

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

GRANT COUNTY
ELBOW LAKE, MINNESOTA

YEAR ENDED DECEMBER 31, 2016

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

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

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**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

Year Ended December 31, 2016



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

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**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

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**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

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**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

**ORGANIZATION SCHEDULE
DECEMBER 31, 2016**

| Office | Name | Term Expires |
|------------------------------|--------------------|--------------|
| Commissioners | | |
| 1st District | Todd Schneeberger | January 2017 |
| 2nd District | Pete Hoff | January 2019 |
| 3rd District | Keith Swanson | January 2017 |
| 4th District | Bill LaValley | January 2019 |
| 5th District | Vernell H. Wagner* | January 2017 |
| Officers | | |
| Elected | | |
| Attorney | Justin R. Anderson | January 2019 |
| Auditor | Chad Van Santen | January 2019 |
| County Recorder | Diann Giese | January 2019 |
| Sheriff | Dwight Walvatne | January 2019 |
| Treasurer | Patricia Soberg | January 2019 |
| Appointed | | |
| Assessor | Karl Lindquist | January 2017 |
| Highway Engineer | Tracey Von Bargaen | May 2020 |
| Veterans Service Officer | Joe Hjelmstad | Indefinite |
| Coroner | Dr. Gregory Smith | January 2017 |
| Social Services Board | | |
| Member | Todd Schneeberger | January 2017 |
| Member | Bill LaValley | January 2019 |
| Member | Keith Swanson | January 2017 |
| Chair | Pete Hoff | January 2019 |
| Member | Vernell H. Wagner | January 2017 |
| Director | Stacy Hennen | Indefinite |

*Chair

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Grant County
Elbow Lake, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Grant County, Minnesota, as of and for the year ended December 31, 2016, 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 Housing and Redevelopment Authority (HRA) of Grant County, the discretely presented component unit. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the component unit, 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 discretely presented component unit, each major fund, and the aggregate remaining fund information of Grant County as of December 31, 2016, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Grant 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 September 25, 2017, on our consideration of Grant 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 Grant County's internal control over financial reporting and compliance. It does not include the HRA of Grant County, 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

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 25, 2017

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

**MANAGEMENT’S DISCUSSION AND ANALYSIS
DECEMBER 31, 2016
(Unaudited)**

INTRODUCTION

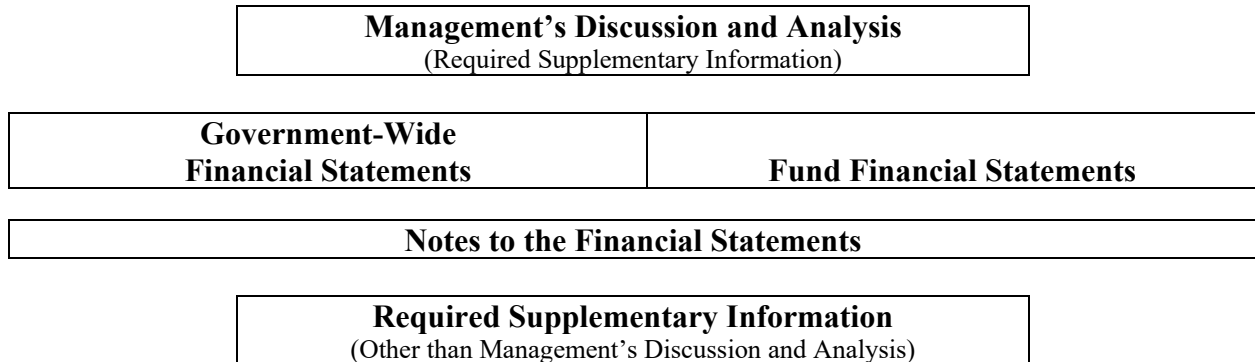
Grant County’s Management’s Discussion and Analysis (MD&A) provides an overview of the County’s financial activities for the fiscal year ended December 31, 2016. We encourage readers to consider the information presented here in conjunction with Grant County’s financial statements and the notes to the financial statements.

FINANCIAL HIGHLIGHTS

- Governmental activities’ total net position is \$37,376,976, of which \$31,366,401 is the net investment in capital assets and \$5,290,060 is restricted to specific purposes/uses by the County.
- The net cost of Grant County’s governmental activities for the year ended December 31, 2016, was \$5,072,195; the net cost was funded by general revenues totaling \$7,006,510.

OVERVIEW OF THE FINANCIAL STATEMENTS

Grant County’s MD&A serves as an introduction to the basic financial statements. The 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) and certain budgetary comparison schedules are required to accompany the basic financial statements and, therefore, are included as required supplementary information. The following chart demonstrates how the different pieces are inter-related.



Grant County presents two government-wide financial statements: the Statement of Net Position and the Statement of Activities. These statements provide information about the activities of the County as a whole and present a longer-term view of Grant County's finances. The County's fund financial statements follow the government-wide financial statements. For governmental funds, these statements tell how Grant County financed services in the short-term as well as what remains for future spending. Fund financial statements also report the County's operations in more detail than the government-wide statements by providing information about the County's most significant/major funds. The remaining statement provides 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--The Statement of Net Position and the Statement of Activities

The Statement of Net Position and the Statement of Activities report information about Grant County as a whole and about its activities in a way that helps the reader determine whether Grant County's financial condition has improved or declined as a result of the current 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.

These two statements consider all of Grant County's current year revenues and expenses, regardless of when the County receives the revenue or pays the expense, and reports the County's net position and changes in them. You can think of the County's net position--the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources--as one way to measure Grant County's financial health or financial position. Over time, increases or decreases in the County's net position is 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 general economic conditions of the state and County, to assess the overall health of Grant County.

- Governmental activities--Grant County reports its basic services in the "Governmental Activities" column of these reports. The activities reported by the County include general government, public safety, highways and streets, sanitation, human services, health, culture and recreation, conservation of natural resources, and economic development. Grant County finances the majority of these activities with local property taxes, state-paid aids, fees, charges for services, and federal and state grants.
- Component unit--Grant County includes a separate legal entity in its report, the Housing and Redevelopment Authority of Grant County. This entity is presented in a separate column. Although legally separate, the component unit is important because the County is financially accountable for it.

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

Fund Financial Statements

Grant County's fund financial statements provide detailed information about the significant funds--not the County as a whole. Significant governmental and fiduciary funds may be established by the County to meet requirements of a specific state law; to help control and manage money for a particular purpose/project; or to show that it is meeting specific legal responsibilities and obligations when expending property tax revenues, grants, and/or other funds designated for a specific purpose.

- Governmental funds--Most of Grant County's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending. These funds are reported in our financial statements using an accounting method called modified accrual accounting. This accounting method measures cash and other financial assets that the County can readily convert 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 determine whether there are financial resources available that can be spent in the near future to finance various programs within Grant County. 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.

The basic governmental fund financial statements can be found as Exhibits 3 through 6 of this report.

- Fiduciary funds--Grant County is the trustee, or fiduciary, over assets that can be used only for the trust beneficiaries based on the trust arrangement. The County reports its fiduciary activities in a separate Statement of Fiduciary Net Position. These activities have been excluded from the County's other financial statements because the County cannot use these assets to finance its operations. Grant County is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

All fiduciary activities are reported in a separate statement of fiduciary net position on Exhibit 7.

Notes to the Financial Statements

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found beginning on page 27 of this report.

THE COUNTY AS A WHOLE

The following analysis focuses on the net position (Table 1) and changes in net position (Table 2) of the County's governmental activities.

**Table 1
Net Position**

| | Governmental Activities | |
|---|-------------------------|----------------------|
| | 2016 | 2015 |
| Assets | | |
| Current and other assets | \$ 12,849,457 | \$ 12,548,449 |
| Capital assets, net of accumulated depreciation | <u>34,732,699</u> | <u>34,273,214</u> |
| Total Assets | <u>\$ 47,582,156</u> | <u>\$ 46,821,663</u> |
| Deferred Outflows of Resources | | |
| Deferred pension outflows | <u>\$ 3,436,817</u> | <u>\$ 558,541</u> |
| Liabilities | | |
| Current liabilities | \$ 478,592 | \$ 1,080,922 |
| Long-term liabilities | <u>12,489,396</u> | <u>9,503,019</u> |
| Total Liabilities | <u>\$ 12,967,988</u> | <u>\$ 10,583,941</u> |
| Deferred Inflows of Resources | | |
| Deferred pension inflows | \$ 674,009 | \$ 353,602 |
| Advance from other governments | <u>-</u> | <u>1,000,000</u> |
| Total Deferred Inflows of Resources | <u>\$ 674,009</u> | <u>\$ 1,353,602</u> |
| Net Position | | |
| Net investment in capital assets | \$ 31,366,401 | \$ 30,635,318 |
| Restricted | 5,290,060 | 4,675,370 |
| Unrestricted | <u>720,515</u> | <u>131,973</u> |
| Total Net Position | <u>\$ 37,376,976</u> | <u>\$ 35,442,661</u> |

Grant County's total net position for the year ended December 31, 2016, totals \$37,376,976. The governmental activities' unrestricted net position, totaling \$720,515, is available to finance the day-to-day operations of the governmental activities of Grant County.

**Table 2
Changes in Net Position**

| | Governmental Activities | |
|--|-------------------------|----------------------|
| | 2016 | 2015 |
| Revenues | | |
| Program revenues | | |
| Fees, charges, fines, and other | \$ 1,994,653 | \$ 3,849,392 |
| Operating grants and contributions | 5,304,719 | 5,145,872 |
| Capital grants and contributions | 899,196 | - |
| General revenues | | |
| Property taxes | 6,247,147 | 5,959,086 |
| Other taxes | 234,804 | 245,614 |
| Payments in lieu of tax | 49,387 | 37,477 |
| Grants and contributions not restricted to specific programs | 424,227 | 460,371 |
| Unrestricted investment earnings | 50,945 | 2,722 |
| Miscellaneous | - | 49,202 |
| Total Revenues | <u>\$ 15,205,078</u> | <u>\$ 15,749,736</u> |
| Expenses | | |
| General government | \$ 3,307,069 | \$ 2,850,510 |
| Public safety | 1,985,756 | 1,743,521 |
| Highways and streets | 3,255,253 | 3,635,509 |
| Sanitation | 642,321 | 574,282 |
| Human services | 2,830,496 | 2,771,006 |
| Health | 103,025 | 112,992 |
| Culture and recreation | 97,154 | 93,198 |
| Conservation of natural resources | 836,773 | 1,860,690 |
| Economic development | 42,500 | 42,500 |
| Interest | 170,416 | 172,261 |
| Total Expenses | <u>\$ 13,270,763</u> | <u>\$ 13,856,469</u> |
| Change in Net Position | \$ 1,934,315 | \$ 1,893,267 |
| Net Position - January 1 | <u>35,442,661</u> | <u>33,549,394</u> |
| Net Position - December 31 | <u>\$ 37,376,976</u> | <u>\$ 35,442,661</u> |

Governmental Activities

Revenues for Grant County's governmental activities for the year ended December 31, 2016, were \$15,205,078. The County's cost for all governmental activities for the year ended December 31, 2016, was \$13,270,763. Net position for the County's governmental activities increased by \$1,934,315 in 2016, an increase of 5.5 percent.

As shown in the Statement of Activities, the amount that Grant County taxpayers ultimately financed for these governmental activities through local property taxation was \$6,247,147, because \$8,198,568 of the costs were paid by grants and contributions received for those programs and by those who directly benefited from the programs, and \$424,227 was paid by other governments and organizations that provided additional grants and contributions. Grant County paid for the remaining “public benefit” portion of governmental activities with \$335,136 in other revenues, such as investment income, mortgage registry tax, state deed tax, wind tax and payments in lieu of tax.

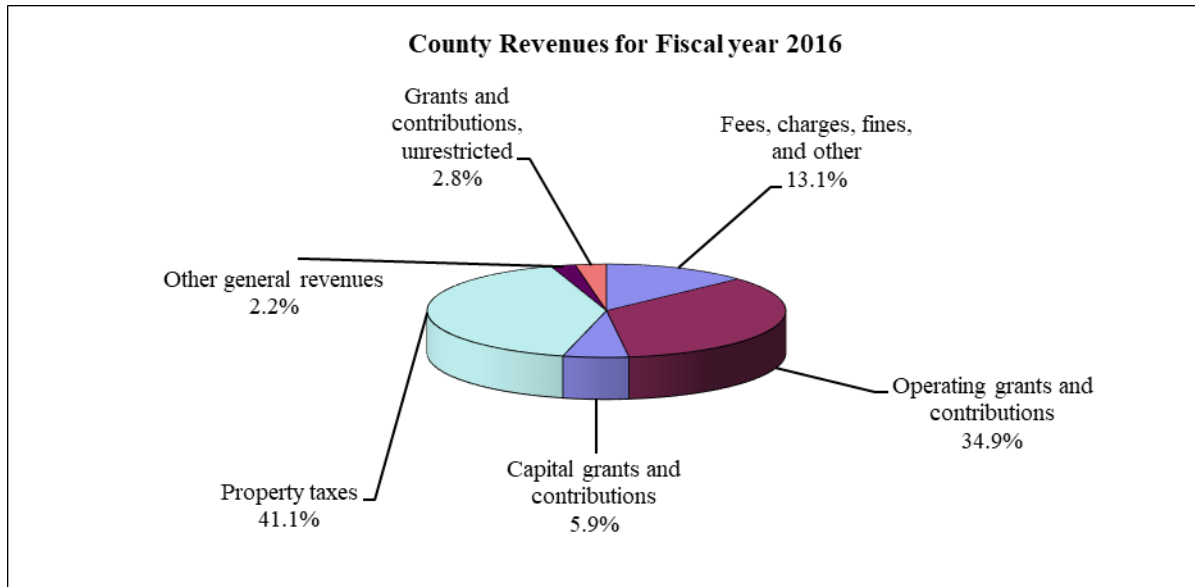
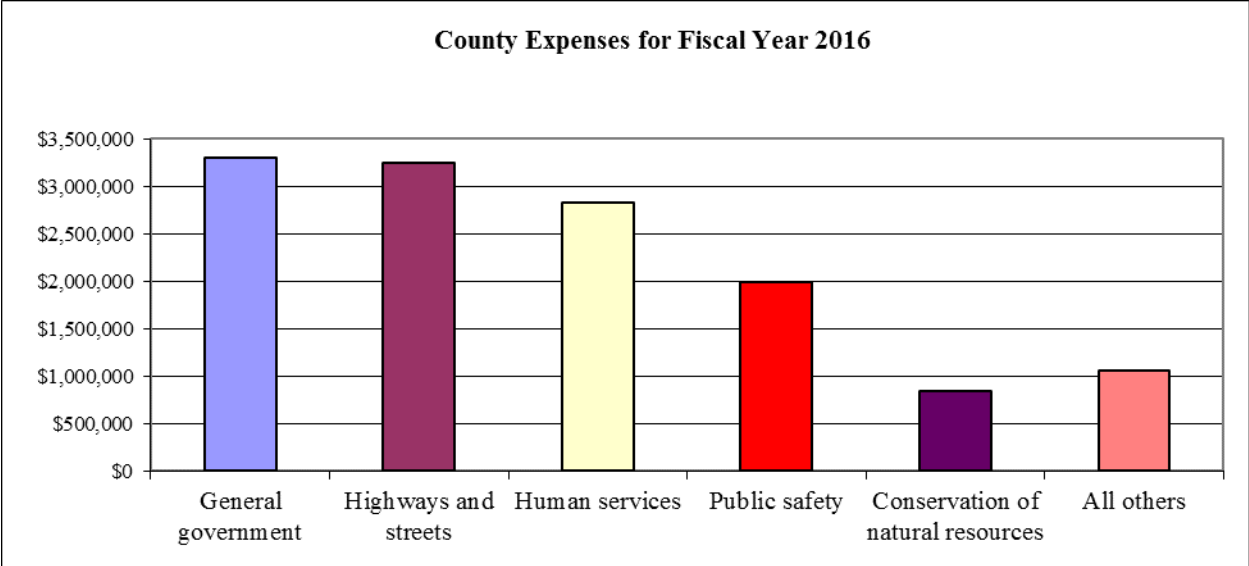


Table 3 presents the cost of each of Grant County’s five largest program functions, as well as each function’s net cost (total cost, less revenues generated by the activities). The net cost shows the financial burden placed on Grant County taxpayers by each of these functions.

**Table 3
Governmental Activities**

| | Total Cost of Services | Net Cost of Services |
|-----------------------------------|---------------------------|-------------------------|
| Program expenses | | |
| General government | \$ 3,307,069 | \$ 2,550,238 |
| Highways and streets | 3,255,253 | (1,227,405) |
| Human services | 2,830,496 | 811,604 |
| Public safety | 1,985,756 | 1,691,291 |
| Conservation of natural resources | 836,773 | 735,188 |
| All others | 1,055,416 | 511,279 |
| Total Program Expenses | \$ 13,270,763 | \$ 5,072,195 |



THE COUNTY’S FUNDS

As Grant County completed the year, its governmental funds, as presented in the Balance Sheet, reported a combined fund balance of \$9,059,166.

General Fund Budgetary Highlights

The Grant County Board of Commissioners, over the course of a budget year, may amend/revise the County’s General Fund budget; however, in 2016, the County Board of Commissioners made no changes to the adopted budget. If the County Board of Commissioners had made changes to the budget as originally adopted, these budget amendments/revisions would have fallen into one of three categories: new information changing original budget estimations, greater than anticipated revenues or costs, and final agreement reached on employee contracts.

In the General Fund, the actual revenues were \$896,424 more than expected revenues, and actual expenditures were \$668,918 more than budgeted expenditures. These increases were primarily due to non-budgeted revenues and expenditures for a grant project and restricted funds such as E-911 and Records compliance and technology.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2016, Grant County had \$34,732,699 invested in a broad range of capital assets, net of depreciation. This investment in capital assets includes land, buildings, highways and streets, and equipment (see Table 4).

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

| | 2016 | 2015 |
|--------------------------------|---------------|---------------|
| Land and right-of-way | \$ 1,172,702 | \$ 1,172,701 |
| Construction in progress | 627,977 | 2,230,345 |
| Buildings | 5,851,754 | 6,131,596 |
| Office furniture and equipment | 384,477 | 458,780 |
| Machinery and automotive | 972,402 | 867,226 |
| Infrastructure | 25,723,387 | 23,412,566 |
| Totals | \$ 34,732,699 | \$ 34,273,214 |

Long-Term Debt

As of December 31, 2016, Grant County had \$5,221,300 in bonds outstanding, compared with \$5,492,896 as of December 31, 2015, a decrease of 4.9 percent.

Table 5
Outstanding Debt at Year-End

| | 2016 | 2015 |
|--|--------------|--------------|
| Bonds Payable | | |
| General obligation bonds | \$ 1,390,000 | \$ 1,665,000 |
| General obligation special assessment bonds | 1,855,000 | 1,855,000 |
| Taxable general obligation capital improvement bonds | 2,000,000 | 2,000,000 |
| Less: unamortized discounts | (23,700) | (27,104) |
| Totals | \$ 5,221,300 | \$ 5,492,896 |

Other long-term obligations include compensated absences, postemployment benefits and the net pension liability. Grant County's notes to the financial statements provide detailed information about the County's long-term liabilities.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The County's elected and appointed officials considered many factors when setting the fiscal year 2017 budget and tax rates. These factors include federal and state aid, increasing input costs and maintaining appropriate fund balances while being mindful of the burden on county taxpayers and a need to provide a certain level of services to Grant County residents/taxpayers.

- Major revenue sources for the County are state-paid aids, credits, and grants. Should the State of Minnesota make significant changes to these revenues, it would have a significant impact on next year's budget.

- Reviewing revenue sources and considering cost-effective and efficient means for the delivery of Grant County programs and services will influence the development of future budgets.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

Grant County's financial report provides citizens, taxpayers, customers, investors, and creditors with a general overview of Grant County's finances and shows the County's accountability for the money it receives and spends. If you have questions about this report or need additional financial information, contact Chad Van Santen, Grant County Auditor, (218-685-8236), Grant County Courthouse, 10 Second Street Northeast, Elbow Lake, Minnesota 56531-4400.

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BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET POSITION
DECEMBER 31, 2016**

| | Primary Government Governmental Activities | Component Unit Housing and Redevelopment Authority of Grant County |
|---|---|---|
| <u>Assets</u> | | |
| Cash and pooled investments | \$ 8,524,825 | \$ 600,397 |
| Taxes receivable - net | 101,307 | - |
| Special assessments receivable | | |
| Delinquent | 4,792 | - |
| Noncurrent | 1,812,437 | - |
| Accounts receivable - net | 69,861 | 435 |
| Rent receivable - net | - | 5,149 |
| Accrued interest receivable | 2,393 | - |
| Due from other governments | 2,071,161 | - |
| Prepaid items | 8,870 | 20,924 |
| Inventories | 253,811 | - |
| Restricted assets | | |
| Cash and pooled investments | - | 24,419 |
| Capital assets | | |
| Non-depreciable | 1,800,679 | 175,846 |
| Depreciable - net of accumulated depreciation | 32,932,020 | 2,273,443 |
| Total Assets | \$ 47,582,156 | \$ 3,100,613 |
| <u>Deferred Outflows of Resources</u> | | |
| Deferred pension outflows | \$ 3,436,817 | \$ - |
| <u>Liabilities</u> | | |
| Accounts payable | \$ 148,697 | \$ 71,650 |
| Salaries payable | 72,864 | - |
| Contracts payable | 43,406 | - |
| Due to other governments | 78,753 | - |
| Accrued interest payable | 83,449 | - |
| Unearned revenue | 51,423 | 11,736 |
| Long-term liabilities | | |
| Due within one year | 386,399 | 52,193 |
| Due in more than one year | 5,222,876 | 959,070 |
| Net pension liability | 6,420,802 | - |
| Other postemployment benefits payable | 459,319 | - |
| Total Liabilities | \$ 12,967,988 | \$ 1,094,649 |

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

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**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

***EXHIBIT 1
(Continued)***

**STATEMENT OF NET POSITION
DECEMBER 31, 2016**

| | <u>Primary Government Governmental Activities</u> | <u>Component Unit Housing and Redevelopment Authority of Grant County</u> |
|---|---|---|
| <u>Deferred Inflows of Resources</u> | | |
| Deferred pension inflows | \$ <u>674,009</u> | \$ <u>-</u> |
| <u>Net Position</u> | | |
| Net investment in capital assets | \$ 31,366,401 | \$ 1,448,968 |
| Restricted for | | |
| Debt service | 2,231,837 | - |
| General government | 201,720 | - |
| Public safety | 379,020 | - |
| Highways and streets | 1,751,402 | - |
| Conservation of natural resources | 680,234 | - |
| Sanitation | 18,426 | - |
| Held in trust for other purposes | 27,421 | - |
| Other purposes | - | 5,160 |
| Unrestricted | <u>720,515</u> | <u>551,836</u> |
| Total Net Position | <u>\$ 37,376,976</u> | <u>\$ 2,005,964</u> |

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016**

| <u>Functions/Programs</u> | <u>Expenses</u> | <u>Fees, Charges, Fines, and Other</u> |
|--|-----------------------------|--|
| Primary government | | |
| Governmental activities | | |
| General government | \$ 3,307,069 | \$ 608,985 |
| Public safety | 1,985,756 | 134,227 |
| Highways and streets | 3,255,253 | 68,414 |
| Sanitation | 642,321 | 475,427 |
| Human services | 2,830,496 | 657,085 |
| Health | 103,025 | - |
| Culture and recreation | 97,154 | - |
| Conservation of natural resources | 836,773 | 50,515 |
| Economic development | 42,500 | - |
| Interest | 170,416 | - |
| Total Primary Government | <u>\$ 13,270,763</u> | <u>\$ 1,994,653</u> |
| Component unit | | |
| Grant County Housing and Redevelopment Authority | <u>\$ 827,957</u> | <u>\$ 456,488</u> |
| General Revenues | | |
| | | Property taxes, levied for general purposes |
| | | Mortgage registry and deed tax |
| | | Wind production tax |
| | | Payments in lieu of tax |
| | | Grants and contributions not restricted to specific programs |
| | | Unrestricted investment earnings |
| Special item | | |
| | | Total general revenues and special item |
| Change in net position | | |
| Net Position - Beginning | | |
| Net Position - Ending | | |

EXHIBIT 2

| Program Revenues | | Net (Expense) Revenue and Changes in Net Position | |
|---|---|--|---|
| Operating Grants and Contributions | Capital Grants and Contributions | Primary Governmental Activities | Component Unit Housing and Redevelopment Authority of Grant County |
| \$ 147,846 | \$ - | \$ (2,550,238) | |
| 160,238 | - | (1,691,291) | |
| 3,515,048 | 899,196 | 1,227,405 | |
| 68,710 | - | (98,184) | |
| 1,361,807 | - | (811,604) | |
| - | - | (103,025) | |
| - | - | (97,154) | |
| 51,070 | - | (735,188) | |
| - | - | (42,500) | |
| - | - | (170,416) | |
| \$ 5,304,719 | \$ 899,196 | \$ (5,072,195) | |
| \$ 240,338 | \$ 158,486 | | \$ 27,355 |
| | | \$ 6,247,147 | \$ - |
| | | 174,552 | - |
| | | 60,252 | - |
| | | 49,387 | - |
| | | 424,227 | - |
| | | 50,945 | 1,804 |
| | | - | 42,897 |
| | | \$ 7,006,510 | \$ 44,701 |
| | | \$ 1,934,315 | \$ 72,056 |
| | | 35,442,661 | 1,933,908 |
| | | \$ 37,376,976 | \$ 2,005,964 |

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2016**

| | General | Road and Bridge |
|---|---------------------|----------------------------|
| <u>Assets</u> | | |
| Cash and pooled investments | \$ 2,489,274 | \$ 1,480,610 |
| Undistributed cash in agency funds | 132,789 | 43,659 |
| Taxes receivable - net | 59,128 | 20,843 |
| Special assessments | | |
| Delinquent | - | - |
| Noncurrent | 27,421 | - |
| Accounts receivable - net | 58,987 | 907 |
| Accrued interest receivable | 2,352 | - |
| Due from other funds | 2,002 | - |
| Due from other governments | 1,350 | 1,666,370 |
| Prepaid expense | - | - |
| Inventories | - | 253,811 |
| | \$ 2,773,303 | \$ 3,466,200 |
| <u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u> | | |
| Liabilities | | |
| Accounts payable | \$ 55,199 | \$ 44,720 |
| Salaries payable | 22,681 | 26,318 |
| Contracts payable | 261 | 30,091 |
| Due to other funds | - | 2,035 |
| Due to other governments | 51,511 | 3,586 |
| Unearned revenue | - | - |
| | \$ 129,652 | \$ 106,750 |
| Deferred Inflows of Resources | | |
| Unavailable revenues | \$ 54,210 | \$ 1,510,760 |
| | \$ 54,210 | \$ 1,510,760 |

EXHIBIT 3

| <u>Human Services</u> | <u>County Ditch 29 Debt Service</u> | <u>Nonmajor Funds</u> | <u>Total</u> |
|----------------------------|---|----------------------------|-----------------------------|
| \$ 2,926,358 | \$ 81,477 | \$ 1,320,107 | \$ 8,297,826 |
| 34,261 | 905 | 15,385 | 226,999 |
| 16,357 | - | 4,979 | 101,307 |
| - | - | 4,792 | 4,792 |
| - | 1,785,016 | - | 1,812,437 |
| 3,065 | 3 | 6,899 | 69,861 |
| - | - | 41 | 2,393 |
| 1,943 | - | - | 3,945 |
| 403,441 | - | - | 2,071,161 |
| 8,870 | - | - | 8,870 |
| - | - | - | 253,811 |
| <u>\$ 3,394,295</u> | <u>\$ 1,867,401</u> | <u>\$ 1,352,203</u> | <u>\$ 12,853,402</u> |
| | | | |
| \$ 45,338 | \$ - | \$ 3,440 | \$ 148,697 |
| 23,496 | - | 369 | 72,864 |
| 13,054 | - | - | 43,406 |
| 1,910 | - | - | 3,945 |
| 11,954 | - | 11,702 | 78,753 |
| 51,423 | - | - | 51,423 |
| <u>\$ 147,175</u> | <u>\$ -</u> | <u>\$ 15,511</u> | <u>\$ 399,088</u> |
| | | | |
| <u>\$ 41,213</u> | <u>\$ 1,785,016</u> | <u>\$ 3,949</u> | <u>\$ 3,395,148</u> |
| <u>\$ 41,213</u> | <u>\$ 1,785,016</u> | <u>\$ 3,949</u> | <u>\$ 3,395,148</u> |

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2016**

| | General | Road and Bridge |
|--|---------------------|----------------------------|
| <u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u> (Continued) | | |
| Fund Balances | | |
| Nonspendable | | |
| Trust principal | \$ - | \$ - |
| Inventories | - | 253,811 |
| Missing heirs | 18,426 | - |
| Restricted | | |
| Law library | 22,156 | - |
| Debt service | - | - |
| Recorder's technology equipment | 67,655 | - |
| Election equipment | 37,589 | - |
| E-911 | 352,993 | - |
| Recorder's compliance | 74,320 | - |
| Forfeitures | 26,027 | - |
| County state-aid highway system | - | 348,660 |
| Ditch maintenance and construction | - | - |
| Committed | | |
| Sheriff's contingencies | 5,000 | - |
| Assigned | | |
| Highways and streets | - | 1,246,219 |
| Human services | - | - |
| Sanitation | - | - |
| Sheriff improvement | 32,821 | - |
| Unassigned | 1,952,454 | - |
| | \$ 2,589,441 | \$ 1,848,690 |
| Total Fund Balances | \$ 2,589,441 | \$ 1,848,690 |
| | | |
| Total Liabilities, Deferred Inflows of Resources, and Fund Balances | \$ 2,773,303 | \$ 3,466,200 |

EXHIBIT 3
(Continued)

| <u>Human Services</u> | <u>County Ditch 29 Debt Service</u> | <u>Nonmajor Funds</u> | <u>Total</u> |
|---------------------------|---|---------------------------|----------------------|
| \$ - | \$ - | \$ 118,205 | \$ 118,205 |
| - | - | - | 253,811 |
| - | - | - | 18,426 |
| - | - | - | 22,156 |
| - | - | 445,136 | 445,136 |
| - | - | - | 67,655 |
| - | - | - | 37,589 |
| - | - | - | 352,993 |
| - | - | - | 74,320 |
| - | - | - | 26,027 |
| - | - | - | 348,660 |
| - | 82,385 | 479,644 | 562,029 |
| - | - | - | 5,000 |
| - | - | - | 1,246,219 |
| 3,205,907 | - | - | 3,205,907 |
| - | - | 289,758 | 289,758 |
| - | - | - | 32,821 |
| - | - | - | 1,952,454 |
| \$ 3,205,907 | \$ 82,385 | \$ 1,332,743 | \$ 9,059,166 |
| \$ 3,394,295 | \$ 1,867,401 | \$ 1,352,203 | \$ 12,853,402 |

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**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET POSITION--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2016**

| | | |
|--|------------------|------------------------------------|
| Fund balances - total governmental funds (Exhibit 3) | \$ | 9,059,166 |
| 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. | | 34,732,699 |
| Revenue in the statement of activities that do not provide current financial resources are not reported in the governmental funds. | | 3,395,148 |
| Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds. | | |
| General obligation bonds | \$ (5,245,000) | |
| Bond discounts | 23,700 | |
| Loans payable | (29,501) | |
| Other postemployment benefits | (459,319) | |
| Compensated absences | (358,474) | |
| Net pension liability | (6,420,802) | |
| Accrued interest payable | <u>(83,449)</u> | (12,572,845) |
| Deferred outflows of resources and deferred inflows of resources are created as a result of various differences related to pensions that are not recognized in the governmental funds. | | |
| Deferred pension outflows | \$ 3,436,817 | |
| Deferred pension inflows | <u>(674,009)</u> | <u>2,762,808</u> |
| Net Position of Governmental Activities (Exhibit 1) | | <u><u>\$ 37,376,976</u></u> |

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016**

| | General | Road and Bridge |
|---|---------------------|----------------------------|
| Revenues | | |
| Taxes | \$ 3,879,125 | \$ 1,265,040 |
| Special assessments | - | - |
| Licenses and permits | 10,961 | - |
| Intergovernmental | 624,740 | 3,766,485 |
| Charges for services | 514,722 | 55,753 |
| Fines and forfeits | 2,468 | - |
| Gifts and contributions | 27,276 | - |
| Investment earnings | 50,154 | - |
| Miscellaneous | 212,298 | 12,661 |
| | \$ 5,321,744 | \$ 5,099,939 |
| Expenditures | | |
| Current | | |
| General government | \$ 2,898,444 | \$ - |
| Public safety | 1,548,325 | - |
| Highways and streets | - | 3,711,005 |
| Sanitation | - | - |
| Human services | - | - |
| Health | 103,025 | - |
| Culture and recreation | 97,154 | - |
| Conservation of natural resources | 406,290 | - |
| Economic development | 42,500 | - |
| Intergovernmental | | |
| Highways and streets | - | 246,662 |
| Debt service | | |
| Principal | - | - |
| Interest | - | - |
| | \$ 5,095,738 | \$ 3,957,667 |
| Excess of Revenues Over (Under) Expenditures | \$ 226,006 | \$ 1,142,272 |
| Other Financing Sources (Uses) | | |
| Loans issued | \$ 6,350 | \$ - |
| Net Change in Fund Balance | \$ 232,356 | \$ 1,142,272 |
| Fund Balance - January 1 | 2,357,085 | 767,571 |
| Increase (decrease) in inventories | - | (61,153) |
| Fund Balance - December 31 | \$ 2,589,441 | \$ 1,848,690 |

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

EXHIBIT 5

| <u>Human Services</u> | <u>County Ditch 29 Debt Service</u> | <u>Nonmajor Funds</u> | <u>Total</u> |
|-----------------------|-------------------------------------|-----------------------|----------------------|
| \$ 992,479 | \$ - | \$ 366,722 | \$ 6,503,366 |
| - | 129,991 | 158,117 | 288,108 |
| - | - | - | 10,961 |
| 1,457,852 | - | 123,490 | 5,972,567 |
| 436,858 | - | 371,025 | 1,378,358 |
| - | - | - | 2,468 |
| - | - | - | 27,276 |
| - | 113 | 678 | 50,945 |
| 180,897 | - | - | 405,856 |
| <u>\$ 3,068,086</u> | <u>\$ 130,104</u> | <u>\$ 1,020,032</u> | <u>\$ 14,639,905</u> |
| | | | |
| \$ - | \$ - | \$ - | \$ 2,898,444 |
| - | - | - | 1,548,325 |
| - | - | - | 3,711,005 |
| - | - | 619,381 | 619,381 |
| 2,697,912 | - | - | 2,697,912 |
| - | - | - | 103,025 |
| - | - | - | 97,154 |
| - | - | 412,885 | 819,175 |
| - | - | - | 42,500 |
| - | - | - | 246,662 |
| - | - | 275,000 | 275,000 |
| - | 47,719 | 115,933 | 163,652 |
| <u>\$ 2,697,912</u> | <u>\$ 47,719</u> | <u>\$ 1,423,199</u> | <u>\$ 13,222,235</u> |
| | | | |
| <u>\$ 370,174</u> | <u>\$ 82,385</u> | <u>\$ (403,167)</u> | <u>\$ 1,417,670</u> |
| | | | |
| <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 6,350</u> |
| \$ 370,174 | \$ 82,385 | \$ (403,167) | \$ 1,424,020 |
| 2,835,733 | - | 1,735,910 | 7,696,299 |
| - | - | - | (61,153) |
| <u>\$ 3,205,907</u> | <u>\$ 82,385</u> | <u>\$ 1,332,743</u> | <u>\$ 9,059,166</u> |

**GRANT COUNTY
ELBOW LAKE, 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, 2016**

Net change in fund balances - total governmental funds (Exhibit 5) \$ 1,424,020

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 | \$ 3,395,148 | |
| Unavailable revenue - January 1 | <u>(2,851,317)</u> | 543,831 |

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 sales 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 | \$ 1,676,446 | |
| Net book value of assets sold | 254,481 | |
| Current year depreciation | <u>(1,471,442)</u> | 459,485 |

Issuing long-term debt provides current financial resources to governmental funds, while the repayment of debt consumes current financial resources. Neither transaction, however, has any effect on net position.

| | | |
|-------------|--|---------|
| Debt issued | | |
| Loans | | (6,350) |

| | | |
|--------------------------|--|---------|
| Principal repayments | | |
| General obligation bonds | | 275,000 |

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

| | | |
|---|--------------------|------------------|
| Change in accrued interest payable | \$ (3,360) | |
| Amortization of discounts | (3,404) | |
| Change in compensated absences | 17,692 | |
| Change in other postemployment benefits | (100,979) | |
| Change in inventories | (61,153) | |
| Change in deferred pension outflows | 2,878,276 | |
| Change in deferred pension inflows | (320,407) | |
| Change in net pension liability | <u>(3,168,336)</u> | <u>(761,671)</u> |

Change in Net Position of Governmental Activities (Exhibit 2) \$ 1,934,315

FIDUCIARY FUNDS

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**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

EXHIBIT 7

**STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
DECEMBER 31, 2016**

| | <u>Agency Funds</u> |
|-----------------------------|--------------------------|
| <u>Assets</u> | |
| Cash and pooled investments | \$ 421,126 |
| Due from other governments | <u>130,256</u> |
| Total Assets | <u>\$ 551,382</u> |
| <u>Liabilities</u> | |
| Due to other governments | <u>\$ 551,382</u> |

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**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016

1. Summary of Significant Accounting Policies

The County’s financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as of and for the year ended December 31, 2016. 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 by GAAP and used by the County are discussed below.

A. Financial Reporting Entity

Grant County was established March 6, 1868, 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 Grant County (primary government) and its component unit for which the County is financially accountable. The County is governed by a five-member Board of Commissioners elected from districts within the County. The Board is organized with a chair and vice chair elected at the annual meeting in January of each year.

Discretely Presented Component Unit

The Housing and Redevelopment Authority (HRA) of Grant County is a component unit of Grant County and is reported in a separate column in the County’s government-wide financial statements to emphasize that the HRA is legally separate from Grant County. The HRA operates as a local governmental unit for the purpose of providing housing and redevelopment services to Grant County. The governing body consists of a five-member Board of Commissioners appointed by the Grant County Board of Commissioners to serve five-year terms. The financial statements included are as of and for the year ended December 31, 2016.

| Component Unit | Component Unit Included in Reporting Entity Because | Separate Financial Statements |
|---|---|---|
| The HRA of Grant County provides services pursuant to Minn. Stat. §§ 469.001-.047 | The County appoints members, and the HRA is a financial burden. | Grant County Coordinator’s Office 10 Second Street N.E. Elbow Lake, Minnesota 56531 |

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Joint Ventures and Jointly-Governed Organizations

The County participates in several joint ventures described in Note 6.B. The County also participates in jointly-governed organizations described in Note 6.C.

B. Basic Financial Statements

1. Government-Wide Statements

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

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

The statement of activities demonstrates the degree to which the direct expenses of each function of the County's governmental activities are offset by program revenues. Direct expenses are those clearly identifiable with a specific function or activity. Program revenues include: (1) fees, fines, and charges paid by the recipients of goods, services, or privileges provided by a given function or activity; and (2) grants and contributions restricted to meeting the operational or capital requirements of a particular function or activity. Revenues not classified as program revenues, including all taxes, are presented as general revenues.

2. Fund Financial Statements

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

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

The emphasis of governmental fund financial statements is on major individual governmental funds, with each displayed as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor funds.

The County reports the following major governmental funds:

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

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

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

The County Ditch 29 Debt Service Fund is used to account for the accumulation of resources for, and the repayment of, principal, interest and related costs of drainage bonds related to County Ditch 29.

Additionally, the County reports the following fund types:

The Trust Payment Permanent Fund accounts for resources legally restricted to the extent that only earnings and not principal from the Trust Payment Permanent Fund may be used for County purposes.

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.

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting

The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the full accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. 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. Grant County considers all revenues as available if collected within 60 days after the end of the current period. Property and other taxes, licenses, and interest are all considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

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

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

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Treasurer for the purpose of increasing earnings through investment activities. Investments are reported at their fair value at December 31, 2016. A market approach is used to value all investments other than external investment pools, which are measured at the net asset value or fair value per share. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund.

Grant 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.

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

1. Deposits and Investments (Continued)

Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2016 were \$50,154.

2. Receivables and Payables

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

All receivables, including those of the discretely presented component unit, 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 delinquent taxes receivable.

3. Special Assessments Receivable

Special assessments receivable consist of delinquent special assessments payable in the years 2011 through 2016, and noncurrent special assessments payable in 2017 and after. No allowance for special assessments are shown because such amounts are not expected to be material. The receivable includes special assessments on solid waste fees, septic loans, and ditches.

4. Inventories and Prepaid Items

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

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

4. Inventories and Prepaid Items (Continued)

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

5. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (for example roads, bridges, sidewalks, and similar items), are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the County as assets with an initial, individual cost of more than \$5,000 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 acquisition value.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

| <u>Assets</u> | <u>Years</u> |
|-------------------------------------|--------------|
| Buildings and building improvements | 30 - 40 |
| Office furniture and equipment | 3 - 15 |
| Machinery and automotive | 3 - 20 |
| Infrastructure | 25 - 75 |

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

6. Unearned Revenue

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

7. Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated annual vacation and sick leave balances.

The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. Compensated absences are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

The government-wide statement of net position reports both current and noncurrent portions of compensated absences. The current portion consists of an amount based on a trend analysis of current usage of vacation and sick leave. The noncurrent portion consists of the remaining amount of vacation and sick leave. The compensated absences liability is liquidated through the General Fund and other governmental funds that have personal services.

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

8. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expenditure/expense) until then. Currently, the County has one item, deferred pension outflows, that qualifies for reporting in this category. These outflows arise only under the full accrual basis of accounting and consist of pension plan contributions paid subsequent to the measurement date, pension plan change in actuarial assumptions, pension plan changes in proportionate share, 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 or reduction of expense) until that time. Currently, the County has two types of deferred inflows. The governmental funds report unavailable revenue from delinquent taxes receivable, delinquent and noncurrent special assessments receivable, and for amounts that are not considered to be available to liquidate liabilities of the current period. Unavailable revenue arises only under the modified accrual basis of accounting and, accordingly, is reported only in the governmental funds balance sheet. The unavailable revenue amount is deferred and recognized as an inflow of resources in the period that the amounts become available. The second type of deferred inflows, deferred pension inflows, arise only under the full accrual basis of accounting and consist of differences between expected and actual pension plan economic experience and also pension plan changes in proportionate share and, accordingly, are reported only in the statement of net position.

9. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net position.

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

9. Long-Term Obligations (Continued)

Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as an other financing source.

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

10. Pension Plan

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

11. Classification of Net Position

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

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

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

11. Classification of Net Position (Continued)

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

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

12. Classification of Fund Balances

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

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

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

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

Assigned - amounts the County intends to use for specific purposes that do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

12. Classification of Fund Balances (Continued)

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

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

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

13. Minimum Fund Balance

The County has adopted a minimum fund balance policy for the General Fund in order to provide protection against the need to reduce services due to a lack of resources resulting from temporary revenue shortfalls or unpredicted expenditures. Therefore, the County Board has determined it needs to maintain a minimum level of unrestricted fund balance (committed, assigned, and unassigned) of \$800,000. The Fund Balance Policy was adopted by the County Board on December 20, 2011. At December 31, 2016, unrestricted fund balance for the General Fund was above the minimum fund balance level.

14. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

14. Use of Estimates (Continued)

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

2. Stewardship, Compliance, and Accountability

Excess of Expenditures Over Budget

Solid Waste Special Revenue Fund had expenditures in excess of budget for the year ended December 31, 2016 of \$81,481.

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 | \$ 8,524,825 |
| Statement of fiduciary net position | |
| Cash and pooled investments | <u>421,126</u> |
| Total Cash and Investments | <u><u>\$ 8,945,951</u></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

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit at the close of the financial institution's banking day, not covered by insurance or bonds.

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk. The County's deposits in banks at December 31, 2016, were entirely covered by federal depository insurance and collateral in accordance with Minnesota statutes.

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;

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers' acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. The County does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

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. None of the County's investments at December 31, 2016 were rated.

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Custodial Credit Risk

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

Concentration of Credit Risk

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

The following table presents the County's deposit and investment balances at December 31, 2016, and information relating to potential investment risk:

| Investment Type | Concentration of Credit Risk Over 5 Percent of Portfolio | Interest Rate Risk Maturity Date | Carrying (Fair) Value |
|--|---|---|-----------------------------|
| Negotiable certificates of deposit | | | |
| Ally Bank UT US | <5% | 11/13/2018 | \$ 239,625 |
| Comenity Bank DE US | <5% | 04/15/2019 | 199,246 |
| Discover BK GREENW DE US | 5.13% | 07/22/2020 | 249,939 |
| Goldman Sachs | 5.01% | 10/14/2020 | 244,162 |
| Total negotiable certificates of deposit | | | \$ 932,972 |
| Investment pools | | | |
| MAGIC Fund | 79.19% | | 3,858,741 |
| Money market accounts with broker | <5% | | 81,030 |
| Total investments | | | \$ 4,872,743 |
| Deposits | | | 4,071,883 |
| Petty cash | | | 1,325 |
| Total Cash and Investments | | | \$ 8,945,951 |

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

The County measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy, as follows:

- *Level 1:* Quoted prices for identical investments in active markets;
- *Level 2:* Observable inputs other than quoted market prices; and,
- *Level 3:* Unobservable inputs.

At December 31, 2016, the County had the following recurring fair value measurements:

| | December 31, 2016 | Fair Value Measurements Using | | |
|---|----------------------|---|---|--|
| | | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Investments by fair value level | | | | |
| Negotiable certificates of deposit | \$ 932,972 | \$ - | \$ 932,972 | \$ - |
| Investments measured at the net asset value (NAV) | | | | |
| MAGIC Portfolio | \$ 2,858,741 | | | |
| MAGIC Term | 1,000,000 | | | |
| Money Market Mutual Funds | 81,030 | | | |
| Total investments measured at the NAV | \$ 3,939,771 | | | |

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

All Level 2 debt securities are valued using a matrix pricing technique based on the securities' relationship to benchmark quoted prices.

MAGIC is a local government investment pool which is quoted at a net asset value (NAV). The County invests in this pool for the purpose of the joint investment of the County's money with those of other counties to enhance the investment earnings accruing to each member. The MAGIC fund currently consists of the MAGIC Portfolio and the MAGIC Term Series.

MAGIC Portfolio is valued using amortized cost. Shares of the MAGIC Portfolio are available to be redeemed upon proper notice without restrictions under normal operating conditions.

There are no limits to the number of redemptions that can be made as long as the County has a sufficient number of shares to meet their redemption request. The Fund's Board of Trustees can suspend the right of withdrawal or postpone the date of payment if the Trustees determine that there is an emergency that makes the sale of a Portfolio's securities or determination of its net asset value not reasonably practical.

Shares of MAGIC Term Series are purchased to mature upon pre-determined maturity dates selected by the County at the time of purchase. Should the County need to redeem shares in a MAGIC Term Series prematurely they must provide notice at least 7 days prior to premature redemption date. The value of a premature redemption is equal to the original price for such share, plus dividends thereon, at the projected yield less such share's allocation of any losses incurred by the series, less a premature redemption penalty, if any.

The County invests in money market funds for the benefit of liquid investments that can be readily re-invested. Money market funds held by the County seek a constant net asset value (NAV) of \$1.00 per share.

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2016, for the County's governmental activities, net of the applicable allowances for uncollectible accounts, are as follows:

| | Total Receivables | Amounts Not Scheduled for Collection During the Subsequent Year |
|-------------------------------|----------------------|---|
| Governmental Activities | | |
| Taxes | \$ 101,307 | \$ - |
| Special assessments | 1,817,229 | 1,812,437 |
| Accounts | 69,861 | - |
| Accrued interest | 2,393 | - |
| Due from other governments | 2,071,161 | - |
| Total Governmental Activities | \$ 4,061,951 | \$ 1,812,437 |

3. Capital Assets

Capital asset activity for the year ended December 31, 2016, was as follows:

| | Beginning Balance | Increase | Decrease | Ending Balance |
|--------------------------------------|----------------------|--------------|--------------|-------------------|
| Capital assets not depreciated | | | | |
| Land | \$ 244,383 | \$ - | \$ - | \$ 244,383 |
| Right-of-way | 928,318 | 1 | - | 928,319 |
| Construction in progress | 2,230,345 | 1,361,583 | 2,963,951 | 627,977 |
| Total capital assets not depreciated | \$ 3,403,046 | \$ 1,361,584 | \$ 2,963,951 | \$ 1,800,679 |
| Capital assets depreciated | | | | |
| Buildings | \$ 9,435,940 | \$ - | \$ 13,251 | \$ 9,422,689 |
| Office furniture and equipment | 1,066,901 | - | 32,678 | 1,034,223 |
| Machinery and automotive | 3,394,800 | 314,862 | 162,767 | 3,546,895 |
| Infrastructure | 38,625,549 | 2,963,951 | - | 41,589,500 |
| Total capital assets depreciated | \$ 52,523,190 | \$ 3,278,813 | \$ 208,696 | \$ 55,593,307 |

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

| | <u>Beginning Balance</u> | <u>Increase</u> | <u>Decrease</u> | <u>Ending Balance</u> |
|---------------------------------------|------------------------------|---------------------|---------------------|---------------------------|
| Less: accumulated depreciation for | | | | |
| Buildings | \$ 3,304,344 | \$ 279,842 | \$ 13,251 | \$ 3,570,935 |
| Office furniture and equipment | 608,121 | 74,303 | 32,678 | 649,746 |
| Machinery and automotive | 2,527,574 | 197,752 | 150,833 | 2,574,493 |
| Infrastructure | <u>15,212,983</u> | <u>919,545</u> | <u>266,415</u> | <u>15,866,113</u> |
| Total accumulated depreciation | <u>\$ 21,653,022</u> | <u>\$ 1,471,442</u> | <u>\$ 463,177</u> | <u>\$ 22,661,287</u> |
| Total capital assets depreciated, net | <u>\$ 30,870,168</u> | <u>\$ 1,807,371</u> | <u>\$ (254,481)</u> | <u>\$ 32,932,020</u> |
| Governmental Activities | | | | |
| Capital Assets, Net | <u>\$ 34,273,214</u> | <u>\$ 3,168,955</u> | <u>\$ 2,709,470</u> | <u>\$ 34,732,699</u> |

The decrease in accumulated depreciation within infrastructure was due to a change in method of calculating depreciation. However, no depreciation expense adjustment was needed.

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

| | |
|--|---------------------|
| Governmental Activities | |
| General government | \$ 290,276 |
| Public safety | 74,331 |
| Highways and streets, including depreciation of infrastructure | 1,085,173 |
| Sanitation | 21,313 |
| Conservation of natural resources | <u>349</u> |
| Total Depreciation Expense | <u>\$ 1,471,442</u> |

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2016, is as follows:

Due To/From Other Funds

| <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Amount</u> | <u>Description</u> |
|-------------------------------------|--------------------------------------|-----------------|----------------------|
| General Fund | Road and Bridge Special Revenue Fund | \$ 92 | Charges for services |
| General Fund | Human Services Special Revenue Fund | 1,910 | Charges for services |
| Human Services Special Revenue Fund | Road and Bridge Special Revenue Fund | <u>1,943</u> | Charges for services |
| Total Due To/From Other Funds | | <u>\$ 3,945</u> | |

Interfund Transfers

There were no interfund transfers for the year ended December 31, 2016.

C. Liabilities

1. Payables

Payables at December 31, 2016, were as follows:

| | <u>Governmental Activities</u> |
|--------------------------|------------------------------------|
| Accounts | \$ 148,697 |
| Salaries | 72,864 |
| Contracts | 43,406 |
| Due to other governments | 78,753 |
| Interest | <u>83,449</u> |
| Total Payables | <u>\$ 427,169</u> |

2. Other Postemployment Benefits - Retirees

The County pays health insurance for employees who retire with at least 12 years of experience, who have reached the age of 55, but who are under the age of 65 and not eligible for Medicare. The County pays 50 percent of the cost of single coverage.

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

2. Other Postemployment Benefits - Retirees (Continued)

The County's contributions for the year ended December 31, 2016, were \$8,040. During 2016, two employees qualified for retired employee health insurance coverage.

3. Construction Commitments

The County has active construction projects as of December 31, 2016. The projects include the following:

| | Spent-to-Date | Remaining Commitment |
|-------------------------|---------------|-------------------------|
| Governmental Activities | | |
| General government | | |
| Courthouse improvement | \$ 318,516 | \$ 5,215 |
| Highways and Streets | | |
| Trail Reconstruction | 497,353 | 8,054 |
| Bridge Replacement | 74,369 | 3,914 |
| Human Services | | |
| Building Redesign | 35,510 | 261,090 |

4. Long-Term Debt

Bonds Payable

| Type of Indebtedness | Final Maturity | Installment Amounts | Interest Rate (%) | Original Issue Amount | Outstanding Balance December 31, 2016 |
|--|-------------------|--------------------------|-------------------------|-----------------------------|--|
| General obligation bonds 2011A Bonds | 2022 | \$110,000 - \$300,000 | 1.00 - 3.20 | \$ 2,480,000 | \$ 1,390,000 |
| Taxable general obligation capital improvement plan bonds 2011B Bonds | 2026 | \$2,000,000 | 5.50 | 2,000,000 | 2,000,000 |
| General obligation drainage bonds 2015A Bonds | 2036 | \$70,000 - \$125,000 | 0.00 - 4.00 | 1,855,000 | 1,855,000 |
| Total General Obligation Bonds | | | | \$ 6,335,000 | \$ 5,245,000 |

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

4. Long-Term Debt (Continued)

Loans Payable

In 2014, the County entered into a loan agreement with the Minnesota Pollution Control Agency for financing of the Minnesota Clean Water Partnership Project. These loans are secured by special assessments placed on the individual parcels requesting repair of a failing septic system. According to the agreement, the County can borrow as much as \$100,000. As of December 31, 2016, the total amount borrowed was \$29,501. Repayment is estimated to begin in 2017. A repayment schedule is currently not available. Loan payments are reported in the General Fund.

5. Debt Service Requirements

Debt service requirements at December 31, 2016, were as follows:

| Year Ending December 31 | General Obligation Bonds | | Taxable General Obligation Capital Improvement Plan Bonds | | General Obligation Special Assessment Bonds | |
|----------------------------|--------------------------|------------------|--|---------------------|--|-------------------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2017 | \$ 280,000 | \$ 33,468 | \$ - | \$ 110,000 | \$ 70,000 | \$ 53,100 |
| 2018 | 290,000 | 26,978 | - | 110,000 | 70,000 | 51,700 |
| 2019 | 295,000 | 19,589 | - | 110,000 | 75,000 | 50,250 |
| 2020 | 300,000 | 11,330 | - | 110,000 | 75,000 | 48,750 |
| 2021 | 110,000 | 5,330 | - | 110,000 | 75,000 | 47,250 |
| 2022 - 2026 | 115,000 | 1,840 | 2,000,000 | 495,000 | 420,000 | 210,076 |
| 2027 - 2031 | - | - | - | - | 490,000 | 148,300 |
| 2032 - 2036 | - | - | - | - | 580,000 | 59,050 |
| Total | <u>\$ 1,390,000</u> | <u>\$ 98,535</u> | <u>\$ 2,000,000</u> | <u>\$ 1,045,000</u> | <u>\$ 1,855,000</u> | <u>\$ 668,476</u> |

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

6. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2016, was as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|--|----------------------|-------------------|-------------------|---------------------|------------------------|
| General obligation bonds | \$ 1,665,000 | \$ - | \$ 275,000 | \$ 1,390,000 | \$ 280,000 |
| Taxable general obligation capital improvement plan bonds | 2,000,000 | - | - | 2,000,000 | - |
| General obligation special assessment bonds | 1,855,000 | - | - | 1,855,000 | 70,000 |
| Less: unamortized discount | (27,104) | - | (3,404) | (23,700) | - |
| Total general obligation bonds | \$ 5,492,896 | \$ - | \$ 271,596 | \$ 5,221,300 | \$ 350,000 |
| Compensated absences | 376,166 | 242,807 | 260,499 | 358,474 | 36,399 |
| Loans payable | 23,151 | 6,350 | - | 29,501 | - |
| Total Long-Term Liabilities | <u>\$ 5,892,213</u> | <u>\$ 249,157</u> | <u>\$ 532,095</u> | <u>\$ 5,609,275</u> | <u>\$ 386,399</u> |

For the governmental activities, bonded debt is paid by the Courthouse Improvement and County Ditch 29 Debt Service Funds. Compensated absences are generally paid by the General Fund, Human Services, or Road and Bridge Special Revenue Funds.

D. Deferred Inflows

Unavailable Revenue

Unavailable revenue consists of taxes and special assessments receivable, state and federal grants not collected soon enough after year-end to pay liabilities of the current period, money from state-aid highway allotments and other receivables not collected soon enough after year-end to pay liabilities of the current period. Unavailable revenue at December 31, 2016, is summarized by fund:

| | Taxes and Special Assessments | Grants | State-Aid Highway Allotments | Other | Total |
|--------------------------|-------------------------------------|--------|------------------------------------|-------|-----------|
| Major governmental funds | | | | | |
| General | \$ 54,210 | \$ - | \$ - | \$ - | \$ 54,210 |
| Special Revenue | | | | | |
| Road and Bridge | 9,547 | 55,443 | 1,445,770 | - | 1,510,760 |
| Human Services | 7,425 | 30,115 | - | 3,673 | 41,213 |

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

3. Detailed Notes on All Funds

D. Deferred Inflows

Unavailable Revenue (Continued)

| | Taxes and Special Assessments | Grants | State-Aid Highway Allotments | Other | Total |
|------------------------------|-------------------------------------|------------------|------------------------------------|-----------------|---------------------|
| County Ditch 29 Debt Service | 1,785,016 | - | - | - | 1,785,016 |
| Nonmajor governmental funds | | | | | |
| Solid Waste | 2,264 | - | - | - | 2,264 |
| Courthouse Improvement | | | | | |
| Debt Service | 1,685 | - | - | - | 1,685 |
| Total | \$ 1,860,147 | \$ 85,558 | \$ 1,445,770 | \$ 3,673 | \$ 3,395,148 |

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Pension Plans

1. Plan Description

All full-time and certain part-time employees of Grant County are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Plan and the Public Employees Police and Fire Plan, 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 Plan (accounted for in the General Employees Fund) has multiple benefit structures with members belonging to the Coordinated Plan, the Basic Plan, or the Minneapolis Employees Retirement Fund. Coordinated Plan members are covered by Social Security and Basic Plan and Minneapolis Employees Retirement Fund members are not. The Basic Plan was closed to new members in 1967. The Minneapolis Employees Retirement Fund was closed to new members during 1978 and merged into the General Employees Retirement Plan in 2015. All new members must participate in the Coordinated Plan, for which benefits vest after five years of credited service.

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Pension Plans

1. Plan Description (Continued)

Police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Plan (accounted for in the 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.

2. Benefits Provided

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

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

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 Plan Coordinated and Basic Plan members. Members hired prior to July 1, 1989, receive 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

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Pension Plans

2. Benefits Provided (Continued)

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. Only Method 2 is used for members hired after June 30, 1989. Minneapolis Employees Retirement Fund members have an annuity accrual rate of 2.0 percent of average salary for each of the first ten years of service and 2.5 percent for each remaining year. For Public Employees Police and Fire Plan members, the annuity accrual rate is 3.0 percent of average salary for each year of service.

For General Employees Retirement Plan 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 Plan members, normal retirement age is 55, and for members who were hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90. Disability benefits are available for vested members and are based on years of service and average high-five salary.

3. Contributions

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the state legislature. General Employees Retirement Plan Basic members, Coordinated members, and Minneapolis Employees Retirement Fund members were required to contribute 9.10 percent, 6.50 percent, and 9.75 percent, respectively, of their annual covered salary in 2016. Public Employees Police and Fire Plan members were required to contribute 10.80 percent of their annual covered salary in 2016.

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Pension Plans

3. Contributions (Continued)

In 2016, the County was required to contribute the following percentages of annual covered salary:

| | |
|---|--------|
| General Employees Retirement Plan | |
| Basic Plan members | 11.78% |
| Coordinated Plan members | 7.50 |
| Minneapolis Employees Retirement Fund members | 9.75 |
| Public Employees Police and Fire Plan | 16.20 |

The employee and employer contribution rates did not change from the previous year.

The County's contributions for the year ended December 31, 2016, to the pension plans were:

| | |
|---------------------------------------|------------|
| General Employees Retirement Plan | \$ 239,010 |
| Public Employees Police and Fire Plan | 83,446 |

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

4. Pension Costs

General Employees Retirement Fund

At December 31, 2016, the County reported a liability of \$4,173,425 for its proportionate share of the General Employees Retirement Plan's net pension liability. The net pension liability was measured as of June 30, 2016, 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, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the County's proportion was

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs

General Employees Retirement Fund (Continued)

0.0514 percent. It was 0.0507 percent measured as of June 30, 2015. The County recognized pension expense of \$581,712 for its proportionate share of the General Employees Retirement Plan's pension expense.

The County also recognized \$16,261 as revenue, which results in a reduction of the net pension liability, for its proportionate share of the State of Minnesota's contribution to the General Employees Retirement Plan, which qualifies as a special funding situation. Legislation requires the State of Minnesota to contribute \$6 million to the General Employees Retirement Plan each year, starting September 15, 2015, through September 15, 2031.

| | |
|--|--------------|
| County's proportionate share of the net pension liability | \$ 4,173,425 |
| State of Minnesota's proportionate share of the net pension liability associated with the County | 54,537 |
| Total | \$ 4,227,962 |

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

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------------|-------------------------------------|
| Differences between expected and actual economic experience | \$ - | \$ 337,810 |
| Changes in actuarial assumptions | 817,160 | - |
| Difference between projected and actual investment earnings | 789,559 | - |
| Changes in proportion | 27,208 | 79,857 |
| Contributions paid to PERA subsequent to the measurement date | 137,200 | - |
| Total | \$ 1,771,127 | \$ 417,667 |

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs

General Employees Retirement Fund (Continued)

The \$137,200 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, 2017. 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> |
|-----------------------------------|---------------------------------------|
| 2017 | \$ 327,140 |
| 2018 | 327,140 |
| 2019 | 411,227 |
| 2020 | 150,753 |

Public Employees Police and Fire Fund

At December 31, 2016, the County reported a liability of \$2,247,377 for its proportionate share of the Public Employees Police and Fire Plan's net pension liability. The net pension liability was measured as of June 30, 2016, 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, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the County's proportion was 0.056 percent. It was 0.055 percent measured as of June 30, 2015. The County recognized pension expense of \$398,509 for its proportionate share of the Public Employees Police and Fire Plan's pension expense.

The County also recognized \$5,040 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 Plan. Legislation requires the State of Minnesota to contribute \$9 million to the Police and Fire Plan each year, starting in fiscal year 2014, until the plan is 90 percent funded.

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs

Public Employees Police and Fire Fund (Continued)

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

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------------|-------------------------------------|
| Differences between expected and actual economic experience | \$ - | \$ 256,342 |
| Changes in actuarial assumptions | 1,236,830 | - |
| Difference between projected and actual investment earnings | 341,481 | - |
| Changes in proportion | 38,270 | - |
| Contributions paid to PERA subsequent to the measurement date | 49,109 | - |
| Total | \$ 1,665,690 | \$ 256,342 |

The \$49,109 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, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

| Year Ended December 31 | Pension Expense Amount |
|---------------------------|------------------------------|
| 2017 | \$ 293,313 |
| 2018 | 293,313 |
| 2019 | 293,313 |
| 2020 | 266,092 |
| 2021 | 214,208 |

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs (Continued)

Total Pension Expense

The total pension expense for all plans recognized by the County for the year ended December 31, 2016, was \$980,221.

5. Actuarial Assumptions

The total pension liability in the June 30, 2016, actuarial valuation was determined using the individual entry-age normal actuarial cost method and the following additional actuarial assumptions:

| | |
|------------------------------|-----------------------|
| Inflation | 2.50 percent per year |
| Active member payroll growth | 3.25 percent per year |
| Investment rate of return | 7.50 percent |

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants in the General Employees Retirement Plan were based on RP-2014 tables, while mortality rates for Public Employees Police and Fire Plan were based on RP-2000 tables for males or females, as appropriate, with slight adjustments. For the General Employees Retirement Plan and the Public Employees Police and Fire Plan, cost of living benefit increases for retirees are assumed to be 1.0 percent.

Actuarial assumptions used in the June 30, 2016, valuation were based on the results of actuarial experience studies. The experience study in the General Employees Retirement Plan was for the period 2008 through 2015. The experience study for the Public Employees Police and Fire Plan was for the period 2004 through 2009.

On August 16, 2016, an updated experience study was done for PERA's Public Employees Police and Fire Plan for the period 2011 through 2015, which would result in a larger pension liability. However, PERA will implement the changes in assumptions for its June 30, 2017, estimate of pension liability.

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Pension Plans

5. Actuarial Assumptions (Continued)

The long-term expected rate of return on pension plan investments is 7.5 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 |

6. Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent in 2016, a reduction of the 7.90 percent used in 2015. 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, the fiduciary net position of the General Employees Retirement Plan 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. In the Public Employees Police and Fire Plan, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members through June 30, 2056. Beginning in fiscal year ended June 30, 2057, when projected benefit payments exceed the Plan's projected fiduciary net position, benefit payments were discounted at the municipal bond rate of 2.85 percent based on an index of 20-year general obligation bonds with

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Pension Plans

6. Discount Rate (Continued)

an average AA credit rating at the measurement date. An equivalent single discount rate of 5.60 percent for the Public Employees Police and Fire Plan was determined that produced approximately the same present value of the projected benefits when applied to all years of projected benefits as the present value of projected benefits using 7.50 percent applied to all years of projected benefits through the point of asset depletion and 2.85 percent thereafter.

7. Changes in Actuarial Assumptions

The following changes in actuarial assumptions occurred in 2016:

General Employees Retirement Plan

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2035 and 2.50 percent per year thereafter, to 1.00 percent for all future years.
- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was also changed from 7.90 percent to 7.50 percent.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

Public Employees Police and Fire Plan

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2037 and 2.50 percent per year thereafter, to 1.00 percent for all future years.
- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was changed from 7.90 percent to 5.60 percent.

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Pension Plans

7. Changes in Actuarial Assumptions

Public Employees Police and Fire Plan (Continued)

- The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

8. 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:

| | Proportionate Share of the | | | |
|-------------|--------------------------------------|--------------------------|--|--------------------------|
| | General Employees Retirement Plan | | Public Employees Police and Fire Plan | |
| | Discount Rate | Net Pension Liability | Discount Rate | Net Pension Liability |
| 1% Decrease | 6.50% | \$ 5,927,500 | 4.60% | \$ 3,146,030 |
| Current | 7.50 | 4,173,425 | 5.60 | 2,247,377 |
| 1% Increase | 8.50 | 2,728,544 | 6.60 | 1,513,110 |

9. 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.

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

4. Employee Retirement Systems and Pension Plans (Continued)

B. Defined Contribution Plan

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

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

Total contributions by dollar amount and percentage of covered payroll made by Grant County during the year ended December 31, 2016, were:

| | Employee | Employer |
|-------------------------------|----------|----------|
| Contribution amount | \$ 3,378 | \$ 3,378 |
| Percentage of covered payroll | 5% | 5% |

C. Other Postemployment Benefits (OPEB)

Plan Description

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

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

C. Other Postemployment Benefits (OPEB) (Continued)

Funding Policy

The contribution requirements of the plan members and the County are established and may be amended by the Grant County Board of Commissioners. The required contribution is based on projected pay-as-you-go financing requirements. Retirees and their spouses contribute to the health care plan at the same rate as County employees. This results in the retirees receiving an implicit rate subsidy. At January 1, 2015, the most recent actuarial valuation date, there were 33 participants in the plan, including 2 retirees. The OPEB liability is liquidated through the General Fund and other funds that have personal services.

Annual OPEB Cost and Net OPEB Obligation

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

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

| | | |
|---|----|----------|
| ARC | \$ | 173,565 |
| Interest on net OPEB obligation | | 14,334 |
| Adjustment to ARC | | (20,320) |
| | | _____ |
| Annual OPEB cost (expense) | \$ | 167,579 |
| Contributions made | | (66,600) |
| | | _____ |
| Increase in net OPEB obligation | \$ | 100,979 |
| Net OPEB Obligation - Beginning of Year | | 358,340 |
| | | _____ |
| Net OPEB Obligation - End of Year | \$ | 459,319 |

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

C. Other Postemployment Benefits (OPEB)

Annual OPEB Cost and Net OPEB Obligation (Continued)

The County's annual OPEB cost; the percentage of annual OPEB cost contributed to the plan; and the net OPEB obligation for the years ended December 31, 2014, 2015, and 2016, were as follows:

| <u>Fiscal Year Ended</u> | <u>Annual OPEB Cost</u> | <u>Employer Contribution</u> | <u>Percentage of Annual OPEB Cost Contributed</u> | <u>Net OPEB Obligation</u> |
|------------------------------|-----------------------------|----------------------------------|---|--------------------------------|
| December 31, 2014 | \$ 153,262 | \$ 77,790 | 50.8% | \$ 261,621 |
| December 31, 2015 | 169,194 | 72,475 | 42.8 | 358,340 |
| December 31, 2016 | 167,579 | 66,600 | 39.7 | 459,319 |

Funded Status and Funding Progress

As of January 1, 2015, the most recent actuarial valuation date, the County had no assets to fund the plan. The actuarial accrued liability for benefits was \$1,272,286, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,272,286. The covered payroll (annual payroll of active employees covered by the plan) was \$4,137,927, and the ratio of the UAAL to the covered payroll was 30.8 percent.

Actuarial Methods and Assumptions

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

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

C. Other Postemployment Benefits (OPEB)

Actuarial Methods and Assumptions (Continued)

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

In the January 1, 2015, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4.0 percent investment rate of return (net of investment expenses), which is Grant County's implicit rate of return on the General Fund. The annual health care cost trend is 7.25 percent initially, reduced by decrements to an ultimate rate of 5.0 percent over 9 years. Both rates included a 2.5 percent inflation assumption. The UAAL is being amortized over 30 years on a closed basis. The remaining amortization period at December 31, 2016, was 25 years.

5. Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters for which the County carries commercial insurance. The County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Intergovernmental Trust (MCIT). The County is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. For employee group health insurance benefits, the County is a member of the Lakes Country Service Cooperative (Service Cooperative). For other risks, 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

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

5. Risk Management (Continued)

in the Workers' Compensation Reinsurance Association with coverage at \$500,000 per claim in 2015 and 2016. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

The Service Cooperative is a joint powers entity which sponsors a plan to provide group employee health benefits to its participating members. All members pool premiums and losses; however, a particular member may receive increases or decreases depending on a good or bad year of claims experience. Premiums are determined annually by the Service Cooperative and are based partially on the experience of the County and partially on the experience of the group. The Service Cooperative solicits proposals from carriers and negotiates the contracts.

6. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

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

The County is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the County Attorney, the resolution of these matters will not have a material adverse effect on the financial condition of the County.

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

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

B. Joint Ventures

Horizon Public Health

Grant, Pope, Stevens, and Traverse Counties entered into a joint powers agreement creating and operating the Mid-State Community Health Services, pursuant to Minn. Stat. § 471.59. During 1994, Stevens, Traverse, and Grant Counties formed a separate joint powers under the name of Stevens Traverse Grant Public Health Nursing Services (STGPH). Mid-State Community Health Services was renamed to Horizon Community Health Board when Douglas County was added as a member on January 1, 2011. Horizon Community Health Board and STGPH disbanded effective January 1, 2015, and a new joint powers agreement was entered into by Douglas, Grant, Pope, Stevens, and Traverse Counties to operate the fiscally independent Horizon Public Health entity.

Control is vested in Horizon's Board, which consists of 13 members comprised of 11 County Commissioners and 2 community representatives. Each member of the Board is appointed by the County Commissioners of the county they represent.

Financing is provided by state and federal grants, charges for services, miscellaneous revenue, and contributions from the five member counties. During 2016, Grant County contributed \$90,066 in funds to Horizon.

Complete financial statements for Horizon Public Health can be obtained from:

Horizon Public Health
809 Elm Street, Suite 1200
Alexandria, Minnesota 56308

Pomme de Terre River Association

The Pomme de Terre River Association Joint Powers Board was established August 11, 1981, by an agreement between Grant County and five other counties and their respective soil and water conservation districts. The agreement was made to develop and implement plans to protect property from damage of flooding; control erosion of land; protect streams and lakes from sedimentation and pollution; and maintain or improve the quality of water in the streams, lakes, and ground water lying within the boundaries of the watershed of the Pomme de Terre River. Administrative costs are apportioned equally to the soil and water conservation districts based on actual costs. An amended and restated Joint Powers Agreement was approved on March 19, 2013.

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Pomme de Terre River Association (Continued)

Control is vested in a Joint Powers Board, comprised of one representative of each County Board of Commissioners and one representative from each soil and water conservation district board of supervisors included within the agreement.

During 2016, Grant County contributed \$5,900 in funds to the Joint Powers Board.

Complete financial information can be obtained from:

Pomme de Terre River Association Joint Powers Board
900 Roberts Street, Suite 104
Alexandria, Minnesota 56308

PrimeWest Health

In December 1998, Grant County became a member of the PrimeWest Central County-Based Purchasing Initiative Joint Powers Board (since renamed PrimeWest Health) with Big Stone, Douglas, McLeod, Meeker, Pipestone, Pope, Renville, Stevens, and Traverse Counties, under the authority of Minn. Stat. § 471.59. Beltrami, Clearwater, and Hubbard Counties were later added to PrimeWest Health. Grant County, in partnership with these 12 counties, is organized to directly purchase health care services for County residents who are eligible for Medical Assistance and General Assistance Medical Care as authorized by Minn. Stat. § 256B.692. County-based purchasing is the local control alternative favored for improved coordination of services to prepaid Medical Assistance programs in complying with Minnesota Department of Health requirements as set forth in Minn. Stat. chs. 62D and 62N.

Control of PrimeWest Health is vested in a Joint Powers Board, composed of two Commissioners from each member county (one active and one alternate). Each member of the Joint Powers Board is appointed by the County Commissioners of the county he or she represents.

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

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

PrimeWest Health (Continued)

Douglas County acts as fiscal agent for PrimeWest Health and reports the cash transactions as an investment trust fund on its financial statements. Financing is provided by Medical Assistance and General Assistance Medical Care payments from the Minnesota Department of Human Services.

Complete financial information can be obtained from:

PrimeWest Health
3905 Dakota Street
Alexandria, Minnesota 56308

Central Minnesota Emergency Services Board

The Central Minnesota Regional Radio Board was established in 2007, under the authority conferred upon the member parties by Minn. Stat. §§ 471.59 and 403.39. As of June 1, 2011, the Central Minnesota Regional Radio Board changed its name to the Central Minnesota Emergency Services Board. Members include the City of St. Cloud and the Counties of Benton, Big Stone, Douglas, Grant, Kandiyohi, Meeker, Mille Lacs, Morrison, Otter Tail, Pope, Sherburne, Stearns, Stevens, Swift, Todd, Traverse, Wadena, Wilkin, and Wright.

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

The Central Minnesota Emergency Services Board is composed of one Commissioner of each county appointed by their respective County Board and one City Council member from the city appointed by its City Council, as provided in the Central Minnesota Emergency Services Board's by-laws.

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Central Minnesota Emergency Services Board (Continued)

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

The Central Minnesota Emergency Services Board has no long-term debt. Financing is provided by the appropriations from member parties and by state and federal grants. During 2016, Grant County did not contribute any funds to the Board.

Complete financial information can be obtained from:

Central Minnesota Emergency Services Board
City of St. Cloud
Office of the Mayor
City Hall
400 Second Street South
St. Cloud, Minnesota 56303

Region 4 South Adult Mental Health Consortium

Pope, Douglas, Grant, Stevens, and Traverse Counties entered into a joint powers agreement creating and operating Region 4 South Adult Mental Health Consortium, pursuant to Minn. Stat. § 471.59, to provide a system of care that will serve the needs of adults with serious and persistent mental illness for the mutual benefit of each of the joint participants.

Control of the Consortium is vested in a Governing Board, which consists of each participating county's Director of Social Services, Family Services, or Human Services, as the case may be. The Governing Board operates under the ultimate authority of the Executive Commissioner Board. The Executive Commissioner Board is composed of one Commissioner of each county appointed by their respective County Board.

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Region 4 South Adult Mental Health Consortium (Continued)

Any county may withdraw by providing notice to the chair of the Board 90 days prior to the date of the proposed withdrawal. Withdrawal does not act to discharge any liability incurred or chargeable to any county before the effective date of the withdrawal.

Dissolution of the Consortium shall occur by unanimous vote of the counties, or when the membership in the Consortium is reduced to less than two counties. Upon dissolution of the Consortium, the member counties shall share in the current liabilities and current financial assets, including real property, of the Consortium equally if no county has contributed during the term of the Consortium or based upon their percentage of contribution to the Consortium's budget during the period applicable to such liabilities and assets.

Financing is predominantly provided by state grants. Grant County, in a fiscal host capacity, reports the cash transactions of the Consortium as an agency fund on its financial statements.

Rainbow Rider Transit Board

Douglas, Grant, Pope, Stevens, and Traverse Counties entered into a joint powers agreement to establish the West Central Multi-County Joint Powers Transit Board effective December 1, 1994, and empowered under Minn. Stat. § 471.59. Effective January 13, 2000, the Board changed its name from West Central Multi-County Joint Powers Transit Board to Rainbow Rider Transit Board. The purpose of the Board is to provide coordinated service delivery and a funding source for public transportation. Grant County terminated its membership in Rainbow Rider on May 31, 1999. Grant County rejoined, and Todd County became a member county effective January 1, 2011 and 2012, respectively.

The Board consists of two members appointed by each member county from its County Board for terms of one year each. Rainbow Rider is a joint venture with no county having control over the Board. Each county has an ongoing responsibility to provide funding for the operating costs of the Board allocated in accordance with the actual expenses incurred by representatives of the respective counties on the Board.

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Rainbow Rider Transit Board (Continued)

The joint powers agreement remains in force until any single county notifies the other parties of its intentions to withdraw, at least 90 days before the termination takes effect. The remaining counties may agree to continue the agreement with the remaining counties as members.

Complete financial information can be obtained from:

Rainbow Rider
P. O. Box 136
Lowry, Minnesota 56349

C. Jointly-Governed Organizations

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

District IV Transportation Planning

Grant County and 13 other cities and counties entered into a joint powers agreement to establish the District IV Transportation Planning Joint Powers Board, effective December 11, 1996, and empowered under Minn. Stat. § 471.59. The purpose of the Board is to develop a multi-modal transportation plan for the geographical jurisdiction of the member cities and counties. The Board is composed of 14 members, with one member appointed by each member city and county.

Region Four - West Central Minnesota Homeland Security Emergency Management Organization

The Region Four - West Central Minnesota Homeland Security Emergency Management Organization was established to provide for regional coordination of planning, training, purchase of equipment, and allocating emergency services and staff in order to better respond to emergencies and natural or other disasters within the region. Control is vested in the Board, which is composed of representatives appointed by each Board of County Commissioners. Grant County's responsibility does not extend beyond making this appointment.

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations (Continued)

Lakeland Mental Health Center

Lakeland Mental Health Center was formed pursuant to Minn. Stat. ch. 317A, as a 501(c)(3) nonprofit corporation on February 10, 1961, and includes Becker, Clay, Douglas, Grant, Otter Tail, and Pope Counties. The purpose of Lakeland Mental Health Center is to promote healthy individuals, families, and communities by providing high quality accessible mental health services.

The management of Lakeland Mental Health Center is vested in a Board of Directors consisting of one Commissioner and one community-at-large representative from each member county, plus one human service director, or equivalent position, rotated between the member counties.

Services are provided to the member counties through purchase of service agreements. A member county may lose its membership, by action of the Board of Directors, if it fails to have a signed contract with Lakeland Mental Health Center. Grant County paid \$202,811 in 2016 for services purchased through Lakeland Mental Health Center.

Minnesota Criminal Justice Data Communications Network

The Minnesota Criminal Justice Data Communications Network Joint Powers Agreement exists to create access for the County Sheriff and County Attorney to systems and tools available from the State of Minnesota, Department of Public Safety, and the Bureau of Criminal Apprehension to carry out criminal justice. During the year, Grant County made no payments to the joint powers.

Minnesota Rural Counties Caucus

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

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

7. Component Unit Disclosures

A. Summary of Significant Accounting Policies

1. Reporting Entity

The Housing and Redevelopment Authority (HRA) of Grant County is a component unit of Grant County and is reported in a separate column in the County's financial statements to emphasize that the HRA is a legally separate entity from Grant County. The HRA operates as a public agency created by Grant County under the United States Housing Act of 1937, as amended. The primary purpose is to provide housing and redevelopment services to the County. The governing body consists of a five-member Board of Commissioners appointed by the Grant County Board of Commissioners to serve five-year terms. The financial statements included are as of and for the year ended December 31, 2016.

2. Basis of Accounting

The HRA is reported and accounted for using the full accrual basis of accounting. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

3. Rent Receivable

Rent is due at the first of the month for the current month. Rent which remains uncollected is accrued as a receivable. Management represents all rent receivables are collectible either through normal collection procedures or through revenue recapture through the State of Minnesota. Management has elected to record bad debts using the direct write-off method. Generally accepted accounting principles require that the allowance method be used to reflect bad debts. However, the effect of the use of the direct write-off method is not materially different from the results that would have been obtained had the allowance method been followed.

4. Capital Assets

Property and equipment are stated at historical cost or estimated historical cost and are depreciated using the straight-line method over their estimated useful lives:

| | |
|--------------|---------------|
| Buildings | 30 - 40 years |
| Improvements | 10 - 15 years |
| Equipment | 3 - 7 years |

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

7. Component Unit Disclosures

A. Summary of Significant Accounting Policies (Continued)

5. Capitalized Interest

In determining the cost of capital projects, the HRA capitalizes that portion of the interest cost which could have been avoided if the capital project had not been undertaken. No interest was capitalized for the year ended December 31, 2016.

6. Estimates

The preparation of financial statements in conformity with the 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.

B. Detailed Notes on All Funds

1. Deposits

Reconciliation of the HRA's total cash, as reported in the basic financial statements to deposits, cash on hand, and investments follows:

| | |
|-----------------------------------|------------|
| Cash and pooled investments | |
| Deposits | \$ 173,346 |
| Certificates of deposit | 427,051 |
| | <hr/> |
| Total cash and pooled investments | \$ 600,397 |
| Restricted cash | |
| Tenant security deposits | 24,419 |
| | <hr/> |
| Total Cash and Investments | \$ 624,816 |

In accordance with Minnesota statutes, the HRA maintains deposits at those depository banks authorized by the Board of Directors. Minnesota statutes require that all HRA deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds.

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

7. Component Unit Disclosures

B. Detailed Notes on All Funds

1. Deposits (Continued)

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

At December 31, 2016, the HRA’s deposits had a carrying amount of \$624,816 and a bank balance of \$658,491. Of the bank balance, \$300,906 was covered by federal depository insurance. Collateral of \$358,035 was required for the remaining funds, of which \$555,483 was covered by qualified collateral held in safekeeping. The HRA had sufficient collateral coverage on all cash accounts.

2. Investments

Minnesota statutes generally authorize the same types of investments for the HRA as for the County. See Note 3.A.1.b.

During the year ended December 31, 2016, the HRA had no investments that required disclosure regarding interest rate risk, credit risk, custodial credit risk, or concentration of credit risk.

3. Capital Assets

The HRA’s capital asset activity for the year ended December 31, 2016, follows:

| | Beginning Balance | Additions | Deletions | Ending Balance |
|--------------------------------------|----------------------|-----------|-----------|-------------------|
| Capital assets not depreciated | | | | |
| Land | \$ 163,546 | \$ 12,300 | \$ - | \$ 175,846 |
| Construction in progress | 3,094 | - | 3,094 | - |
| Total capital assets not depreciated | \$ 166,640 | \$ 12,300 | \$ 3,094 | \$ 175,846 |

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

7. Component Unit Disclosures

B. Detailed Notes on All Funds

3. Capital Assets (Continued)

| | Beginning Balance | Additions | Deletions | Ending Balance |
|--|----------------------|------------|-----------|-------------------|
| Capital assets depreciated | | | | |
| Buildings | \$ 5,333,445 | \$ 509,557 | \$ - | \$ 5,843,002 |
| Equipment, furniture, and fixtures | 315,685 | 39,207 | - | 354,892 |
| Total capital assets depreciated | \$ 5,649,130 | \$ 548,764 | \$ - | \$ 6,197,894 |
| Less: accumulated depreciation | 3,535,972 | 388,479 | - | 3,924,451 |
| Total capital assets depreciated, net | \$ 2,113,158 | \$ 160,285 | \$ - | \$ 2,273,443 |
| Total | \$ 2,279,798 | \$ 172,585 | \$ 3,094 | \$ 2,449,289 |

4. Long-Term Debt

Long-term liability activity for the year ended December 31, 2016, was as follows:

| Type of Indebtedness | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|-----------------------------------|----------------------|------------|------------|-------------------|------------------------|
| 2002 GMHF Loan | \$ 101,500 | \$ - | \$ - | \$ 101,500 | \$ - |
| MHFA Loan | - | 153,821 | - | 153,821 | - |
| 2009 Housing Development Bonds | 790,000 | - | 45,000 | 745,000 | 45,000 |
| Compensated absences | 11,995 | - | 1,053 | 10,942 | 7,193 |
| Total Long-Term Debt | \$ 903,495 | \$ 153,821 | \$ 46,053 | \$ 1,011,263 | \$ 52,193 |

Bonds and loans payable at December 31, 2016, consisted of the following issues:

| | Original Issue Amount | Final Maturity | Interest Rate (%) | Outstanding Balance December 31, 2016 |
|--------------------------------|--------------------------|-------------------|----------------------|--|
| 2002 GMHF Loan | \$ 101,500 | 2027 | - | \$ 101,500 |
| MHFA Loan | 153,821 | 2030 | - | 153,821 |
| 2009 Housing Development Bonds | 1,055,000 | 2029 | 1.25 - 4.50 | 745,000 |
| Total Long-Term Debt | \$ 1,310,321 | | | \$ 1,000,321 |

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

7. Component Unit Disclosures

B. Detailed Notes on All Funds

4. Long-Term Debt (Continued)

The 2002 GMHF Loan matures on April 2, 2027. The loan is noninterest-bearing, unsecured, and requires no periodic payments.

The 2016 MHFA Loan matures on March 12, 2030. The loan is noninterest-bearing, unsecured, and requires no periodic payments.

The 2009 Housing Development Bonds mature on December 1, 2029. The bonds bear an interest rate of 1.25 percent to 4.50 percent in semi-annual interest payments and annual principal payments. The bond is secured by all real and personal property as well as by all revenues of the housing project.

The annual minimum payment requirements for bonds and loans outstanding as of December 31, 2016, are as follows:

| <u>Year Ending December 31</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|------------------------------------|---------------------|-------------------|---------------------|
| 2017 | \$ 45,000 | \$ 33,420 | \$ 78,420 |
| 2018 | 50,000 | 31,620 | 81,620 |
| 2019 | 45,000 | 29,820 | 74,820 |
| 2020 | 50,000 | 27,820 | 77,820 |
| 2021 | 50,000 | 26,020 | 76,020 |
| 2022 - 2026 | 295,000 | 97,970 | 392,970 |
| 2027 - 2030 | 465,321 | 31,310 | 496,631 |
| Totals | <u>\$ 1,000,321</u> | <u>\$ 277,980</u> | <u>\$ 1,278,301</u> |

C. Defined Contribution Pension Plan

Plan Description

The Billings and Company, Inc. Trust for Certain Governmental Plans (Plan) is a defined contribution retirement plan covering essentially all employees of the various participating employers. Since the participating employers are all government units, the Plan is not subject to the provisions of the Employee Retirement Income Security Act of

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

7. Component Unit Disclosures

C. Defined Contribution Pension Plan

Plan Description (Continued)

1974, except for the contribution limitations of Section 415. The payroll for employees covered by the Plan for the year ended December 31, 2016, was \$137,011; the HRA's total payroll was \$137,011.

The Plan and Trust are qualified under Section 401(a) of the Internal Revenue Code, and their income is exempt from taxation under Section 501(a) of the Code.

The Plan is funded by employer contributions only. The rates of contributions are determined by the various adoption agreements of the participating employers.

Terminating or retiring participants are entitled to certain benefits including the full amount of their contributions to the Plan as well as earnings on their contributions.

In addition to the amount of their contribution, each participant is entitled to the portion of the employer's contributions in which he or she has a vested interest. Vesting provisions are determined in accordance with the participating employers' adoption agreement. If a participating employee should die prior to retirement, then the employee or their designated beneficiary shall be entitled to the full value of the participant's account. Benefits are payable in the form of lump sum cash settlements or purchased annuities, depending upon the election of the participant and the nature of their termination or retirement.

If the Plan is terminated or contributions under the Plan are discontinued, the participating employees are entitled to benefits accrued to the date of such termination or discontinuance to the extent funded and/or to the amounts credited to the employees' accounts.

Contributions Required and Contributions Made

Covered employees may elect to contribute a percentage of their gross earnings to the Plan. The HRA makes monthly contributions to the pension plan. Current contribution rates are as follows:

| | |
|----------|--------|
| Employee | - |
| Employer | 14.00% |

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

7. Component Unit Disclosures

C. Defined Contribution Pension Plan

Contributions Required and Contributions Made (Continued)

Total contributions made during the fiscal years ending December 31, 2016, 2015, and 2014, were \$19,122, \$18,427, and \$18,197, respectively.

D. Risk Management

The HRA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; business interruption; errors or omissions; job-related illnesses or injuries to employees; and natural disasters for which the HRA carries commercial insurance. The various insurance policies are subject to deductible amounts and maximum coverages. If the deductibles and maximum coverages are exceeded, this could cause the HRA to suffer losses if a loss is incurred from such incidents. The ultimate outcome of uninsured losses cannot presently be determined, and no provision for any liability that may result, if any, has been made in the financial statements. Settled claims to date have not exceeded coverage levels, and insurance coverage, by major categories of risk, is consistent with coverage in the prior year.

E. Contingencies

The HRA receives grant funds, principally from the U.S. Department of Housing and Urban Development (HUD) for the Vouchers Choice program, the Public Housing Operating Subsidy, and Capital Fund. Monies from HUD are received directly from the federal agency. Certain expenditures are subject to audit by HUD, and the HRA is contingently liable to refund amounts received in excess of allowable expenditures. In the opinion of the HRA, no material refunds will be required as a result of expenditures disallowed by HUD.

F. Special Item

On October 1, 2016, the HRA of Grant County acquired Ashby Apartments, the net of the assets and liabilities acquired is reported as a special item.

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REQUIRED SUPPLEMENTARY INFORMATION

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**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

EXHIBIT A-1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2016**

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget</u> |
|---------------------------------|-------------------------|---------------------|---------------------------|---------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues | | | | |
| Taxes | \$ 3,674,140 | \$ 3,674,140 | \$ 3,879,125 | \$ 204,985 |
| Licenses and permits | 90 | 90 | 10,961 | 10,871 |
| Intergovernmental | 391,010 | 391,010 | 624,740 | 233,730 |
| Charges for services | 252,768 | 252,768 | 514,722 | 261,954 |
| Fines and forfeits | - | - | 2,468 | 2,468 |
| Gifts and contributions | 10,000 | 10,000 | 27,276 | 17,276 |
| Investment earnings | 6,500 | 6,500 | 50,154 | 43,654 |
| Miscellaneous | 90,812 | 90,812 | 212,298 | 121,486 |
| Total Revenues | \$ 4,425,320 | \$ 4,425,320 | \$ 5,321,744 | \$ 896,424 |
| Expenditures | | | | |
| Current | | | | |
| General government | | | | |
| Commissioners | \$ 218,884 | \$ 218,884 | \$ 234,865 | \$ (15,981) |
| Retiree insurance | 11,700 | 11,700 | 47,841 | (36,141) |
| Law library | - | - | 8,675 | (8,675) |
| County auditor | 278,926 | 278,926 | 277,908 | 1,018 |
| County treasurer | 192,841 | 192,841 | 192,469 | 372 |
| Blue Cross/Blue Shield | - | - | 8,396 | (8,396) |
| Human resources | 76,487 | 76,487 | 61,624 | 14,863 |
| Public examiners | 65,000 | 65,000 | 60,127 | 4,873 |
| Elections | 23,000 | 23,000 | 45,240 | (22,240) |
| Accounting and auditing | 201,835 | 201,835 | 178,241 | 23,594 |
| County recorder | 212,675 | 212,675 | 218,214 | (5,539) |
| County assessor | 231,973 | 231,973 | 231,545 | 428 |
| County buildings | 262,963 | 262,963 | 450,786 | (187,823) |
| County fair | 16,540 | 16,540 | 16,540 | - |
| Veterans service officer | 71,669 | 71,669 | 73,457 | (1,788) |
| Coordinator | 138,602 | 138,602 | 137,847 | 755 |
| License bureau | 113,696 | 113,696 | 149,146 | (35,450) |
| Collections | - | - | 177,767 | (177,767) |
| Other general government | 179,300 | 179,300 | 327,756 | (148,456) |
| Total general government | \$ 2,296,091 | \$ 2,296,091 | \$ 2,898,444 | \$ (602,353) |
| Public safety | | | | |
| Sheriff | \$ 1,270,953 | \$ 1,270,953 | \$ 1,230,105 | \$ 40,848 |
| Coroner | 11,000 | 11,000 | 4,800 | 6,200 |
| Sheriff's contingent fund | - | - | 246 | (246) |
| Water enforcement | 4,000 | 4,000 | 2,561 | 1,439 |
| Corrections and jails | 128,500 | 128,500 | 145,445 | (16,945) |
| E-911 program | - | - | 87,535 | (87,535) |
| Emergency management program | 64,814 | 64,814 | 77,633 | (12,819) |
| Total public safety | \$ 1,479,267 | \$ 1,479,267 | \$ 1,548,325 | \$ (69,058) |

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

***EXHIBIT A-1
(Continued)***

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2016**

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget</u> |
|--|-------------------------|---------------------|---------------------------|---------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Expenditures | | | | |
| Current (Continued) | | | | |
| Health | | | | |
| Public health | \$ 106,666 | \$ 106,666 | \$ 103,025 | \$ 3,641 |
| Culture and recreation | | | | |
| Historical society | \$ 30,000 | \$ 30,000 | \$ 30,000 | \$ - |
| Viking library system | 67,154 | 67,154 | 67,154 | - |
| Total culture and recreation | \$ 97,154 | \$ 97,154 | \$ 97,154 | \$ - |
| Conservation of natural resources | | | | |
| County extension | \$ 65,767 | \$ 65,767 | \$ 61,386 | \$ 4,381 |
| Nutrition education | 70,732 | 70,732 | 69,670 | 1,062 |
| Soil and water conservation | 87,350 | 87,350 | 87,350 | - |
| Office of land management | 178,314 | 178,314 | 130,542 | 47,772 |
| Water plan | 2,979 | 2,979 | 57,342 | (54,363) |
| Total conservation of natural resources | \$ 405,142 | \$ 405,142 | \$ 406,290 | \$ (1,148) |
| Economic development | | | | |
| HRA | \$ 42,500 | \$ 42,500 | \$ 42,500 | \$ - |
| Total Expenditures | \$ 4,426,820 | \$ 4,426,820 | \$ 5,095,738 | \$ (668,918) |
| Excess of Revenues Over (Under) | | | | |
| Expenditures | \$ (1,500) | \$ (1,500) | \$ 226,006 | \$ 227,506 |
| Other Financing Sources (Uses) | | | | |
| Proceeds from loans issued | - | - | 6,350 | 6,350 |
| Net Change in Fund Balance | \$ (1,500) | \$ (1,500) | \$ 232,356 | \$ 233,856 |
| Fund Balance - January 1 | 2,357,085 | 2,357,085 | 2,357,085 | - |
| Fund Balance - December 31 | \$ 2,355,585 | \$ 2,355,585 | \$ 2,589,441 | \$ 233,856 |

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

EXHIBIT A-2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2016**

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget</u> |
|---|-------------------------|---------------------|---------------------------|---------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues | | | | |
| Taxes | \$ 1,257,159 | \$ 1,257,159 | \$ 1,265,040 | \$ 7,881 |
| Intergovernmental | 3,752,841 | 3,752,841 | 3,766,485 | 13,644 |
| Charges for services | 40,000 | 40,000 | 55,753 | 15,753 |
| Miscellaneous | 2,000 | 2,000 | 12,661 | 10,661 |
| Total Revenues | \$ 5,052,000 | \$ 5,052,000 | \$ 5,099,939 | \$ 47,939 |
| Expenditures | | | | |
| Current | | | | |
| Highways and streets | | | | |
| Administration | \$ 363,291 | \$ 363,291 | \$ 339,858 | \$ 23,433 |
| Engineering | 13,000 | 13,000 | 8,024 | 4,976 |
| Authorized work contribution | 2,528 | 2,528 | - | 2,528 |
| Construction | 2,228,289 | 2,228,289 | 1,615,898 | 612,391 |
| Maintenance | 1,043,743 | 1,043,743 | 895,390 | 148,353 |
| Shops | 1,260,627 | 1,260,627 | 231,411 | 1,029,216 |
| Equipment | 349,050 | 349,050 | 620,424 | (271,374) |
| Total highways and streets | \$ 5,260,528 | \$ 5,260,528 | \$ 3,711,005 | \$ 1,549,523 |
| Intergovernmental | | | | |
| Highways and streets | - | - | 246,662 | (246,662) |
| Total Expenditures | \$ 5,260,528 | \$ 5,260,528 | \$ 3,957,667 | \$ 1,302,861 |
| Net Change in Fund Balance | \$ (208,528) | \$ (208,528) | \$ 1,142,272 | \$ 1,350,800 |
| Fund Balance - January 1 | 767,571 | 767,571 | 767,571 | - |
| Increase (decrease) in inventories | - | - | (61,153) | (61,153) |
| Fund Balance - December 31 | \$ 559,043 | \$ 559,043 | \$ 1,848,690 | \$ 1,289,647 |

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

EXHIBIT A-3

**BUDGETARY COMPARISON SCHEDULE
HUMAN SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2016**

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget</u> |
|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|---------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues | | | | |
| Taxes | \$ 975,465 | \$ 975,465 | \$ 992,479 | \$ 17,014 |
| Intergovernmental | 1,230,025 | 1,230,025 | 1,457,852 | 227,827 |
| Charges for services | 432,387 | 432,387 | 436,858 | 4,471 |
| Miscellaneous | 102,750 | 102,750 | 180,897 | 78,147 |
| Total Revenues | <u>\$ 2,740,627</u> | <u>\$ 2,740,627</u> | <u>\$ 3,068,086</u> | <u>\$ 327,459</u> |
| Expenditures | | | | |
| Current | | | | |
| Human services | | | | |
| Income maintenance | \$ 905,742 | \$ 905,742 | \$ 885,348 | \$ 20,394 |
| Social services | 1,834,885 | 1,834,885 | 1,812,564 | 22,321 |
| Total Expenditures | <u>\$ 2,740,627</u> | <u>\$ 2,740,627</u> | <u>\$ 2,697,912</u> | <u>\$ 42,715</u> |
| Net Change in Fund Balance | \$ - | \$ - | \$ 370,174 | \$ 370,174 |
| Fund Balance - January 1 | <u>2,835,733</u> | <u>2,835,733</u> | <u>2,835,733</u> | <u>-</u> |
| Fund Balance - December 31 | <u><u>\$ 2,835,733</u></u> | <u><u>\$ 2,835,733</u></u> | <u><u>\$ 3,205,907</u></u> | <u><u>\$ 370,174</u></u> |

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

EXHIBIT A-4

**SCHEDULE OF FUNDING PROGRESS
OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2016**

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (b) | Unfunded Actuarial Accrued Liability (UAAL) (b - a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b - a)/c) |
|---|--|--|--|-----------------------------------|------------------------------------|--|
| January 1, 2012 | \$ - | \$ 1,223,986 | \$ 1,223,986 | 0.00% | \$ 3,032,227 | 40.37% |
| January 1, 2015 | - | 1,272,286 | 1,272,286 | 0.00 | 4,137,927 | 30.75 |

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

EXHIBIT A-5

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA GENERAL EMPLOYEES RETIREMENT PLAN
DECEMBER 31, 2016**

| Measurement Date | Employer's Proportion of the Net Pension Liability (Asset) | Employer's Proportionate Share of the Net Pension Liability (Asset) (a) | State's Proportionate Share of the Net Pension Liability Associated with Grant County (b) | Employer's Proportionate Share of the Net Pension Liability and the State's Related Share of the Net Pension Liability (Asset) (a + b) | Covered Payroll (c) | Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/c) | Plan Fiduciary Net Position as a Percentage of the Total Pension Liability |
|-------------------------|---|--|--|---|----------------------------|---|---|
| 2016 | 0.0514% | \$ 4,173,425 | \$ 54,537 | \$ 4,227,962 | \$ 3,034,606 | 137.53% | 68.91% |
| 2015 | 0.0507 | 2,627,537 | N/A | 2,627,537 | 2,810,449 | 93.49 | 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.
N/A - Not Applicable

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

EXHIBIT A-6

**SCHEDULE OF CONTRIBUTIONS
PERA GENERAL EMPLOYEES RETIREMENT PLAN
DECEMBER 31, 2016**

| 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) |
|------------------------|---|---|---|------------------------------------|--|
| 2016 | \$ 239,010 | \$ 239,010 | \$ - | \$ 3,186,794 | 7.50% |
| 2015 | 217,945 | 231,921 | 13,976 | 2,905,932 | 7.98 |

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.

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

EXHIBIT A-7

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA PUBLIC EMPLOYEES POLICE AND FIRE PLAN
DECEMBER 31, 2016**

| 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 |
|-------------------------|---|--|----------------------------|---|---|
| 2016 | 0.056% | \$ 2,247,377 | \$ 501,532 | 448.10% | 63.88% |
| 2015 | 0.055 | 624,929 | 490,276 | 127.46 | 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.

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

EXHIBIT A-8

**SCHEDULE OF CONTRIBUTIONS
PERA PUBLIC EMPLOYEES POLICE AND FIRE PLAN
DECEMBER 31, 2016**

| 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) |
|--------------------|---|---|---|----------------------------|--|
| 2016 | \$ 83,446 | \$ 83,446 | - | \$ 515,101 | 16.20% |
| 2015 | 81,683 | 85,392 | 3,709 | 504,214 | 16.94 |

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.

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2016**

1. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds, except the Ditch Special Revenue Fund, the Courthouse Improvement and the County Ditch 29 Debt Service Funds, and the Trust Payment Permanent Fund. A budget was not adopted for the Ditch Special Revenue Fund because it is based on taxing and special assessments which cannot be determined on an annual basis. All annual appropriations lapse at fiscal year-end unless specifically carried over to the next budget year by Board action.

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

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

2. Excess of Expenditures Over Appropriations

The following major fund had expenditures in excess of budget for the year ended December 31, 2016:

| | <u>Expenditures</u> | <u>Final Budget</u> | <u>Excess</u> |
|--------------|---------------------|---------------------|---------------|
| General Fund | \$ 5,095,738 | \$ 4,426,820 | \$ 668,918 |

3. Other Postemployment Benefits Funded Status

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

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

3. Other Postemployment Benefits Funded Status (Continued)

Currently, only two actuarial valuations are available. Future reports will provide additional trend analysis to meet the three most recent valuation funding status requirements as the information becomes available.

4. Defined Benefit Pension Plans - Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions

The following changes were reflected in the valuation performed on behalf of the Public Employees Retirement Association for the year ended June 30, 2016:

General Employees Retirement Plan

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2035 and 2.50 percent per year thereafter, to 1.00 percent for all future years.
- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was also changed from 7.90 percent to 7.50 percent.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

Public Employees Police and Fire Plan

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2037 and 2.50 percent per year thereafter, to 1.00 percent for all future years.
- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was changed from 7.90 percent to 5.60 percent.
- The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

SUPPLEMENTARY INFORMATION

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COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS

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**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

The Ditch Fund accounts for the financing and related costs of all County ditches.

The Solid Waste Fund accounts for the financing and costs related to the collection and disposal of solid waste and the County recycling activities.

DEBT SERVICE FUND

The Courthouse Improvement Fund accounts for the retirement of bonds issued for the Courthouse improvement.

PERMANENT FUND

The Trust Payment Fund accounts for resources legally restricted to the extent that only earnings and not principal from the Trust Payment Permanent Fund may be used for County purposes.

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**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

EXHIBIT B-1

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016**

| | <u>Special Revenue</u> | | <u>Courthouse Improvement Debt Service</u> | <u>Trust Payment Permanent</u> | <u>Total</u> |
|---|--------------------------|--------------------------|--|------------------------------------|----------------------------|
| | <u>Ditch</u> | <u>Solid Waste</u> | | | |
| <u>Assets</u> | | | | | |
| Cash and pooled investments | \$ 481,542 | \$ 291,055 | \$ 429,305 | \$ 118,205 | \$ 1,320,107 |
| Undistributed cash in agency funds | 1,090 | 1,758 | 12,537 | - | 15,385 |
| Taxes receivable - net | - | - | 4,979 | - | 4,979 |
| Special assessments receivable | | | | | |
| Delinquent | - | 4,792 | - | - | 4,792 |
| Accounts receivable - net | - | 6,899 | - | - | 6,899 |
| Accrued interest receivable | 41 | - | - | - | 41 |
| Total Assets | <u>\$ 482,673</u> | <u>\$ 304,504</u> | <u>\$ 446,821</u> | <u>\$ 118,205</u> | <u>\$ 1,352,203</u> |
| <u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u> | | | | | |
| Liabilities | | | | | |
| Accounts payable | \$ 3,029 | \$ 411 | \$ - | \$ - | \$ 3,440 |
| Salaries payable | - | 369 | - | - | 369 |
| Due to other governments | - | 11,702 | - | - | 11,702 |
| Total Liabilities | <u>\$ 3,029</u> | <u>\$ 12,482</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 15,511</u> |
| Deferred Inflows of Resources | | | | | |
| Unavailable revenues | \$ - | \$ 2,264 | \$ 1,685 | \$ - | \$ 3,949 |
| Fund Balances | | | | | |
| Nonspendable | | | | | |
| Trust principal | \$ - | \$ - | \$ - | \$ 118,205 | \$ 118,205 |
| Restricted | | | | | |
| Debt service | - | - | 445,136 | - | 445,136 |
| Ditch maintenance and construction | 479,644 | - | - | - | 479,644 |
| Assigned | | | | | |
| Sanitation | - | 289,758 | - | - | 289,758 |
| Total Fund Balances | <u>\$ 479,644</u> | <u>\$ 289,758</u> | <u>\$ 445,136</u> | <u>\$ 118,205</u> | <u>\$ 1,332,743</u> |
| Total Liabilities, Deferred Inflows of Resources, and Fund Balances | <u>\$ 482,673</u> | <u>\$ 304,504</u> | <u>\$ 446,821</u> | <u>\$ 118,205</u> | <u>\$ 1,352,203</u> |

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

EXHIBIT B-2

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016**

| | <u>Special Revenue</u> | | <u>Courthouse Improvement Debt Service</u> | <u>Trust Payment Permanent</u> | <u>Total</u> |
|-----------------------------------|------------------------|------------------------|--|------------------------------------|---------------------|
| | <u>Ditch</u> | <u>Solid Waste</u> | | | |
| Revenues | | | | | |
| Taxes | \$ - | \$ - | \$ 366,722 | \$ - | \$ 366,722 |
| Special assessments | 51,691 | 106,426 | - | - | 158,117 |
| Intergovernmental | - | 68,710 | 54,780 | - | 123,490 |
| Charges for services | - | 371,025 | - | - | 371,025 |
| Investment earnings | 678 | - | - | - | 678 |
| Total Revenues | \$ 52,369 | \$ 546,161 | \$ 421,502 | \$ - | \$ 1,020,032 |
| Expenditures | | | | | |
| Current | | | | | |
| Sanitation | \$ - | \$ 619,381 | \$ - | \$ - | \$ 619,381 |
| Conservation of natural resources | 412,885 | - | - | - | 412,885 |
| Debt service | | | | | |
| Principal | - | - | 275,000 | - | 275,000 |
| Interest | - | - | 115,933 | - | 115,933 |
| Total Expenditures | \$ 412,885 | \$ 619,381 | \$ 390,933 | \$ - | \$ 1,423,199 |
| Net Change in Fund Balance | \$ (360,516) | \$ (73,220) | \$ 30,569 | \$ - | \$ (403,167) |
| Fund Balance - January 1 | 840,160 | 362,978 | 414,567 | 118,205 | 1,735,910 |
| Fund Balance - December 31 | \$ 479,644 | \$ 289,758 | \$ 445,136 | \$ 118,205 | \$ 1,332,743 |

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

EXHIBIT B-3

**BUDGETARY COMPARISON SCHEDULE
SOLID WASTE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2016**

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget</u> |
|-----------------------------------|-------------------------|-------------------|---------------------------|---------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues | | | | |
| Special assessments | \$ 104,547 | \$ 104,547 | \$ 106,426 | \$ 1,879 |
| Intergovernmental | 67,729 | 67,729 | 68,710 | 981 |
| Charges for services | 377,905 | 377,905 | 371,025 | (6,880) |
| Total Revenues | \$ 550,181 | \$ 550,181 | \$ 546,161 | \$ (4,020) |
| Expenditures | | | | |
| Current | | | | |
| Sanitation | | | | |
| Waste collection | \$ 334,300 | \$ 334,300 | \$ 384,127 | \$ (49,827) |
| Recycling | 193,600 | 193,600 | 222,365 | (28,765) |
| Household hazardous waste | 10,000 | 10,000 | 12,889 | (2,889) |
| Total Expenditures | \$ 537,900 | \$ 537,900 | \$ 619,381 | \$ (81,481) |
| Net Change in Fund Balance | \$ 12,281 | \$ 12,281 | \$ (73,220) | \$ (85,501) |
| Fund Balance - January 1 | 362,978 | 362,978 | 362,978 | - |
| Fund Balance - December 31 | \$ 375,259 | \$ 375,259 | \$ 289,758 | \$ (85,501) |

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**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

AGENCY FUNDS

The School Fund accumulates the schools' share of light and power taxes and penalties, which are apportioned according to the average resident pupil attendance.

The State Revenue Fund accounts for the collection and payment of money due to the State of Minnesota.

The Taxes and Penalties Fund is used to account for collection of taxes and penalties and their payment to the various County funds and taxing districts.

The Towns and Cities Fund accounts for the collection and payment of funds due to towns and cities.

The Assertive Community Treatment Fund accounts for the collection and payment of money related to assertive community treatment services provided by the Region 4 South Adult Mental Health Consortium.

The Adult Mental Health Initiative Fund accounts for the collection and payment of money related to adult mental health initiative services provided by the Region 4 South Adult Mental Health Consortium.

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**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

EXHIBIT C-1

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016**

| | Balance January 1 | Additions | Deductions | Balance December 31 |
|--|------------------------------|------------------|-------------------|--------------------------------|
| <u>SCHOOL FUND</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ - | \$ 2,467,070 | \$ 2,467,070 | \$ - |
| <u>Liabilities</u> | | | | |
| Due to other governments | \$ - | \$ 2,467,070 | \$ 2,467,070 | \$ - |
| <u>STATE REVENUE FUND</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ - | \$ 24,110 | \$ 24,110 | \$ - |
| <u>Liabilities</u> | | | | |
| Due to other governments | \$ - | \$ 24,110 | \$ 24,110 | \$ - |
| <u>TAXES AND PENALTIES FUND</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ 121,837 | \$ 13,346,092 | \$ 13,264,763 | \$ 203,166 |
| <u>Liabilities</u> | | | | |
| Due to other governments | \$ 121,837 | \$ 13,346,092 | \$ 13,264,763 | \$ 203,166 |

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

***EXHIBIT C-1
(Continued)***

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016**

| | Balance January 1 | Additions | Deductions | Balance December 31 |
|--|------------------------------|---------------------|-------------------|--------------------------------|
| <u>TOWNS AND CITIES FUND</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ 25 | \$ 2,857,526 | \$ 2,857,551 | \$ - |
| <u>Liabilities</u> | | | | |
| Due to other governments | \$ 25 | \$ 2,857,526 | \$ 2,857,551 | \$ - |
| <u>ASSERTIVE COMMUNITY TREATMENT FUND</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ - | \$ 1,173,529 | \$ 955,569 | \$ 217,960 |
| Due from other governments | 7,817 | - | 7,817 | - |
| Total Assets | \$ 7,817 | \$ 1,173,529 | \$ 963,386 | \$ 217,960 |
| <u>Liabilities</u> | | | | |
| Due to other governments | \$ 7,817 | \$ 1,173,529 | \$ 963,386 | \$ 217,960 |

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

*EXHIBIT C-1
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016**

| | Balance January 1 | Additions | Deductions | Balance December 31 |
|---|------------------------------|----------------------|----------------------|--------------------------------|
| <u>ADULT MENTAL HEALTH INITIATIVE FUND</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ - | \$ 1,314,377 | \$ 1,314,377 | \$ - |
| Due from other governments | 156,190 | 130,256 | 156,190 | 130,256 |
| Total Assets | \$ 156,190 | \$ 1,444,633 | \$ 1,470,567 | \$ 130,256 |
| <u>Liabilities</u> | | | | |
| Due to other governments | \$ 156,190 | \$ 1,444,633 | \$ 1,470,567 | \$ 130,256 |
| <u>TOTAL ALL AGENCY FUNDS</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ 121,862 | \$ 21,182,704 | \$ 20,883,440 | \$ 421,126 |
| Due from other governments | 164,007 | 130,256 | 164,007 | 130,256 |
| Total Assets | \$ 285,869 | \$ 21,312,960 | \$ 21,047,447 | \$ 551,382 |
| <u>Liabilities</u> | | | | |
| Due to other governments | \$ 285,869 | \$ 21,312,960 | \$ 21,047,447 | \$ 551,382 |

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OTHER SCHEDULES

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

**BALANCE SHEET - BY DITCH
DITCH SPECIAL REVENUE FUND
DECEMBER 31, 2016**

| | <u>Cash</u> | <u>Undistributed Cash</u> |
|-------------------------|-------------------|-------------------------------|
| County Ditches | | |
| #1 | \$ 16,480 | \$ - |
| #3 | 23,310 | 800 |
| #5 | 1,967 | - |
| #6 | 4,535 | - |
| #8 | 70,643 | 65 |
| #9 | 37,293 | - |
| #11 | 8,994 | 60 |
| #13 | 2,126 | - |
| #15 | 9,360 | - |
| #21 | 29,277 | 2 |
| #22 | 1,005 | - |
| #23 | 7,988 | - |
| #29 | 159,494 | 140 |
| #30 | 6,405 | - |
| #31 | 3,373 | - |
| #32 | 9,536 | - |
| #33 | 1,449 | 23 |
| Consolidated | | |
| #2 | 33,364 | - |
| Judicial Ditches | | |
| #1 | 757 | - |
| #2 | 54,186 | - |
| Total | <u>\$ 481,542</u> | <u>\$ 1,090</u> |

EXHIBIT D-1

| Assets | | | Liabilities | | Fund | | Total |
|-------------------|-----------|-------------------|--------------------|--------------|-------------------|-----------|--------------------|
| Accrued | | | Accounts | | Balances - | | Liabilities |
| Interest | | Total | Payable | | Restricted | | and Fund |
| Receivable | | | | | | | Balances |
| \$ | 3 | \$ 16,483 | \$ | - | \$ 16,483 | \$ | 16,483 |
| | 4 | 24,114 | | - | 24,114 | | 24,114 |
| | - | 1,967 | | - | 1,967 | | 1,967 |
| | - | 4,535 | | - | 4,535 | | 4,535 |
| | 10 | 70,718 | | - | 70,718 | | 70,718 |
| | 7 | 37,300 | | - | 37,300 | | 37,300 |
| | - | 9,054 | | - | 9,054 | | 9,054 |
| | - | 2,126 | | - | 2,126 | | 2,126 |
| | 2 | 9,362 | | - | 9,362 | | 9,362 |
| | 5 | 29,284 | | - | 29,284 | | 29,284 |
| | - | 1,005 | | - | 1,005 | | 1,005 |
| | 2 | 7,990 | | - | 7,990 | | 7,990 |
| | - | 159,634 | | 3,029 | 156,605 | | 159,634 |
| | - | 6,405 | | - | 6,405 | | 6,405 |
| | - | 3,373 | | - | 3,373 | | 3,373 |
| | 2 | 9,538 | | - | 9,538 | | 9,538 |
| | - | 1,472 | | - | 1,472 | | 1,472 |
| | 6 | 33,370 | | - | 33,370 | | 33,370 |
| | - | 757 | | - | 757 | | 757 |
| | - | 54,186 | | - | 54,186 | | 54,186 |
| \$ | 41 | \$ 482,673 | \$ | 3,029 | \$ 479,644 | \$ | 482,673 |

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

EXHIBIT D-2

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2016**

Appropriations and Shared Revenue

State

| | | |
|------------------------------|----|-----------|
| Highway users tax | \$ | 2,646,598 |
| County program aid | | 119,571 |
| Market value credit | | 170,227 |
| PERA rate reimbursement | | 12,569 |
| Disparity reduction aid | | 6,128 |
| Aquatic invasive species aid | | 55,918 |
| Police aid | | 59,260 |
| | | 59,260 |

Total appropriations and shared revenue **\$ 3,070,271**

Reimbursement for services

| | | |
|--|----|---------|
| Minnesota Department of Human Services | \$ | 179,558 |
| | | 179,558 |

Payments

Local

| | | |
|--|----|---------|
| Payments in lieu of taxes | \$ | 49,387 |
| Local contributions | | 173,437 |
| Qualified energy conservation payments | | 34,708 |
| | | 34,708 |

Total payments **\$ 257,532**

Grants

State

| | | |
|---|----|---------|
| Minnesota Department/Board of | | |
| Corrections | \$ | 8,332 |
| Public Safety | | 76,072 |
| Natural Resources | | 37,031 |
| Human Services | | 474,382 |
| Historical Society | | 55,500 |
| Water and Soil Resources | | 51,070 |
| Peace Officers Standards and Training Board | | 2,814 |
| Pollution Control Agency | | 68,710 |
| | | 68,710 |

Total state **\$ 773,911**

Federal

| | | |
|---------------------------|----|---------|
| Department of | | |
| Agriculture | \$ | 77,776 |
| Transportation | | 912,296 |
| Health and Human Services | | 687,463 |
| Homeland Security | | 13,760 |
| | | 13,760 |

Total federal **\$ 1,691,295**

Total state and federal grants **\$ 2,465,206**

Total Intergovernmental Revenue **\$ 5,972,567**

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

EXHIBIT D-3

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2016**

| Federal Grantor Pass-Through Agency Grant Program Title | Federal CFDA Number | Pass-Through Grant Numbers | Expenditures |
|---|------------------------------------|---|---------------------|
| U.S. Department of Agriculture | | | |
| Passed Through Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program | 10.561 | 16162MN101S2514 | <u>\$ 77,776</u> |
| U.S. Department of Transportation | | | |
| Passed Through Minnesota Department of Transportation Highway Planning and Construction Cluster | | | |
| Highway Planning and Construction | 20.205 | Not provided | \$ 899,196 |
| Recreational Trails Program | 20.219 | Not provided | 13,100 |
| (Total expenditures for Highway Planning and Construction Cluster \$912,296) | | | <u>\$ 912,296</u> |
| Total U.S. Department of Transportation | | | |
| U.S. Department of Health and Human Services | | | |
| Passed Through Land of Dancing Sky Area Agency on Aging Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers | 93.044 | Not provided | \$ 26,179 |
| Passed Through Minnesota Department of Human Services | | | |
| Promoting Safe and Stable Families | 93.556 | G-1601MNFPS | 3,048 |
| Temporary Assistance for Needy Families | 93.558 | 1601MNTANF | 17,856 |
| Temporary Assistance for Needy Families | 93.558 | 1601MFTANF | 42,558 |
| (Total Temporary Assistance for Needy Families 93.558 \$60,414) | | | |
| Child Support Enforcement | 93.563 | 1604MNCEST | 152,268 |
| Child Support Enforcement | 93.563 | 1604MNCSES | 423 |
| (Total Child Support Enforcement 93.563 \$152,691) | | | |
| Refugee and Entrant Assistance - State Administered Programs | 93.566 | 1604MNRDMA | 100 |
| Child Care and Development Block Grant | 93.575 | G1601MNCDF | 1,752 |
| Community-Based Child Abuse Prevention Grants | 93.590 | G-1502MNFPG | 4,362 |
| Stephanie Tubbs Jones Child Welfare Services Program | 93.645 | G-1601MNCWSS | 1,519 |
| Foster Care - Title IV-E | 93.658 | 1601MNFOS | 59,523 |
| Social Services Block Grant | 93.667 | 16-01MNSOSR | 68,550 |
| Chafee Foster Care Independence Program | 93.674 | G-1601MNCILP | 979 |
| Medical Assistance Program | 93.778 | 05-1605MN5ADM | 311,692 |
| Medical Assistance Program | 93.778 | 05-1605MN5MAP | 2,935 |
| (Total Medical Assistance Program 93.778 \$314,627) | | | |
| Block Grants for Community Mental Health Services | 93.958 | SM010027-16 | <u>5,035</u> |
| Total U.S. Department of Health and Human Services | | | |
| \$ 698,779 | | | |
| U.S. Department of Homeland Security | | | |
| Passed Through Minnesota Department of Public Safety Emergency Management Performance Grants | 97.042 | A-EMPG-2016-GRANTCO-028 | <u>\$ 13,760</u> |
| Total Federal Awards | | | |
| <u>\$ 1,702,611</u> | | | |

Grant County did not pass any federal awards through to subrecipients in 2016.

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**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2016

1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by Grant County. The County's reporting entity is defined in Note 1 to the financial statements. The Schedule does not include \$398,824 in federal awards expended by the Housing and Redevelopment Authority of Grant County component unit, which had a separate audit performed by other auditors.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Grant County under programs of the federal government for the year ended December 31, 2016. 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 Grant County, it is not intended to and does not present the financial position or changes in net position of Grant County.

3. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Grant County has elected to not use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

4. Reconciliation to Schedule of Intergovernmental Revenue

| | |
|---|---------------------|
| Federal grant revenue per Schedule of Intergovernmental Revenue | \$ 1,691,295 |
| Grants received more than 60 days after year-end, unavailable in 2016 | |
| Promoting Safe and Stable Families | 254 |
| Temporary Assistance for Needy Families | 13,760 |
| Child Care and Development Block Grant | 121 |
| Community-Based Child Abuse Prevention Grants | 2,381 |
| Stephanie Tubbs Jones Child Welfare Services Program | 168 |
| Chafee Foster Care Independence Program | 979 |
| Grants unavailable in 2015, recognized as revenue in 2016 | |
| Child Support Enforcement | (4,800) |
| Medical Assistance Program | (1,547) |
| | <hr/> |
| Expenditures Per Schedule of Expenditures of Federal Awards | <u>\$ 1,702,611</u> |

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE 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
Grant County
Elbow Lake, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Grant County, Minnesota, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 25, 2017. Our report includes a reference to other auditors who audited the financial statements of the Housing and Redevelopment Authority of Grant County, the discretely presented component unit, as described in our report on the County's financial statements. This report does not include the results of the other auditor's 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 Grant County's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and,

therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness and other items that we consider to be significant deficiencies.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2006-003 to be a material weakness and items 1996-002, 2007-002, and 2012-001 to be significant deficiencies.

Compliance and Other Matters

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

Minnesota Legal Compliance

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

In connection with our audit, nothing came to our attention that caused us to believe that Grant 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.

Grant County's Response to Findings

Grant County's responses to the internal control findings identified in our audit are described in the Corrective Action Plan. The County's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of This Report

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 25, 2017

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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
Grant County
Elbow Lake, Minnesota

Report on Compliance for Each Major Federal Program

We have audited Grant County's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of the County's major federal programs for the year ended December 31, 2016. Grant County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Grant County's basic financial statements include the operations of the Housing and Redevelopment Authority (HRA) of Grant County component unit, which expended \$398,824 in federal awards during the year ended December 31, 2016, which are not included in the Schedule of Expenditures of Federal Awards. Our audit, described below, did not include the operations of the HRA of Grant County because it was audited by other auditors.

Management's Responsibility

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

Auditor's Responsibility

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

requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Grant County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, Grant County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2016.

Report on Internal Control Over Compliance

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

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

September 25, 2017

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**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Internal control over financial reporting:

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

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

Federal Awards

Internal control over major programs:

- Material weaknesses identified? **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 programs are:

| | |
|---|-----------------|
| 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.

Grant County qualified as a low-risk auditee? **No**

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding Number 1996-002

Departmental Internal Accounting Controls

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

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

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

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

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

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

View of Responsible Official: Acknowledged

Finding Number 2006-003

Audit Adjustments

Criteria: A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements of the financial statements on a timely basis. Auditing standards define a material weakness as a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Condition: During our audit, we identified a material adjustment that resulted in a significant change to the County's financial statements, which was reviewed and approved by the appropriate staff and is reflected in the financial statements.

Context: The inability to detect material misstatements in the financial statements increases the likelihood that the financial statements would not be fairly presented.

Effect: A material audit adjustment was necessary in the County Ditch 29 Debt Service Fund to increase special assessments receivable and unavailable revenue by \$3,570,032 to correct an entry to the general ledger that was entered backwards.

Cause: County staff informed us that this was an oversight.

Recommendation: We recommend that County staff is provided necessary training to ensure the County's annual financial statements are reported in accordance with generally accepted accounting principles.

View of Responsible Official: Concur

Finding Number 2007-002

Segregation of Duties - Payroll

Criteria: Management is responsible for establishing and maintaining internal control over various accounting cycles, including payroll. Adequate segregation of duties is a key internal control in an organization's accounting system. In the payroll system, changes to the payroll master file and payroll processing should be segregated. However, if that is not practical, changes to the payroll master file should be monitored by someone independent of payroll processing on a monthly basis.

Condition: During our review of the County's payroll function, we noted that the County Auditor's Office not only processes payroll, but also makes changes to the payroll master file for occurrences such as new hires, terminations, promotions, and pay increases. Generally, the processing of payroll and the changes to the payroll master file are done by one employee and/or the County Auditor. The County Auditor reviews the changes made to the payroll master file by the employee and himself for each payroll period.

Context: The lack of proper segregation of duties increases the risk of errors or irregularities that may not be detected timely.

Effect: Fictitious employees could be added to the payroll, or employees may be paid at rates other than their approved rates.

Cause: Due to the size of Grant County, staffing in the Auditor's Office is limited to the County Auditor and two employees. In addition, the County Auditor's responsibilities include several duties typically performed within a human resources department in larger organizations, making complete segregation of the payroll duties difficult.

Recommendation: Management should be aware that segregation of duties is not adequate from an internal control point of view. We recommend the County re-evaluate whether the County Auditor's Office should be making changes to the payroll master file. In addition, to strengthen internal controls, someone independent of the payroll processing function should review payroll edit reports to monitor that changes made to the payroll master file were properly authorized.

View of Responsible Official: Concur

Finding Number 2012-001

Documenting and Monitoring Internal Controls

Criteria: County management is responsible for the County's internal control over financial reporting. This responsibility requires performing an assessment of existing controls over significant functions used to produce financial information for the Board, management, and for external financial reporting. The risk assessment is intended to determine if the internal controls that have been established by County 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.

Condition: Grant County maintains narratives to document the controls in place over its significant transaction cycles. However, there is no formal risk assessment process in place to determine if the internal controls that have been established by County management are still effective or if changes are needed to maintain a sound internal control structure.

Context: Local governments tend to establish controls but sometimes fail to periodically review those controls to ensure they are appropriate for all of the changes that take place over time.

Effect: The internal control environment is constantly changing with changes in staffing, information systems, processes, and the services provided. Changes may have taken place that reduce or negate the effectiveness of internal controls, which may go unnoticed without a formal and timely risk assessment process in place.

Cause: The County has informed us that it lacks resources dedicated to establish a formal process for assessing risks, documenting the internal controls established to reduce those risks, and monitoring of those controls.

Recommendation: Grant County management should document the significant internal controls in its accounting system, including an assessment of risk and the processes used to minimize the risks. A formal plan should be developed that calls for monitoring the internal control structure on a regular basis, no less than annually. The monitoring activity should also be documented to show the results of the review, any changes required, and who performed the work.

View of Responsible Official: Acknowledge

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. PREVIOUSLY REPORTED ITEM RESOLVED

2012-002 Network/Application Password Controls

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**REPRESENTATION OF GRANT COUNTY
ELBOW LAKE, MINNESOTA**

**CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED DECEMBER 31, 2016**

Finding Number: 1996-002

Finding Title: Departmental Internal Accounting Controls

Name of Contact Person Responsible for Corrective Action:

Chad Van Santen, County Auditor

Corrective Action Planned:

Grant County will continue to monitor departmental internal accounting controls with the limited number of staff in certain offices. Management will work on drafting and implementing formal policies and procedures.

Anticipated Completion Date:

2017-2018

Finding Number: 2006-003

Finding Title: Audit Adjustments

Name of Contact Person Responsible for Corrective Action:

Chad Van Santen, County Auditor

Corrective Action Planned:

These types of transactions occur infrequently, management will perform additional review of these entries prior to being made in the county financial system.

Anticipated Completion Date:

2017

Finding Number: 2007-002

Finding Title: Segregation of Duties - Payroll

Name of Contact Person Responsible for Corrective Action:

Chad Van Santen, County Auditor

Corrective Action Planned:

Grant County has appointed a Human Resources Director that has assumed the H/R related functions that have been previously performed by the Auditor's Office and we are currently in the process of implementing additional H/R software that will allow the maintenance of the payroll master file by the H/R director.

Anticipated Completion Date:

2017

Finding Number: 2012-001

Finding Title: Documenting and Monitoring Internal Controls

Name of Contact Person Responsible for Corrective Action:

Chad Van Santen, County Auditor

Corrective Action Planned:

Grant County will attempt to establish a formal plan of monitoring internal controls, until such time management will continue to maintain narratives to document the controls in place.

Anticipated Completion Date:

2017-2018

**REPRESENTATION OF GRANT COUNTY
ELBOW LAKE, MINNESOTA**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2016**

Finding Number: 1996-002

Finding Title: Departmental Internal Accounting Controls

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

Summary of Corrective Action Previously Reported: Grant County will attempt to draft and adopt an accounting procedure policy in the future. Until such time that one is adopted, the management of Grant County is aware of the condition and will continue to monitor.

Status: Not Corrected. Grant County management is aware of the risks of the absence of an adopted procedure policy over departmental internal accounting controls and the limited number of staff in certain offices. Management will continue monitoring the condition and will continue to work on drafting formal policies and procedures.

Was corrective action taken significantly different than the action previously reported?
Yes _____ No X

Finding Number: 2006-003

Finding Title: Audit Adjustments

Summary of Condition: During the audit, a material adjustment was identified that resulted in a significant change to the County's financial statements, which was reviewed and approved by the appropriate staff and is reflected in the financial statements.

Summary of Corrective Action Previously Reported: Grant County staff is aware of the receivable audit adjustment and will review to ensure that receivables will be appropriately recorded in the financial system and included as part of the annual financial statements in the future.

Status: Not Corrected. Grant County management is aware of the audit adjustment that was incorrectly stated and will work on correcting the adjustment in 2017. This type of transaction occurs infrequently and the County will perform additional review of these entries prior to them being entered in the financial system.

Was corrective action taken significantly different than the action previously reported?
Yes _____ No X

Finding Number: 2007-002

Finding Title: Segregation of Duties - Payroll

Summary of Condition: The County Auditor's Office not only processes payroll but also makes changes to the payroll master file for occurrences such as new hires, terminations, promotions, and pay increases. Generally, the processing of payroll and the changes to the payroll master file are done by one employee and/or the County Auditor. The County Auditor reviews the changes made to the payroll master file by the employee and himself for each payroll period.

Summary of Corrective Action Previously Reported: Grant County has created and appointed a Human Resources position that has assumed the H/R related functions that have been previously performed by the Auditor's Office and will periodically review the payroll reports and changes. The Human Resources Director and Auditor's Office are in the process of reviewing additional H/R and payroll software for use in Grant County.

Status: Not Corrected. Grant County has purchased H/R software that will work in conjunction with the payroll software currently being used that will allow for the H/R director to access and change the employee master file. The process of implementing procedures for this to fully occur will be done in 2017/2018.

Was corrective action taken significantly different than the action previously reported?
Yes _____ No X

Finding Number: 2012-001

Finding Title: Documenting and Monitoring Internal Control

Summary of Condition: Grant County maintains narratives to document the controls in place over its significant transaction cycles. However, there is no formal risk assessment process in place to determine if the internal controls that have been established by County management are still effective or if changes are needed to maintain a sound internal control structure.

Summary of Corrective Action Previously Reported: Grant County will attempt to establish a formal plan of monitoring internal controls including a review process for changes needed to maintain the control structure.

Status: Not Corrected. Grant County management is aware of the need to establish a formal plan for monitoring internal controls and will work on development of such in the future. Until such time that a plan is formalized management will continue to maintain narratives to document the controls that currently in place.

Was corrective action taken significantly different than the action previously reported?
Yes _____ No X

Finding Number: 2012-002

Finding Title: Network/Application Password Controls

Summary of Condition: Grant County uses the Integrated Financial System - Platform Independent (IFS-PI) application software for its general ledger. This application was written as a web-based application and may be run on a server or a mainframe system. Grant County contracts with a vendor for use of space on a mainframe IBM I Series system. For an employee of Grant County to access the IFS-PI application, the user must be signed on to the County's network and have a current sign-on for the IFS-PI application. The sign-on differs from the sign-on for the IBM I Series system, so the mainframe security settings do not apply to the application. Grant County has not reviewed the network controls or assessed risks from the change to a web-based application to ensure password controls are working as intended.

Summary of Corrective Action Previously Reported: Grant County will work with the software vendor to establish necessary password controls and attempt to adopt a Network Password Policy addressing IFS application access.

Status: Fully Corrected. Corrective action was taken.

Was corrective action taken significantly different than the action previously reported?
Yes X No _____

The County implemented policies and procedures to reduce the risk of unauthorized access to the general ledger.