19	\$ 19	\$ 680	\$ 661
Expenditures				
Current				
Conservation of natural resources				
Other	3,941	3,941	3,377	564
Excess of Revenues Over (Under) Expenditures	\$ (3,922)	\$ (3,922)	\$ (2,697)	\$ 1,225
Other Financing Sources (Uses)				
Transfers in	3,577	3,577	3,577	-
Net Change in Fund Balance	\$ (345)	\$ (345)	\$ 880	\$ 1,225
Fund Balance - January 1	44,901	44,901	44,901	-
Fund Balance - December 31	\$ 44,556	\$ 44,556	\$ 45,781	\$ 1,225

**AITKIN COUNTY
AITKIN, MINNESOTA**

EXHIBIT B-6

**BUDGETARY COMPARISON SCHEDULE
ENVIRONMENTAL PERMANENT FUND
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Investment earnings	\$ 10,000	\$ 10,000	\$ 14,639	\$ 4,639
Other Financing Sources (Uses)				
Transfers out	<u>(10,000)</u>	<u>(10,000)</u>	<u>(14,633)</u>	<u>(4,633)</u>
Net Change in Fund Balance	\$ -	\$ -	\$ 6	\$ 6
Fund Balance - January 1	<u>487,269</u>	<u>487,269</u>	<u>487,269</u>	<u>-</u>
Fund Balance - December 31	<u><u>\$ 487,269</u></u>	<u><u>\$ 487,269</u></u>	<u><u>\$ 487,275</u></u>	<u><u>\$ 6</u></u>

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FIDUCIARY FUNDS

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**AITKIN COUNTY
AITKIN, 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
<u>AGENCY</u>				
<u>Assets</u>				
Cash and pooled investments	\$ <u>595,318</u>	\$ <u>10,314,564</u>	\$ <u>10,381,951</u>	\$ <u>527,931</u>
<u>Liabilities</u>				
Due to other governments	\$ <u>595,318</u>	\$ <u>10,314,564</u>	\$ <u>10,381,951</u>	\$ <u>527,931</u>
 <u>COLLABORATIVE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ <u>51,929</u>	\$ <u>63,969</u>	\$ <u>48,223</u>	\$ <u>67,675</u>
<u>Liabilities</u>				
Accounts payable	\$ <u>51,929</u>	\$ <u>63,969</u>	\$ <u>48,223</u>	\$ <u>67,675</u>
 <u>STATE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ <u>125,955</u>	\$ <u>3,285,778</u>	\$ <u>3,298,986</u>	\$ <u>112,747</u>
<u>Liabilities</u>				
Due to other governments	\$ <u>125,955</u>	\$ <u>3,285,778</u>	\$ <u>3,298,986</u>	\$ <u>112,747</u>

**AITKIN COUNTY
AITKIN, 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
<u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ (3,275)	\$ 27,184,438	\$ 27,184,438	\$ (3,275)
Due from other governments	3,275	-	-	3,275
Total Assets	\$ -	\$ 27,184,438	\$ 27,184,438	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 27,184,438	\$ 27,184,438	\$ -
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 769,927	\$ 40,848,749	\$ 40,913,598	\$ 705,078
Due from other governments	3,275	-	-	3,275
Total Assets	\$ 773,202	\$ 40,848,749	\$ 40,913,598	\$ 708,353
<u>Liabilities</u>				
Accounts payable	\$ 51,929	\$ 63,969	\$ 48,223	\$ 67,675
Due to other governments	721,273	40,784,780	40,865,375	640,678
Total Liabilities	\$ 773,202	\$ 40,848,749	\$ 40,913,598	\$ 708,353

OTHER SCHEDULES

**AITKIN COUNTY
AITKIN, MINNESOTA**

EXHIBIT D-1

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

	Governmental Funds	Enterprise Fund	Total Primary Government
Appropriations and Shared Revenue			
State			
Highway users tax	\$ 5,607,352	\$ -	\$ 5,607,352
PERA rate reimbursement	30,053	-	30,053
Disparity reduction aid	10,541	-	10,541
Police aid	143,561	-	143,561
County program aid	663,741	-	663,741
Market value credit	181,287	-	181,287
SCORE	69,692	-	69,692
Taconite credit	601,622	-	601,622
Enhanced 911	89,190	-	89,190
Aquatic invasive species	277,913	-	277,913
	\$ 7,674,952	\$ -	\$ 7,674,952
Total appropriations and shared revenue			
Reimbursement for Services			
State			
Minnesota Department of Human Services	\$ 393,147	\$ -	\$ 393,147
	\$ 393,147	\$ -	\$ 393,147
Payments			
Local			
Payments in lieu of taxes	\$ 1,654,084	\$ -	\$ 1,654,084
	\$ 1,654,084	\$ -	\$ 1,654,084
Grants			
State			
Minnesota Department/Board of			
Corrections	\$ 20,686	\$ -	\$ 20,686
Public Safety	42,000	-	42,000
Health	139,632	-	139,632
Natural Resources	532,359	-	532,359
Human Services	960,208	-	960,208
Veterans Affairs	10,000	-	10,000
Water and Soil Resources	93,205	-	93,205
	\$ 1,798,090	\$ -	\$ 1,798,090
Total state	\$ 1,798,090	\$ -	\$ 1,798,090

**AITKIN COUNTY
AITKIN, MINNESOTA**

***EXHIBIT D-1
(Continued)***

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

	Governmental Funds	Enterprise Fund	Total Primary Government
Grants (Continued)			
Federal			
U.S. Department of			
Agriculture	\$ 247,759	\$ 4,426	\$ 252,185
Justice	74,394	-	74,394
Transportation	3,762,542	-	3,762,542
Health and Human Services	1,679,697	-	1,679,697
Homeland Security	50,928	-	50,928
Total federal	\$ 5,815,320	\$ 4,426	\$ 5,819,746
Total state and federal grants	\$ 7,613,410	\$ 4,426	\$ 7,617,836
Total Intergovernmental Revenue	\$ 17,335,593	\$ 4,426	\$ 17,340,019

**AITKIN COUNTY
AITKIN, MINNESOTA**

**BALANCE SHEET - BY DITCH
DITCH SPECIAL REVENUE FUND
DECEMBER 31, 2015**

	Assets		
	Cash	Special Assessments Receivable	Due from Other Ditches
County Ditches			
5	\$ -	\$ -	\$ -
24	-	369	1,500
28	-	-	-
29	80	-	-
30	28,009	1,294	11,861
34	526	978	-
36	2,755	1,208	-
37	-	8,426	-
42	-	-	-
43	-	-	-
63	799	455	-
66	1,279	-	-
Judicial Ditch			
2	12,333	163	-
Total	\$ 45,781	\$ 12,893	\$ 13,361

EXHIBIT D-2

Total	Liabilities Due to Other Ditches	Deferred Inflows of Resources Unavailable Revenue	Fund Balances Restricted/ (Unassigned)	Total Liabilities, Deferred Inflows of Resources, and Fund Balance
\$ -	\$ 7,250	\$ -	\$ (7,250)	\$ -
1,869	-	369	1,500	1,869
-	1,287	-	(1,287)	-
80	-	-	80	80
41,164	-	1,294	39,870	41,164
1,504	65	978	461	1,504
3,963	65	1,208	2,690	3,963
8,426	2,173	8,426	(2,173)	8,426
-	935	-	(935)	-
-	76	-	(76)	-
1,254	-	455	799	1,254
1,279	1,510	-	(231)	1,279
12,496	-	163	12,333	12,496
\$ 72,035	\$ 13,361	\$ 12,893	\$ 45,781	\$ 72,035

**AITKIN COUNTY
AITKIN, MINNESOTA**

EXHIBIT D-3

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

Federal Grantor Pass-Through Agency Program or Cluster Title	Federal CFDA Number	Pass-Through Grant Numbers	Expenditures	Passed Through to Subrecipients
U.S. Department of Agriculture				
Passed Through Minnesota Department of Education Special Milk Program for Children	10.556	1000003368	\$ 4,426	\$ -
Passed Through Aitkin-Itasca-Koochiching Community Health Services Board Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	32573	80,960	-
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	15152MN10152514	166,799	-
Total U.S. Department of Agriculture			\$ 252,185	\$ -
U.S. Department of Justice				
Direct Violence Against Women Formula Grants	16.588		\$ 74,394	\$ 74,394
U.S. Department of Transportation				
Passed Through Minnesota Department of Transportation Highway Planning and Construction Cluster Highway Planning and Construction (Total expenditures for Highway Planning and Construction Cluster \$3,746,355)	20.205	00001	\$ 3,711,964	\$ -
Passed Through Minnesota Department of Natural Resources Highway Planning and Construction Cluster Recreational Trails Program (Total expenditures for Highway Planning and Construction Cluster \$3,746,355)	20.219	0039-11-2F	34,391	34,391
Passed Through Minnesota Department of Public Safety State and Community Highway Safety	20.600	Not provided	16,187	-
Total U.S. Department of Transportation			\$ 3,762,542	\$ 34,391
U.S. Department of Health and Human Services				
Passed Through Aitkin-Itasca-Koochiching Community Health Services Board Public Health Emergency Preparedness	93.069	65449	\$ 31,230	\$ -
Temporary Assistance for Needy Families (Total Temporary Assistance for Needy Families 93.558 \$215,737)	93.558	12-700-00053	39,140	-
Medical Assistance Program (Total Medical Assistance Program 93.778 \$650,229)	93.778	GRK%85935	16,867	-
Maternal and Child Health Services Block Grant to the States	93.994	12-700-00053	25,279	-

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

Page 101

**AITKIN COUNTY
AITKIN, MINNESOTA**

**EXHIBIT D-3
(Continued)**

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

Federal Grantor Pass-Through Agency Program or Cluster Title	Federal CFDA Number	Pass-Through Grant Numbers	Expenditures	Passed Through to Subrecipients
U.S. Department of Health and Human Services (Continued)				
Passed Through Minnesota Department of Human Services				
Promoting Safe and Stable Families	93.556	1411MNFPS	15	-
Temporary Assistance for Needy Families (Total Temporary Assistance for Needy Families 93.558 \$215,737)	93.558	1502MNTANF	176,597	-
Child Support Enforcement	93.563	1504MN4005	373,360	-
Refugee and Entrant Assistance - State Administered Programs	93.566	1501MNRCA	439	-
Child Care and Development Block Grant	93.575	G1501MNCCDF	72,233	-
Stephanie Tubbs Jones Child Welfare Services Program	93.645	1401MNCWSS	5,528	-
Foster Care - Title IV-E	93.658	1501MNFOS	151,081	-
Social Services Block Grant	93.667	1501MNSOSR	121,583	-
Chafee Foster Care Independence Program	93.674	1401MN1420	1,934	-
Children's Health Insurance Program	93.767	1405MN5021	52	-
Medical Assistance Program (Total Medical Assistance Program 93.778 \$650,229)	93.778	1505MN5ADM	633,362	-
Block Grants for Prevention and Treatment of Substance Abuse	93.959	14B1MNSAPT	4,224	-
Total U.S. Department of Health and Human Services			\$ 1,652,924	\$ -
U.S. Department of Homeland Security				
Passed Through Minnesota Department of Natural Resources				
Boating Safety Financial Assistance	97.012	Not provided	\$ 4,203	\$ -
Passed Through Minnesota Department of Public Safety				
Hazard Mitigation Grant	97.039	Not provided	10,666	-
Emergency Management Performance Grants	97.042	Not provided	36,059	-
Total U.S. Department of Homeland Security			\$ 50,928	\$ -
Total Federal Awards			\$ 5,792,973	\$ 108,785

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AITKIN COUNTY
AITKIN, 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 Aitkin 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 Aitkin 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 Aitkin County, it is not intended to and does not present the financial position, changes in net position, or cash flows of Aitkin County.

3. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the basis of accounting used by the individual funds of Aitkin County. Governmental funds use the modified accrual basis of accounting. Proprietary funds use the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Aitkin 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	\$ 5,819,746
Grants received more than 60 days after year-end, unavailable in 2015	
Child Support Enforcement	10,200
Unavailable in 2014, recognized as revenue in 2015	
Medical Assistance Program	<u>(36,973)</u>
Expenditures Per Schedule of Expenditures of Federal Awards	<u>\$ 5,792,973</u>

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**AITKIN COUNTY
AITKIN, MINNESOTA**

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

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with generally accepted accounting principles: **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? **No**
- Significant deficiencies identified? **None reported**

Type of auditor's report issued on compliance for major federal programs: **Unmodified**

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? **No**

The major federal program is:

Highway Planning and Construction Cluster	
Highway Planning and Construction	CFDA No. 20.205
Recreational Trails Program	CFDA No. 20.219

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

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

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

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding 1996-005

Segregation of Duties

Criteria: Management is responsible for establishing and maintaining internal control. A good system of internal control provides for an adequate segregation of duties so that no one individual handles a transaction from its inception to completion. In order to maintain proper internal control, duties should be segregated so the basic functions of authorization, custody, and recording are not under the control of any one employee.

Condition: The County Treasurer does not segregate the duties of cash collection and receipting from the bank reconciliation process. In the County Auditor's Office, employees who receipt cash and process cash disbursements have the ability to make journal entries. Also in the County Auditor's Office, the person who processes payroll can also make pay rate and other payroll system changes. Finally, due to the limited number of office personnel within the various County offices, proper segregation of the accounting functions necessary to ensure adequate internal accounting control is not possible.

Context: This is not unusual in operations the size of Aitkin 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 amounts that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned functions.

Cause: The County informed us that, due to the available resources, it would not be able to hire additional qualified accounting staff to segregate duties in every department.

Recommendation: We recommend the County's elected officials and management be aware of the lack of segregation of duties and, where possible, implement oversight procedures to ensure that the internal control policies and procedures are being implemented by staff to the extent possible.

Client's Response:

County management is aware of this situation, however, the county lacks the resources to staff departments to levels needed to provide complete segregation of all functions. County management will review internal controls and transactions. Receipting procedures have been modified to allow for greater control and review. Processes have been implemented to provide for additional review of transactions.

Finding 2006-003

Accounting Policies and Procedures Manual

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. Significant internal controls to be documented would include areas such as receipts, disbursements, payroll, capital assets, journal entries, and credit cards.

Condition: Inquiries of County management found that significant internal controls of its accounting system have not been documented. The County does not have a current and comprehensive accounting policies and procedures manual, including risk assessment and monitoring procedures.

Context: Documentation and monitoring of internal controls is necessary to determine controls are in place and operating effectively. An accounting policies and procedures manual will enhance employees' understanding of their role and function in the internal control system, establish responsibilities, provide guidance for employees, improve efficiency and consistency of transaction processing, and improve compliance with established policies. It can also help to prevent deterioration of key elements in the County's internal control system and can help to avoid circumvention of County policies.

Effect: As a result of this condition, the County's practices may not be followed as intended by management, and employees may not understand the purpose of internal controls. The lack of risk assessment and monitoring procedures increases the risk of fraud.

Cause: The County has begun the process of developing formal policies and procedures that will include monitoring. Due to limited time and resources, the County has not been able to complete this project.

Recommendation: We recommend the County Auditor's Office continue its efforts to develop a comprehensive accounting policies and procedures manual including documentation for the internal control systems over receipts, disbursements, payroll, capital assets, journal entries, and credit cards. The manual should be prepared by appropriate levels of management and be approved by the County Board to emphasize its importance and authority. The documentation should describe procedures as they are

intended to be performed, indicate which level of staff is to perform the procedures, and explain the design and purpose of control-related procedures to increase employee understanding and support of controls.

Client's Response:

The County has adopted a General Operations Policy (May 24, 2016). The policy includes provisions for accounting and procedures.

Finding 2006-005

Annual Adopted Budget and Budget Policy

Criteria: Written policies and procedures outline the specific authority and responsibility of County personnel, providing for accountability.

Condition: The Board has not developed and adopted a formal budget policy for management's administration of the County budget. The County Board adopts a summarized budget at the fund level on an annual basis.

Context: Written policies serve as a reference and training tool for new personnel and ensure that procedures remain in place despite personnel turnover. To be effective, an accounting policies and procedures manual must be complete, up-to-date, and readily available to all personnel who need it.

Effect: Budgeting procedures may not be clear or fully understood by all those involved in the budgeting process.

Cause: Informal budgeting procedures exist; however, these procedures have not been formalized into a written document to be approved by the Board and included in the County's accounting policies and procedures manual.

Recommendation: We recommend the County Board develop and adopt budget policies and procedures to include the following elements:

- which funds require budgets,
- the legal level of budgetary control,
- when budgets can be modified by management and when budget modifications require Board approval,
- the budgetary basis on which the budget is adopted, and
- procedures for monitoring the budget.

Client's Response:

The County has adopted a General Operations Policy (May 24, 2016). The policy includes provisions for budget preparation.

Finding 2006-008

Computer Risk Management

Criteria: The County's management is responsible for identifying and managing the risks associated with its computer system. Computer risk management suggests that a formal plan be developed to identify the risks associated with the County's information system and document the internal controls implemented to address the identified risks.

Condition: The County has internal controls in place for its computer system. However, a formal risk assessment of existing controls over significant functions of the computer system has not been completed.

Context: 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. Without a formal plan, computer risks could exist that are not identified on a timely basis.

Effect: Unprotected risks could result in a loss or compromise of data that could negatively influence County operations.

Cause: County management and staff are aware of the various risks associated with the County's computer systems. However, a formal plan to identify and manage these risks has not been developed.

Recommendation: We recommend County management document the significant internal controls in its computer system. We further recommend a formal plan be developed that calls for assessing and monitoring significant internal controls on a regular basis, but no less than annually. The assessment of risks should be documented and procedures implemented to address those risks found.

Client's Response:

The County has adopted a General Operations Policy (May 24, 2016). The policy includes provisions for computer risk management.

Finding 2013-001

Segregation of Duties - Health and Human Services Vendor Setup

Criteria: A good system of internal control provides for an adequate segregation of duties so that no one individual has the ability to both process disbursements and set up new vendors.

Condition: During our review of the Health and Human Services disbursements process, we noted that two individuals have the ability to both process disbursements and set up new vendors.

Context: Segregation of duties between processing of disbursements and vendor setup is limited due to the limited number of office personnel within the Health and Human Services Department.

Effect: Fictitious vendors could be added to the accounting system, increasing the likelihood of the County processing improper payments.

Cause: The County informed us that it does not have the economic resources needed to hire additional qualified accounting staff in order to adequately segregate duties in every department.

Recommendation: We recommend management re-evaluate whether segregation of duties between disbursements and vendor setup is possible. Formal written procedures should be developed to monitor new vendors entered into the system and should be included in the County's accounting policies and procedures manual.

Client's Response:

The County will review procedures for the establishment of new vendors. Procedures to include segregation, if possible, or review of new vendors by another staff member.

ITEMS ARISING THIS YEAR

Finding 2015-001

Prior Period Adjustment

Criteria: A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements of the financial statements on a timely basis. Auditing standards identify one indication of a material weakness in internal control is the restatement of previously issued financial statements to reflect the correction of a material misstatement due to error.

Condition: During our audit, we identified a prior period adjustment that resulted in a significant change to the County's financial statements. An investment in joint venture of \$1,312,336 was recorded to reflect the County's interest in the Aitkin Municipal Airport Commission as of December 31, 2014. The prior period adjustment to restate the County's financial statements was reviewed and approved by the appropriate County staff and is reflected in the financial statements.

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

Effect: The January 1, 2015, governmental activities' net position was restated (increased) by \$1,312,336.

Cause: Oversight in not including the investment in joint venture.

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

Client's Response:

The County's financial statements were required to be restated for the inclusion of the Aitkin Municipal Airport. Aitkin County is a two-thirds interest majority partner in the joint venture with the City of Aitkin.

Finding 2015-002

Audit Adjustments

Criteria: A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements of the financial statements on a timely basis.

Condition: During our audit, we proposed material audit adjustments that resulted in changes to Aitkin County's financial statements. The adjustments were reviewed by the appropriate staff and are reflected in the financial statements.

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

Effect: The following material audit adjustments were recorded for the year ended December 31, 2015:

Road and Bridge Special Revenue Fund

- Revenues and expenditures decreased by \$800,000 to reverse an entry recorded on the general ledger related to turnback funds received in a previous year.

Health and Human Services Special Revenue Fund

- Salaries payable and related expenditures were increased by \$379,008 related to a journal entry made in error on the County financial statement trial balance.

Cause: The revenue and expenditure entry recorded on the County's general ledger in the Road and Bridge Special Revenue Fund should have been applied against each other for financial statement purposes, thus eliminating the revenue and the expenditure. The salaries payable and related expenditures were erroneously recorded with a \$189,504 debit to salaries payable and a credit to related expenditures at December 31, 2015.

Recommendation: We recommend County staff review financial statement closing procedures, trial balances, and journal entries in detail to ensure that all significant adjustments considered necessary to fairly present the County's financial statements in accordance with generally accepted accounting principles have been made appropriately.

Client's Response:

County staff will review adjusting entries to insure that they have been made correctly and in accordance with generally accepted accounting principles.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding 1999-003

Individual Ditch System Equity Balance Deficits

Criteria: Assets should exceed liabilities in order for the County to meet its obligations and maintain a positive fund balance. Under Minn. Stat. § 103E.655, drainage project costs must be paid from the drainage system account. Minn. Stat. § 103E.735, subd. 1, permits the accumulation of a surplus balance for the repair costs of a ditch system not to exceed 20 percent of the assessed benefits of the ditch system or \$100,000, whichever is greater.

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

Context: Six of the 13 active ditch systems had deficit fund balances as of December 31, 2015, totaling \$11,952. These are the same deficit balances as reported in the prior year.

Effect: Allowing a ditch system to maintain a deficit fund balance, in effect, constitutes an interest-free loan from other individual ditch systems, and may be inconsistent with Minn. Stat. § 103E.655.

Cause: Ditch expenditures were necessary, and the ditch levies were not sufficient to cover all costs.

Recommendation: We recommend the County eliminate the ditch fund deficits by levying assessments pursuant to Minn. Stat. § 103E.735, subd. 1, which permits the accumulation of a surplus balance to provide for the repair costs of a ditch system.

Client's Response:

As substantial portions of Aitkin County ditches are located in the MN DNR managed ConCon area, there is not a payment source for those assessments. That leaves a small amount of privately owned property to cover any assessments. The County Board has authorized transfers from the County Development Fund to cover the deficits. The County Board has discussed seeking legislation as a solution option.

Finding 2006-011

Long Lake Conservation Center Enterprise Fund Deficit Cash Balance

Criteria: The County should maintain a positive cash balance in its funds in order for the County to meet its obligations.

Condition: As of December 31, 2015, the Long Lake Conservation Center Enterprise Fund had a cash deficit of \$626,105, resulting in the need for an interfund loan of that amount from the General Fund.

Context: As of December 31, 2015, the Long Lake Conservation Center Enterprise Fund had an interfund loan of \$626,105, which is an increase from the \$528,805 interfund loan reported in the prior year.

Effect: A fund with a deficit cash balance is, in effect, borrowing from County funds with positive cash balances.

Cause: The County has been attempting to reduce fund operating expenses in an effort to reduce the deficit.

Recommendation: We recommend the County continue to monitor the cash balance in the Long Lake Conservation Center Enterprise Fund and eliminate the deficit cash balance by a combination of increasing revenues and/or decreasing expenses, or by having the Board of County Commissioners authorize a permanent transfer from the County's General Fund.

Client's Response:

The County Board is aware of the cash deficit in the operating fund for Long Lake. The Board receives quarterly reports on the status of LLCC finances. In 2009, the County Board took action to reduce operating expenses in an effort to reduce the accumulating deficits. In 2012, LLCC was able to reduce the deficit slightly. However, those changes have not eliminated the ongoing deficit.

B. OTHER MATTER

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding 2011-004

Eligibility

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

Pass-Through Agency: Minnesota Department of Human Services

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

Condition: The Minnesota Department of Human Services maintains the computer system, MAXIS, which is used by the County to support the eligibility determination process. During our testing of a sample of 15 case files, we noted three instances where asset or income documentation did not adequately support all participant eligibility requirements and/or match the information in the MAXIS system.

We also noted there is no documented process to perform periodic supervisory reviews of case files.

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

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

Effect: Inadequate documentation or the improper input of information into MAXIS increases the risk that participants will receive benefits when they are not eligible. The lack of a documented supervisory review process increases the probability that staff errors will go undetected.

Cause: County program personnel entering case information into MAXIS did not ensure all required information was input into MAXIS correctly or that all required information was obtained and/or retained. The County does not have a formal process to perform periodic reviews of case files.

Recommendation: We recommend the County implement additional procedures to provide reasonable assurance that all necessary documentation to support eligibility determinations is properly obtained and input into MAXIS. Consideration should be given to providing additional training to program personnel. We further recommend the County implement a formal process to review case files. Documentation of those reviews, including the results and any corrective actions taken, should be maintained.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

Jess Goble, Income Maintenance Supervisor

Corrective Action Planned:

- *Case reviews and review procedures for identifying and verifying assets and income of clients.*
- *Updating MAXIS with current information to reflect the client's current situation at the time of review.*

Anticipated Completion Date:

Immediate and ongoing.



REBECCA OTTO
STATE AUDITOR

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

Independent Auditor's Report

Board of County Commissioners
Aitkin County
Aitkin, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Aitkin 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 August 30, 2016. Our report includes a reference to other auditors who audited the financial statements of the Aitkin Municipal Airport Commission, included in the financial statements of the City of Aitkin, Minnesota, as a discrete component unit, as described in our report on the County's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other items that we consider to be significant deficiencies.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2015-001 and 2015-002 to be material weaknesses.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 1996-005, 2006-003, 2006-005, 2006-008, and 2013-001 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Aitkin 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, as the cities administer the tax increment financing for Aitkin County.

In connection with our audit, nothing came to our attention that caused us to believe that Aitkin County failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Counties*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the County's noncompliance with the above referenced provisions.

Other Matters

Included in the Schedule of Findings and Questioned Costs are management practices comments. We believe these recommendations to be of benefit to the County, and they are reported for that purpose. Also included in the Schedule of Findings and Questioned Costs is an unresolved other matter described as item 2011-004.

Aitkin County's Response to Findings

Aitkin County's responses to the internal control and management practices findings and the other matter identified in our audit have been included in the Schedule of Findings and Questioned Costs. The County's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting, compliance, and the provisions of the *Minnesota Legal Compliance Audit Guide for Counties* and the results of that testing, and not to provide an opinion on the effectiveness of the County's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

August 30, 2016

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REBECCA OTTO
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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
Aitkin County
Aitkin, Minnesota

Report on Compliance for the Major Federal Program

We have audited Aitkin 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. Aitkin 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 Aitkin 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 Aitkin 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.

Opinion on the Major Federal Program

In our opinion, Aitkin County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2015.

Report on Internal Control Over Compliance

Management of Aitkin 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.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

August 30, 2016