

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA

YEAR ENDED DECEMBER 31, 2015

Description of the Office of the State Auditor

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

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

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

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

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

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

Pension - monitors investment, financial, and actuarial reporting for approximately 700 public pension funds; and

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

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

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**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Year Ended December 31, 2015



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

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**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

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MAHNOMEN, MINNESOTA**

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**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

**ORGANIZATION SCHEDULE
DECEMBER 31, 2015**

Office	Name	Term Expires
Commissioners		
1st District	James Kochmann	January 2017
2nd District	Scott McCollum	January 2019
3rd District	Brad Athmann	January 2019
4th District	Karen Ahmann ¹	January 2017
5th District	David Geray ²	January 2017
Officials		
Elected		
Attorney	Darlene Spalla	January 2019
Auditor	Frank Thompson	January 2019
County Recorder	Susan Bendickson	January 2019
Registrar of Titles	Susan Bendickson	January 2019
Sheriff	Douglas Krier	January 2019
Treasurer	Brenda Lundon	January 2019
Appointed		
Assessor	Terrie Johnson	December 2016
Court Administrator	Camille Bessler	Indefinite
Highway Engineer	Jonathan Large	May 2017
Veterans Service Officer	John Nelson	Indefinite
Medical Examiner	Dr. Mary Ann Sens	Indefinite
Solid Waste Officer	Mark Diekman	Indefinite
Social Services Board		
Chair	David Geray	January 2017
Vice Chair	Brad Athmann	January 2019
Secretary	Theresa McCollum	July 2016
Member	Karen Ahmann	January 2017
Member	James Kochmann	January 2017
Member	Scott McCollum	January 2019
Member	Colleen Blattenbauer	July 2017
Director	Julie Hanson	Indefinite

¹Chair

²Vice Chair

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Mahnomen County
Mahnomen, 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 Mahnomen County, Minnesota, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Mahnomen Health Center, 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 Mahnomen Health Center, 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 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 Mahanomen County as of December 31, 2015, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter - Change in Accounting Principle

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

Other Matters

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Mahanomen County's basic financial statements. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information is the responsibility of

management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 2016, on our consideration of Mahnommen 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 Mahnommen County's internal control over financial reporting and compliance. It does not include the Mahnommen Health Center, 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

June 27, 2016

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

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

INTRODUCTION

Mahnomen County's Management's Discussion and Analysis (MD&A) provides an overview of the County's financial activities for the fiscal year ended December 31, 2015. Since this information is designed to focus on the current year and past year's activities, resulting changes, and known facts, it should be read in conjunction with Mahnomen County's financial statements and the notes to the financial statements.

FINANCIAL HIGHLIGHTS

- Governmental activities: total net position is \$34,850,895, of which Mahnomen County has a net investment in capital assets of \$31,010,729; \$2,583,198 is restricted to specific purposes/uses, and \$1,256,968 is classified as unrestricted by the County.
- The County's net position increased by \$2,270,649 for the year ended December 31, 2015, after restatement for Governmental Accounting Standards Board (GASB) Statements 68 and 71. Additional information about the restatement can be found in Note 1.E. to the financial statements.
- The net costs (expenses) of Mahnomen County's governmental activities for the year ended December 31, 2015, were \$5,093,261. General property tax revenues and other revenue sources funded those costs.
- Mahnomen County's total governmental funds' fund balances increased by \$992,161.

OVERVIEW OF THE FINANCIAL STATEMENTS

This MD&A is intended to serve 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.

Management’s Discussion and Analysis

(Required Supplementary Information)

Government-Wide Financial Statements

Fund Financial Statements

Notes to the Financial Statements

Required Supplementary Information

(Other than Management’s Discussion and Analysis)

Mahnomen County presents two government-wide financial statements. They are the Statement of Net Position and the Statement of Activities. These two government-wide financial statements provide information about the activities of the County as a whole and present a longer-term view of the County’s finances. Mahnomen County’s fund financial statements follow these two government-wide financial statements. For governmental activities, these statements tell how the 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 statements provide financial information about activities for which the County acts solely as a trustee or agent for the benefit of those outside of the government.

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

The Statement of Net Position and the Statement of Activities report information about Mahnomen County as a whole and about its activities in a way that helps the reader determine whether the 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 Mahnomen County’s current year revenues and expenses regardless of when the County receives the revenue or pays the expenditure. These two statements report Mahnomen County’s net position and changes in net position. You can think of the County’s net position as the difference between assets and liabilities. This is one way to measure the County’s financial health or financial position. Over time, increases or decreases in the County’s net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, such as changes in the County’s property tax base and the general economic conditions of the state and County, in order to assess the overall financial health of Mahnomen County.

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

- Governmental activities - Mahanomen 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, economic development, and interest. Mahanomen 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 - The County includes a separate legal entity in its report. This entity is the Mahanomen Health Center. Although legally separate, this component unit is important because the County is financially accountable for it.

Fund Financial Statements

Mahanomen County’s fund financial statements provide detailed information about the significant funds--not the County as a whole. 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

The County’s basic services are reported in governmental funds, which focus on how money flows in and out of those funds and the balances left at year-end that are available for spending. Mahanomen County reports these funds in its 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 County’s 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 financial resources are available that the County can spend in the near future to finance various programs within the County. Mahanomen County has described 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.

Reporting the County’s Fiduciary Responsibilities

Mahanomen County is the trustee, or fiduciary, over assets which can be used only for the trust beneficiaries, based on the trust arrangement. The County reports all of its fiduciary activities in a separate Statement of Fiduciary Net Position and Changes in Fiduciary Net Position. We exclude these activities from the County’s other financial statements because the County cannot use these assets to finance its operations. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

THE COUNTY AS A WHOLE

Mahnomen County's combined total net position, as reported for the year ended December 31, 2015, was \$34,850,895. The analysis below focuses on the net (position) assets (Table 1) and change in net (position) assets (Table 2) of the County's governmental activities.

**Table 1
Net Position**

	<u>2015</u>	<u>2014</u>
Assets		
Current and other assets	\$ 9,730,854	\$ 9,521,763
Capital assets	<u>31,068,410</u>	<u>28,649,625</u>
Total Assets	<u>\$ 40,799,264</u>	<u>\$ 38,171,388</u>
Deferred Outflows of Resources		
Deferred pension outflows	<u>\$ 566,245</u>	<u>\$ -</u>
Liabilities		
Long-term liabilities	\$ 4,948,451	\$ 1,807,304
Other liabilities	<u>1,160,733</u>	<u>754,628</u>
Total Liabilities	<u>\$ 6,109,184</u>	<u>\$ 2,561,932</u>
Deferred Inflows of Resources		
Deferred pension inflows	<u>\$ 405,430</u>	<u>\$ -</u>
Net Position		
Net investment in capital assets	\$ 31,010,729	\$ 28,572,441
Restricted	2,583,198	3,715,789
Unrestricted	<u>1,256,968</u>	<u>3,321,226</u>
Total Net Position, as reported	<u>\$ 34,850,895</u>	<u>\$ 35,609,456</u>
Change in accounting principle*		<u>(3,029,210)</u>
Total Net Position, as restated		<u>\$ 32,580,246</u>

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

Unrestricted net assets totaling \$1,256,968 are available to Mahnomen County to finance day-to-day operations.

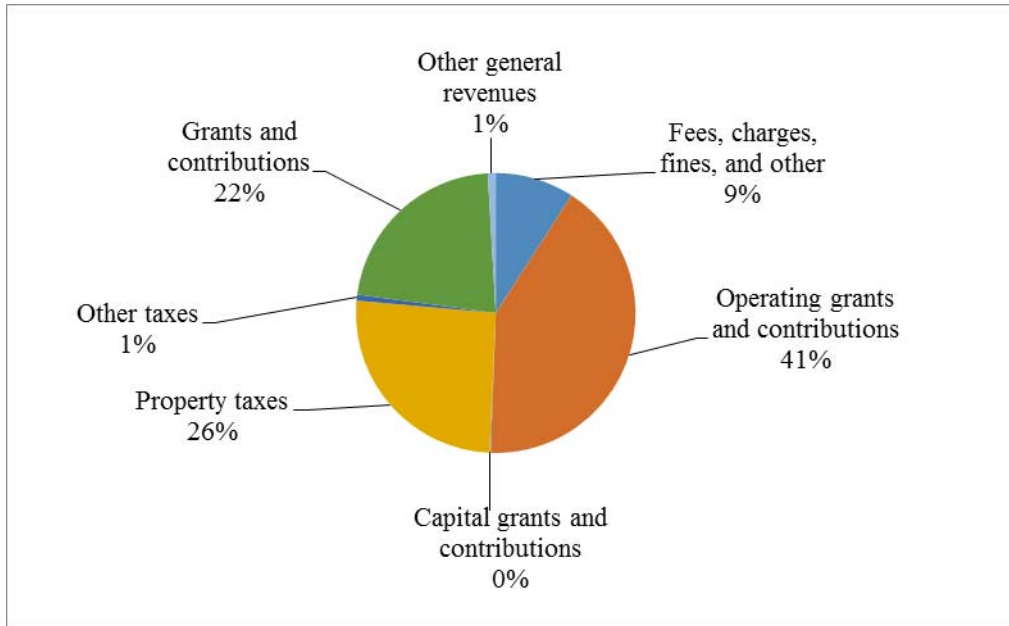
Table 2
Change in Net Position

	<u>2015</u>	<u>2014</u>
Revenues		
Program revenues		
Fees, charges, fines, and other	\$ 1,362,895	\$ 1,198,151
Operating grants and contributions	6,194,330	5,403,498
Capital grants and contributions	21,049	1,488,000
General revenues		
Property taxes	3,840,002	4,085,545
Other taxes	102,176	107,513
Grants and contributions	3,285,263	1,673,564
Other general revenues	<u>136,469</u>	<u>197,002</u>
 Total Revenues	 <u>\$ 14,942,184</u>	 <u>\$ 14,153,273</u>
Expenses		
Program expenses		
General government	\$ 3,030,038	\$ 2,175,870
Public safety	2,795,095	2,677,799
Highways and streets	2,768,050	2,550,771
Health	347,799	259,917
Human services	2,864,447	3,026,104
Sanitation	260,536	270,368
Culture and recreation	121,102	142,952
Conservation of natural resources	239,675	181,314
Economic development	243,731	279,869
Interest	<u>1,062</u>	<u>35,288</u>
 Total Expenses	 <u>\$ 12,671,535</u>	 <u>\$ 11,600,252</u>
 Change in net position	 <u>\$ 2,270,649</u>	 <u>\$ 2,553,021</u>
 Net Position - January 1, as restated	 <u>32,580,246*</u>	 <u>33,056,435</u>
 Net Position - December 31	 <u>\$ 34,850,895</u>	 <u>\$ 35,609,456</u>

*Amount includes a change in accounting principles

Mahnomen County's total revenues for the year ended December 31, 2015, were \$14,942,184. The total cost of County programs and services for the year ended December 31, 2015, was \$12,671,535. The net position for governmental activities increased by \$2,270,649. The following pie chart depicts those revenues in seven categories.

**Total County Revenues
(Percent of Total)**



Governmental Activities

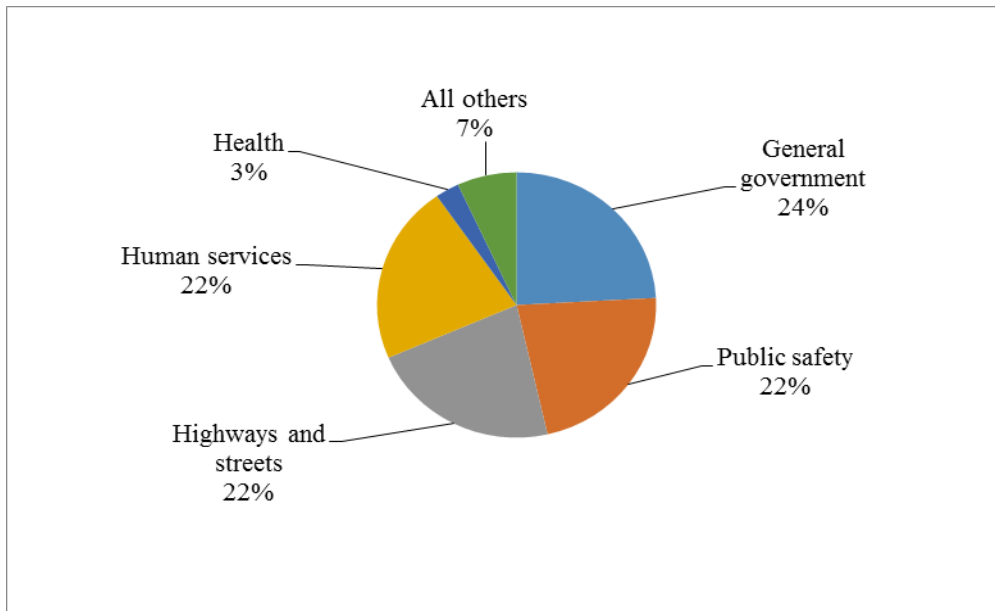
Mahnomen County's costs for all governmental activities for the year ended December 31, 2015, were \$12,671,535 as shown on the Statement of Activities. The net cost of services was ultimately funded through local property taxes and applicable offsetting revenues such as fees, fines, interest income, and grants.

Table 3 presents the cost of each of Mahnomen 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 the County's taxpayers by each of these functions.

**Table 3
Governmental Activities**

	2015	
	Total Cost of Services	Net Cost of Services
Program expenses		
General government	\$ 3,030,038	\$ 2,461,075
Public safety	2,795,095	2,447,560
Highways and streets	2,768,050	(331,445)
Health	347,799	(45,866)
Human services	2,864,447	1,057,005
All others	866,106	(495,608)
Totals	<u>\$ 12,671,535</u>	<u>\$ 5,093,261</u>

**Governmental Activities' Expenses
(Percent of Total)**



The County's Funds

As Mahanomen County completed the year, its governmental funds, as presented in the balance sheet, reported a combined fund balance of \$6,284,234, which is above last year's total combined fund balance of \$5,292,073. This increase of \$992,161 represents an 18.75 percent total increase. Included in this total fund balance is the County's General Fund balance of \$3,559,569. The General Fund's change in fund balance (an increase of \$218,750 from 2014) represented a 6.55 percent increase in the General Fund balance. The General Fund's increase was due to excess revenues over expenditures of \$431,649 offset by net other financing

sources/uses in the amount of \$(212,899). The Road and Bridge Special Revenue Fund balance increased by \$706,997, or 90.15 percent, and the Social Services Special Revenue Fund increased by \$143,805, or 48.18 percent.

General Fund Budgetary Highlights

The Mahnomen County Board of Commissioners, over the course of a budget year, may amend/revise the County’s General Fund budget; however, in 2015, the County Board of Commissioners did not make any budgetary amendments/revisions. If the County Board of Commissioners had made changes to the budget as originally adopted on Tuesday, December 15, 2015, 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 County’s General Fund, the actual revenues were under the budgeted revenues by \$573,924. The total actual expenditures in the County’s General Fund were under the budgeted expenditures by \$430,921. The actual General Fund balance increased by a total of \$218,750.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2015, Mahnomen County had \$31,068,410 invested in a broad range of capital assets including land, buildings, highways and streets, and equipment (see Table 4). This amount represents a net increase (including additions and deductions) of \$2,418,785, or 8.44 percent, more than last year.

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

	2015	2014
Land	\$ 534,639	\$ 534,639
Construction in progress	666,687	18,308
Land improvements	691,259	658,179
Buildings and improvements	675,347	724,371
Machinery, furniture, and equipment	1,407,089	1,551,794
Infrastructure	27,093,389	25,162,334
Totals	\$ 31,068,410	\$ 28,649,625

Mahnomen County’s fiscal year 2015 capital budget plans did not call for any other major expenditures outside of the normal equipment, vehicles, and road construction projects. More detailed information about the County’s capital assets can be found in Note 3.A.3. to the Mahnomen County financial statements.

Debt

As of December 31, 2015, Mahnomen County had \$440,000 in bonds outstanding, compared with \$675,000 as of December 31, 2014, a decrease of 34.81 percent as shown in Table 5.

Table 5
Outstanding Debt at Year-End

	<u>2015</u>	<u>2014</u>
Bonds payable - general obligation bonds	\$ -	\$ 100,000
Bonds payable - revenue bonds	<u>440,000</u>	<u>575,000</u>
Totals	<u>\$ 440,000</u>	<u>\$ 675,000</u>

It is imperative to point out that Table 5 illustrates the County's amount due on bonded debt. The City of Mahnomen has 22 percent ownership of the Mahnomen Health Center and is responsible for its portion of the bond payments for the general obligation bonds. That amount is included in the totals.

Mahnomen County's general obligation bonds were non-rated. The last scheduled payment on these bonds was in 2015. The state limits the amount of net debt that the counties can issue to three percent (Minn. Stat. § 475.53) of the market value of all taxable property in the County. Mahnomen County's outstanding 2015 net debt is below this \$20,017,068 state-imposed limit.

Other obligations may include capital leases, compensated absences, and other postemployment benefits. Mahnomen 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 2015 budget, tax rates, and fees that will be charged for governmental activities.

- The State of Minnesota is addressing its budget surplus issues. This may have a significant impact on future Mahnomen County budgets. Major revenue sources for the County are state-paid aids, credits, and grants. Should the State of Minnesota increase revenues, it may have a significant impact on next year's budget.
- Mahnomen County's average net tax capacity rates have remained relatively consistent. The County also has a good seasonal, residential, commercial/industrial, and agricultural base. Keeping this tax base vital and healthy is very important to the County's overall financial health and condition.

- Mahnomen County's annual unemployment rate for 2015 averaged 5.38 percent. The County's unemployment rate for 2014 averaged 5.61 percent according to the Minnesota Department of Employment and Economic Development.
- The Minnesota state demographer's census data has estimated Mahnomen County's 2015 population at 5,456 residents, which is a decrease of 0.0085 percent from the estimated 2014 population estimate of 5,503.
- The 2016 net property tax levies are established as of the time of this printing and remained the same from 2015.
- Planning and financing for facility space needs and the possibility of a new jail/law enforcement center project are continuing to be monitored by the County Board.
- Union contracts and employment-related issues have been established for the 2016 budget.
- Reviewing revenue sources and considering cost-effective and efficient means for the delivery of Mahnomen County programs and services will influence the development of future budgets.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

Mahnomen County's financial report provides citizens, taxpayers, customers, investors, and creditors with a general overview of the County's finances, and it 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 Frank Thompson, Mahnomen County Auditor, (218-935-5669) at 311 North Main Street, P. O. Box 379, Mahnomen, Minnesota 56557.

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT 1

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

	<u>Primary Government Governmental Activities</u>	<u>Mahnomen Health Center Component Unit</u>
<u>Assets</u>		
Current assets		
Cash and pooled investments	\$ 6,566,215	\$ 420,908
Departmental cash	37,573	-
Taxes receivable - delinquent	115,233	-
Special assessments receivable		
Delinquent	29,895	-
Noncurrent	40,500	-
Accounts receivable - net	59,516	1,302,899
Accrued interest receivable	11,486	-
Due from other governments	2,327,169	-
Inventories	118,488	124,839
Prepaid items	-	81,491
Noncurrent assets		
Advance to other governments	300,000	-
Other long-term investments	-	400,000
Contract for deed	124,779	-
Investment in joint venture	-	262,472
Held by trustee for debt service	-	160,100
Capital assets		
Non-depreciable	1,201,326	44,229
Depreciable - net of accumulated depreciation	29,867,084	4,053,368
	\$ 40,799,264	\$ 6,850,306
Total Assets		
	\$ 40,799,264	\$ 6,850,306
<u>Deferred Outflows of Resources</u>		
Deferred pension outflows	\$ 566,245	\$ 306,127

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

**EXHIBIT 1
(Continued)**

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

	Primary Government Governmental Activities	Mahnomen Health Center Component Unit
<u>Liabilities</u>		
Accounts payable	\$ 683,203	\$ 925,156
Salaries payable	204,465	71,844
Compensated absences/vacation/sick payable - current	-	150,739
Contracts payable	111,799	-
Due to other governments	152,146	-
Accrued interest payable	9,120	8,433
Residents' personal funds	-	29,501
Gross revenue bonds - current	-	160,740
Capital leases payable - current	-	95,764
Long-term liabilities		
Long-term debt payable - noncurrent	-	710,234
Due within one year	258,745	-
Due in more than one year	398,843	-
Other postemployment benefits	1,004,434	-
Net pension liability	3,286,429	2,497,975
	\$ 6,109,184	\$ 4,650,386
<u>Deferred Inflows of Resources</u>		
Deferred pension inflows	\$ 405,430	\$ 724,212
<u>Net Position</u>		
Net investment in capital assets	\$ 31,010,729	\$ 3,130,859
Restricted for		
General government	130,249	-
Public safety	125,517	-
Highways and streets	1,665,961	-
Social services	49,011	-
Sanitation	46,143	-
Culture and recreation	99,425	-
Conservation of natural resources	466,392	-
Held in trust for other purposes	500	-
Unrestricted	1,256,968	(1,349,024)
	\$ 34,850,895	\$ 1,781,835

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

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

<u>Functions/Programs</u>	Expenses	Fees, Charges, Fines, and Other
Primary government		
Governmental activities		
General government	\$ 3,030,038	\$ 432,858
Public safety	2,795,095	86,107
Highways and streets	2,768,050	66,078
Sanitation	260,536	204,444
Human services	2,864,447	200,842
Health	347,799	246,879
Culture and recreation	121,102	-
Conservation of natural resources	239,675	105,801
Economic development	243,731	19,886
Interest	1,062	-
Total Primary Government	\$ 12,671,535	\$ 1,362,895
Component unit		
Mahnomen Health Center	\$ 9,290,228	\$ 8,087,333

General Revenues

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

Total general revenues

Change in net position

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

Net Position - Ending

EXHIBIT 2

Program Revenues		Net (Expense) Revenue and Changes in Net Position	
Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Governmental Activities	Mahnomen Health Center Component Unit
\$ 136,105	\$ -	\$ (2,461,075)	
261,428	-	(2,447,560)	
3,012,368	21,049	331,445	
92,370	-	36,278	
1,606,600	-	(1,057,005)	
146,786	-	45,866	
150,474	-	29,372	
537,036	-	403,162	
251,163	-	27,318	
-	-	(1,062)	
\$ 6,194,330	\$ 21,049	\$ (5,093,261)	
\$ 53,671	\$ 74,947		\$ (1,074,277)
		\$ 3,840,002	\$ -
		-	55,506
		2,391	-
		3,285,263	421,945
		99,785	-
		70,136	5,136
		66,333	-
		\$ 7,363,910	\$ 482,587
		\$ 2,270,649	\$ (591,690)
		32,580,246	2,373,525
		\$ 34,850,895	\$ 1,781,835

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

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**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT 3

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

	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>	<u>Other Governmental Funds</u>	<u>Total</u>
<u>Assets</u>					
Current assets					
Cash and pooled investments	\$ 3,969,390	\$ 1,304,965	\$ 341,211	\$ 856,188	\$ 6,471,754
Petty cash and change funds	1,700	-	-	-	1,700
Undistributed cash in agency funds - taxes and other	64,437	11,854	11,623	4,847	92,761
Departmental cash	37,573	-	-	-	37,573
Taxes receivable - delinquent	80,471	15,698	17,685	1,379	115,233
Special assessments					
Delinquent	-	258	-	29,637	29,895
Noncurrent	-	-	-	40,500	40,500
Accounts receivable	45,637	-	13,879	-	59,516
Accrued interest receivable	11,470	-	-	16	11,486
Due from other funds	40,337	4,875	12,036	-	57,248
Due from other governments	470,802	1,570,801	254,808	4,052	2,300,463
Inventories	-	118,488	-	-	118,488
Noncurrent assets					
Contract for deed	124,779	-	-	-	124,779
Long-term receivables	-	-	-	26,706	26,706
Total Assets	<u>\$ 4,846,596</u>	<u>\$ 3,026,939</u>	<u>\$ 651,242</u>	<u>\$ 963,325</u>	<u>\$ 9,488,102</u>
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>					
Liabilities					
Accounts payable	\$ 513,387	\$ 46,253	\$ 94,330	\$ 29,233	\$ 683,203
Salaries payable	121,487	23,241	57,724	2,013	204,465
Contracts payable	111,799	-	-	-	111,799
Due to other funds	13,331	660	17,262	40,681	71,934
Due to other governments	81,494	175	24,584	31,207	137,460
Total Liabilities	<u>\$ 841,498</u>	<u>\$ 70,329</u>	<u>\$ 193,900</u>	<u>\$ 103,134</u>	<u>\$ 1,208,861</u>
Deferred Inflows of Resources					
Unavailable revenue	<u>\$ 445,529</u>	<u>\$ 1,465,391</u>	<u>\$ 15,054</u>	<u>\$ 69,033</u>	<u>\$ 1,995,007</u>

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

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**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

**EXHIBIT 3
(Continued)**

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

	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>	<u>Other Governmental Funds</u>	<u>Total</u>
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>					
(Continued)					
Fund Balances					
Nonspendable					
Inventories	\$ -	\$ 118,488	\$ -	\$ -	\$ 118,488
Contract for deed	124,779	-	-	-	124,779
Restricted for					
Debt service	-	-	-	147,159	147,159
Recorder's technology equipment	54,948	-	-	-	54,948
E-911	88,575	25,097	-	-	113,672
Recorder's compliance	75,301	-	-	-	75,301
Child protection grant	-	-	49,011	-	49,011
Boat and water safety	1,070	-	-	-	1,070
Extension youth grant	395	-	-	-	395
Handgun permits	10,397	-	-	-	10,397
SCORE	-	-	-	46,143	46,143
Highway projects	-	194,106	-	-	194,106
Gravel pit restoration	-	19,770	-	-	19,770
Ditch maintenance and construction	-	-	-	290,894	290,894
DARE	378	-	-	-	378
Missing heirs	500	-	-	-	500
Timber development	175,103	-	-	-	175,103
Parks and recreation	99,425	-	-	-	99,425
Committed to					
Sheriff's contingencies	5,000	-	-	-	5,000
Assigned to					
General government	-	-	-	44,560	44,560
Highways and streets	-	1,133,758	-	-	1,133,758
Social services	-	-	393,277	-	393,277
Solid waste	-	-	-	151,110	151,110
Drug eradication	1,475	-	-	-	1,475
County development	2,692	-	-	-	2,692
Extension programming funds	139	-	-	-	139
Hospital reserve	-	-	-	111,292	111,292
Unassigned	2,919,392	-	-	-	2,919,392
Total Fund Balances	\$ 3,559,569	\$ 1,491,219	\$ 442,288	\$ 791,158	\$ 6,284,234
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 4,846,596	\$ 3,026,939	\$ 651,242	\$ 963,325	\$ 9,488,102

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

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT 4

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

Fund balances - total governmental funds (Exhibit 3) \$ 6,284,234

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. 31,068,410

Advances to other governments result in long-term assets not available to pay for current period expenditures. Therefore, advances made are not reported in the funds as assets but rather as expenditures. Collections on the advance are reported as intergovernmental revenue.

Advance to Mahnomen Health Center	\$ 423,441	
Repayments on advance	(123,441)	300,000

Deferred outflows of resources resulting from pension obligations are not available resources and, therefore, are not reported in governmental funds 566,245

Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds. 1,995,007

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.

Revenue bonds	\$ (440,000)	
Capital leases	(57,680)	
Accrued interest payable	(9,120)	
Compensated absences	(159,908)	
Net OPEB liability	(1,004,434)	
Net pension liability	(3,286,429)	(4,957,571)

Deferred inflows resulting from pension obligations are not due and payable in the current period and, therefore, are not reported in the governmental funds. (405,430)

Net Position of Governmental Activities (Exhibit 1) \$ 34,850,895

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT 5

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

	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Revenues					
Taxes	\$ 2,750,417	\$ 548,558	\$ 537,452	\$ 1,082	\$ 3,837,509
Special assessments	-	78	-	243,748	243,826
Licenses and permits	3,629	-	-	-	3,629
Intergovernmental	4,210,227	4,666,921	1,968,690	239,313	11,085,151
Charges for services	226,481	60,827	124,567	7,277	419,152
Fines and forfeits	6,486	-	-	-	6,486
Gifts and contributions	19,126	-	2,420	-	21,546
Investment earnings	67,789	-	-	188	67,977
Miscellaneous	326,526	5,720	76,275	58,575	467,096
Total Revenues	\$ 7,610,681	\$ 5,282,104	\$ 2,709,404	\$ 550,183	\$ 16,152,372
Expenditures					
Current					
General government	\$ 2,970,144	\$ -	\$ -	\$ -	\$ 2,970,144
Public safety	2,707,552	-	-	-	2,707,552
Highways and streets	-	4,429,611	-	-	4,429,611
Sanitation	-	-	-	266,373	266,373
Human services	-	-	2,815,599	-	2,815,599
Health	347,799	-	-	-	347,799
Culture and recreation	121,102	-	-	-	121,102
Conservation of natural resources	175,454	-	-	63,805	239,259
Economic development	834,308	-	-	-	834,308
Intergovernmental					
Highways and streets	-	144,918	-	-	144,918
Debt service					
Principal	19,503	-	-	235,000	254,503
Interest	3,170	-	-	24,845	28,015
Administrative (fiscal) charges	-	-	-	450	450
Total Expenditures	\$ 7,179,032	\$ 4,574,529	\$ 2,815,599	\$ 590,473	\$ 15,159,633

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

**EXHIBIT 5
(Continued)**

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

	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Excess of Revenues Over (Under) Expenditures	\$ 431,649	\$ 707,575	\$ (106,195)	\$ (40,290)	\$ 992,739
Other Financing Sources (Uses)					
Transfers in	\$ 37,101	\$ -	\$ 250,000	\$ -	\$ 287,101
Transfers out	(250,000)	-	-	(37,101)	(287,101)
Total Other Financing Sources (Uses)	\$ (212,899)	\$ -	\$ 250,000	\$ (37,101)	\$ -
Net Change in Fund Balance	\$ 218,750	\$ 707,575	\$ 143,805	\$ (77,391)	\$ 992,739
Fund Balance - January 1	3,340,819	784,222	298,483	868,549	5,292,073
Increase (decrease) in inventories	-	(578)	-	-	(578)
Fund Balance - December 31	\$ 3,559,569	\$ 1,491,219	\$ 442,288	\$ 791,158	\$ 6,284,234

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT 6

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

Net change in fund balances - total governmental funds (Exhibit 5) \$ 992,739

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 revenue deferred as unavailable.

Unavailable revenue - December 31	\$ 1,995,007	
Unavailable revenue - January 1	<u>(3,343,699)</u>	(1,348,692)

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the statement of activities, the net book value of assets disposed of is expensed, while not reported in the fund statements.

Expenditures for general capital assets and infrastructure	\$ 4,063,050	
Current year depreciation	<u>(1,644,264)</u>	2,418,786

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. Also, governmental funds report the net effect of issuance costs, premiums, discounts, and similar items when debt is first issued; whereas, those amounts are deferred and amortized over the life of the debt in the statement of net position.

Principal repayments		
General obligation bonds	\$ 100,000	
Revenue bonds	135,000	
Capital lease	<u>19,503</u>	254,503

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	\$ 4,058	
Change in compensated absences	11,060	
Change in net OPEB liability	(120,281)	
Change in net pension liability, as restated	(94,903)	
Change in deferred outflows of resources	403,928	
Change in deferred inflows of resources, as restated	(405,430)	
Change in inventories	(578)	
Change in advance to other governments	<u>155,459</u>	<u>(46,687)</u>

Change in Net Position of Governmental Activities (Exhibit 2) \$ 2,270,649

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

FIDUCIARY FUNDS

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**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT 7

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

	Family Services Collaborative Investment Trust Fund	Agency Funds
	<hr/>	<hr/>
<u>Assets</u>		
Cash and pooled investments	\$ 124,898	\$ 63,032
Receivables		
Accounts	868	-
Interest	14	-
Due from other funds	<hr/> 14,686	<hr/> -
Total Assets	<hr/>\$ 140,466	<hr/>\$ 63,032
<u>Liabilities</u>		
Accounts payable	\$ -	\$ 112
Due to other governments	<hr/> -	<hr/> 62,920
Total Liabilities	<hr/>\$ -	<hr/>\$ 63,032
<u>Net Position</u>		
Net position held in trust for pool participants	<hr/>\$ 140,466	

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT 8

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FAMILY SERVICES COLLABORATIVE INVESTMENT TRUST FIDUCIARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2015**

<u>Additions</u>	
Contributions from participants	\$ 61,542
Interest earnings	<u>210</u>
Total Additions	\$ 61,752
<u>Deductions</u>	
Distributions to participants	<u>75,436</u>
Change in net position	\$ (13,684)
Net Position - January 1	<u>154,150</u>
Net Position - December 31	<u><u>\$ 140,466</u></u>

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

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

1. Summary of Significant Accounting Policies

The County’s financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2015. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

Mahnomen County was established December 27, 1906, and is an organized county having the powers, duties, and privileges granted counties by Minn. Stat. ch. 373. As required by accounting principles generally accepted in the United States of America, these financial statements present Mahnomen 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.

The Social Services Board governs the activities of the Social Services Department and consists of seven members: five County Commissioners and two lay members appointed by the Commissioners and approved by the Minnesota Department of Human Services.

Discretely Presented Component Unit

While part of the reporting entity, the discretely presented component unit is presented in a separate column in the government-wide financial statements to emphasize that it is legally separate from the County. The following component unit of Mahnomen County is discretely presented:

<u>Component Unit</u>	<u>Component Unit Included in Reporting Entity Because</u>	<u>Separate Financial Statements Available at</u>
Mahnomen Health Center	The County appoints a majority of the Mahnomen Health Center Board and may be obliged to finance a deficit or debt of the Health Center.	Mahnomen Health Center 414 West Jefferson P. O. Box 396 Mahnomen, Minnesota 56557

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Joint Ventures

The County participates in joint ventures, jointly-governed organizations, and a related organization, which are described in Notes 6.B., 6.C., and 6.D., respectively.

B. Basic Financial Statements

1. Government-Wide Statements

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

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

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

2. Fund Financial Statements

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

The County reports the following major governmental funds:

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

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. Sources of revenues include property taxes, intergovernmental revenues, and charges for services.

The Social Services Special Revenue Fund is used to account for economic assistance and community social services programs. Sources of revenues include property taxes, intergovernmental revenues, and charges for services.

Additionally, the County reports the following fund types:

The debt service funds account for the resources accumulated and payments made for principal and interest on long-term debt of governmental funds.

The Family Services Collaborative Investment Trust Fund accounts for the external pooled and non-pooled investments held on behalf of the Family Services Collaborative.

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.

**MAHNOMEN COUNTY
MAHNOMEN, 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 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. Mahnomen County considers all revenues as available if collected within 60 days after the end of the current period. Property taxes are recognized as revenues in the year for which they are levied provided they are also available. Shared revenues are generally recognized in the period the appropriation goes into effect and the revenues are available. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met and are available. 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. Pooled and fund investments are reported at their fair value at December 31, 2015, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. The pooled investment income for 2015 was \$67,977.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

1. Summary of Significant Accounting Policies

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

2. External Investment Pools

Included in total cash and pooled investments are the assets held for the Mahnomen County Interagency Collaborative in an external investment pool. For the purposes of financial reporting, the Collaborative's portion of the County's pool of the cash and investments is reported as an investment trust fund. Assets in the pool are reported at fair value based on quoted market prices. The pool is not subject to regulatory oversight. Fair value amounts are determined at year-end. The County has not provided or obtained any legally binding guarantees to support the value of the pool.

Cash and pooled investments	
Held for internal pool participants (County funds)	\$ 6,666,820
Held for external pool participants (Interagency Collaborative)	<u>124,898</u>
 Total	 <u>\$ 6,791,718</u>

3. Receivables and Payables

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

All 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.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

1. Summary of Significant Accounting Policies-

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

4. Special Assessments Receivable

Special assessments receivable consist of delinquent special assessments payable in the years 1999 through 2015 and noncurrent special assessments payable in 2016 and after. Unpaid special assessments at December 31 are classified in the financial statements as delinquent special assessments. All special assessments receivable are shown net of allowance for uncollectibles.

5. Advance to Other Governments

The noncurrent portion of an intergovernmental advance, reported as “advance to other governments,” is offset by revenue bonds payable - noncurrent at the government-wide level.

In 2008, an advance of \$1,260,000 was made to the Mahnomen Health Center to cover capital expenditures to remodel its facilities. During 2015, the Mahnomen Health Center repaid \$123,441. The balance of \$300,000 as of December 31, 2015, will be repaid in monthly installments through 2018. The County will use these payments to cover the principal and interest due on \$1,260,000 Gross Revenue Hospital Facilities Bonds issued for the purpose of funding the Mahnomen Health Center remodeling project.

6. Inventories, Prepaid Items, and Property Held for Resale

All inventories are valued at cost using the weighted average 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.

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.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

1. Summary of Significant Accounting Policies-

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

6. Inventories, Prepaid Items, and Property Held for Resale (Continued)

Real property acquired for subsequent resale as a result of a default of a contract for deed and not as an investment program is recorded at the lesser of cost or net realizable value. Property held for resale is offset by a nonspendable fund balance account in the General Fund. For 2015, there were no properties held for resale.

7. 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 the capitalization threshold and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The County's capitalization threshold for capital assets is as follows:

Assets	Capitalization Threshold
Land	\$ 1
Buildings	5,000
Building improvements	5,000
Public domain infrastructure	1
Furniture, equipment, and vehicles	5,000

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. During the current period, the County did not have any capitalized interest.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

1. Summary of Significant Accounting Policies

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

7. Capital Assets (Continued)

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

<u>Assets</u>	<u>Years</u>
Buildings	15 - 40
Building improvements	10 - 30
Public domain infrastructure	50 - 75
Furniture, equipment, and vehicles	3 - 15

8. Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated annual 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 and fiduciary fund 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 upon what the employee can accrue within one year, or the balance, whatever is smaller. The noncurrent portion consists of the remaining amount of vacation leave.

9. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expenditure/expense) until then. Currently, the County has one item, deferred pension outflows, that qualifies for reporting in this category. These outflows arise

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

1. Summary of Significant Accounting Policies

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

9. Deferred Outflows/Inflows of Resources (Continued)

only under the full accrual basis of accounting and consist of pension plan contributions paid subsequent to the measurement date and also the differences between projected and actual earnings on pension plan investments and, accordingly, are reported only in the statement of net position.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. 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 County also has deferred pension inflows. These inflows arise only under the full accrual basis of accounting and consist of differences between expected and actual pension plan economic experience and also pension plan changes in proportionate share and, accordingly are reported only in the statement of net position.

10. Long-Term Obligations

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

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

1. Summary of Significant Accounting Policies

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

10. Long-Term Obligations (Continued)

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

11. Pension Plan

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

12. Classification of Net Position

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

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

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

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

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

1. Summary of Significant Accounting Policies

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

13. Classifications 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 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 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 only for the specific purposes imposed by formal action (ordinance or 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 (ordinance or resolution) it employed to previously commit those amounts.

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

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

1. Summary of Significant Accounting Policies

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

13. Classifications of Fund Balances (Continued)

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

14. Minimum Fund Balance

Unrestricted fund balance (committed, assigned, and unassigned) may be accessed in the event of unexpected expenditures up to the minimum established level upon approval of a budget revision by the County's Board. In the event of projected revenue shortfalls, it is the responsibility of the County Auditor to report the projections to the County's Board on a quarterly basis and shall be recorded in the minutes.

Any budget revision that will result in the unrestricted fund balance dropping below the minimum level will require the approval of a 3/5 vote of the County Board.

The fund balance policy establishes a minimum unrestricted fund balance equal to 16 percent of total General Fund expenditures. In the event that the balance drops below the established minimum level, the County's Board will develop a plan to replenish the fund balance to the established minimum level within two years.

15. Use of Estimates

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

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

E. Change in Accounting Principles

During the year ended December 31, 2015, the County adopted new accounting guidance by implementing the provisions of GASB Statements 68, 71, and 82. GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB No. 27*, requires governments providing defined pensions to employees through pension plans administered through trusts to record their proportionate share of the net pension obligation as a liability on their financial statements along with related deferred outflows of resources, deferred inflows of resources, and pension expense. This statement also requires additional note disclosures and schedules in the required supplementary information.

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

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

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

	<u>Governmental Activities</u>
Net Position, January 1, 2015, as previously reported	\$ 35,609,456
Change in accounting principles	<u>(3,029,210)</u>
Net Position, January 1, 2015, as restated	<u>\$ 32,580,246</u>

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

2. Stewardship, Compliance, and Accountability

Excess of Expenditures Over Budget

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

	Expenditures	Budget	Excess
Solid Waste Special Revenue Fund	\$ 266,373	\$ 253,515	\$ 12,858
Ditch Special Revenue Fund	42,431	40,500	1,931

3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

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	\$	6,566,215
Departmental cash		37,573
Statement of fiduciary net position		
Cash and pooled investments		
Investment trust fund		124,898
Agency funds		63,032
		124,898
Total Cash and Investments	\$	6,791,718

a. Deposits

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

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments

a. Deposits (Continued)

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County’s deposits may not be returned to it. The County’s policy is to minimize its exposure to custodial credit risk by requiring all deposits to be insured or collateralized in accordance with Minn. Stat. § 118A.03. As of December 31, 2015, the County’s deposits were not exposed to custodial credit risk.

b. Investments

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

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as “high risk” by Minn. Stat. § 118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

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's policy is to diversify use of investment instruments to avoid incurring unreasonable risks inherent in overinvesting in specific instruments, individual financial institutions, or maturities. The County invests in both short-term and long-term investments and times cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments

b. Investments (Continued)

Credit Risk

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

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities in the possession of an outside party. As of December 31, 2015, the County's investments were not exposed to custodial credit risk.

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the County's investment in a single issuer. The County's policy is to diversify use of investment instruments to avoid incurring unreasonable risks inherent in overinvesting in specific instruments, individual financial institutions, or maturities.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments (Continued)

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

Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5 Percent of Portfolio	Maturity Date	
U.S. government agency securities					
Federal National Mortgage Association	Aaa	Moody's		03/13/2018	\$ 99,780
Federal National Mortgage Association	Aaa	Moody's		08/26/2020	299,400
Total Federal National Mortgage Association			15.78%		\$ 399,180
Negotiable certificates of deposit			N/A		2,130,323
Total investments					\$ 2,529,503
Deposits					4,260,515
Change funds					1,700
Total Cash and Investments					\$ 6,791,718

N/A - Not Applicable

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources (Continued)

2. Receivables

Receivables as of December 31, 2015, for the County's governmental activities, including the applicable allowances for uncollectible accounts, are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	\$ 115,233	\$ -
Special assessments	70,395	-
Accounts	59,516	-
Interest	11,486	-
Due from other governments	2,327,169	-
Contract for deed	124,779	104,991
Total Governmental Activities	\$ 2,708,578	\$ 104,991

Contract for Deed

Contract for Deed	Date	Interest Rate (%)	Due Date	Monthly Payment	Balance December 31
MMRL1D1	January 1, 2004	-	January 1, 2024	\$ 588	\$ 46,228
MMRL4D1	June 1, 2004	-	June 1, 2019	500	37,653
MMRL2D1	September 1, 2013	-	September 1, 2022	612	40,898
Total Contract for Deed					\$ 124,779

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources (Continued)

3. Capital Assets

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

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 534,639	\$ -	\$ -	\$ 534,639
Construction in progress	18,308	648,379	-	666,687
Total capital assets not depreciated	\$ 552,947	\$ 648,379	\$ -	\$ 1,201,326
Capital assets depreciated				
Land improvements	\$ 721,008	\$ 76,820	\$ -	\$ 797,828
Buildings	3,037,247	15,000	10,800	3,041,447
Machinery, furniture, and equipment	3,756,489	238,649	209,052	3,786,086
Infrastructure	40,002,313	3,084,201	-	43,086,514
Total capital assets depreciated	\$ 47,517,057	\$ 3,414,670	\$ 219,852	\$ 50,711,875
Less: accumulated depreciation for				
Land improvements	\$ 62,829	\$ 43,740	\$ -	\$ 106,569
Buildings	2,312,876	64,024	10,800	2,366,100
Machinery, furniture, and equipment	2,204,695	383,354	209,052	2,378,997
Infrastructure	14,839,979	1,153,146	-	15,993,125
Total accumulated depreciation	\$ 19,420,379	\$ 1,644,264	\$ 219,852	\$ 20,844,791
Total capital assets depreciated, net	\$ 28,096,678	\$ 1,770,406	\$ -	\$ 29,867,084
Governmental Activities Capital Assets, Net	\$ 28,649,625	\$ 2,418,785	\$ -	\$ 31,068,410

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

Governmental Activities	
General government	\$ 77,739
Public safety	123,502
Highways and streets, including depreciation of infrastructure assets	1,278,234
Human services	4,138
Economic development	160,651
Total Depreciation Expense - Governmental Activities	\$ 1,644,264

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources (Continued)

4. Deferred Outflows of Resources

Deferred outflows of resources - deferred pension outflows arise only under the full accrual basis of accounting and consist of pension plan contributions paid subsequent to the measurement date and also the differences between projected and actual earnings on pension plan investments and, accordingly, are reported only in the statement of net position. Deferred pension outflows for the year ended December 31, 2015, were \$566,245.

B. Interfund Receivables, Payables, and Transfers

1. Due To/From Other Funds

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

Receivable Fund	Payable Fund	Amount
General	Road and Bridge Special Revenue	\$ 660
	Social Services Special Revenue	2,576
	Other governmental	37,101
		\$ 40,337
Special Revenue Funds		
Road and Bridge	General	\$ 1,295
	Other governmental	3,580
Total due to Road and Bridge		\$ 4,875
Social Services	General	12,036
Total Special Revenue Funds		\$ 16,911
Investment Trust	Social Services Special Revenue	\$ 14,686
Total Due To/From Other Funds		\$ 71,934

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

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

3. Detailed Notes on All Funds

B. Interfund Receivables, Payables, and Transfers (Continued)

2. Interfund Transfers

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

Transfers to General Fund from Forfeited Tax Sale Special Revenue Fund	\$ 37,101	Settlement of proceeds
Transfer to Social Services from General Fund	<u>250,000</u>	Continued operation
Total Transfers Between Funds	<u>\$ 287,101</u>	

C. Liabilities and Deferred Inflows of Resources

1. Payables

Payables at December 31, 2015, were as follows:

	Governmental Activities
Accounts	\$ 683,203
Salaries	204,465
Due to other governments	<u>152,146</u>
Total Payables	<u>\$ 1,039,814</u>

2. Construction and Other Significant Commitments

The County has active construction projects and commitments as of December 31, 2015.

	Spent-to-Date	Remaining Commitment
Governmental Activities		
Airport Improvement	\$ 683,102	\$ 15,613
E-911 Recorder	-	135,844
ARMER Radio System	<u>-</u>	<u>80,000</u>
Total Construction Commitments	<u>\$ 683,102</u>	<u>\$ 231,457</u>

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources (Continued)

3. Other Postemployment Benefits - Retirees

The County provides post-retirement health care benefits for qualified retirees (employees who have been employed by the County for at least ten years, effective July 8, 1986) from retirement until age 65 when they become eligible for Medicare.

As of year-end, the County has seven eligible participants. The County finances the plan on a pay-as-you-go basis. During 2015, the County expended \$75,780 for these benefits.

4. Capital Leases

The County has entered into lease agreements as lessee for financing the acquisition of certain equipment and facilities. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date. Payments on these lease agreements are made from the General Fund. These capital leases consist of the following at December 31, 2015:

<u>Lease</u>	<u>Maturity</u>	<u>Installment</u>	<u>Payment Amount</u>	<u>Original</u>	<u>Balance</u>
2010 service center	2020	Semi-Annually	\$ 6,264	\$ 100,000	\$ 50,435
2013 copier	2018	Monthly	233	11,995	<u>7,245</u>
Total Capital Leases					<u>\$ 57,680</u>

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources

4. Capital Leases (Continued)

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2015, were as follows:

Year Ending December 31	Governmental Activities
2016	\$ 15,323
2017	15,322
2018	14,858
2019	12,529
2020	6,172
Total minimum lease payments	\$ 64,204
Less: amount representing interest	(6,524)
Present Value of Minimum Lease Payments	\$ 57,680

5. Long-Term Debt

Bonds Payable

The payments on the 2007 Gross Revenue Hospital Facilities Bonds are being made from the Mahnomen Health Center Bonds Debt Service Fund.

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2015
Revenue bonds					
2007 Gross Revenue Hospital Facilities Bond	2018	\$125,000 - \$155,000	4.60	\$ 1,260,000	\$ 440,000

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources (Continued)

6. Debt Service Requirements

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

<u>Year Ending December 31</u>	<u>Revenue Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2016	\$ 140,000	\$ 17,020
2017	145,000	10,465
2018	155,000	3,565
Total	<u>\$ 440,000</u>	<u>\$ 31,050</u>

7. Changes in Long-Term Liabilities

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Long-term liabilities					
General obligation bonds	\$ 100,000	\$ -	\$ 100,000	\$ -	\$ -
Revenue bonds	575,000	-	135,000	440,000	140,000
Capital leases	77,183	-	19,503	57,680	12,786
Compensated absences	170,968	183,058	194,118	159,908	105,959
Total Long-Term Liabilities	<u>\$ 923,151</u>	<u>\$ 183,058</u>	<u>\$ 448,621</u>	<u>\$ 657,588</u>	<u>\$ 258,745</u>

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources (Continued)

8. Unearned Revenues/Deferred Inflows of Resources

Unearned revenues consist of state and/or federal grants received but not earned. Deferred inflows of resources - unavailable revenue consists of taxes, special assessments, state and/or federal grants and state highway users tax allotments, and other receivables not collected soon enough after year-end to pay liabilities of the current period. For 2015, Mahnomen County did not have unearned revenue.

	<u>Taxes</u>	<u>Special Assessments</u>	<u>Grants and Allotments</u>	<u>Other</u>	<u>Total</u>
Major governmental funds					
General	\$ 61,960	\$ -	\$ 224,845	\$ 158,724	\$ 445,529
Road and Bridge	13,047	259	1,452,085	-	1,465,391
Social Services	15,054	-	-	-	15,054
Nonmajor governmental funds					
Solid Waste	16,236	-	-	-	16,236
Ditch	-	51,433	-	-	51,433
Hospital Reserve	13	-	-	-	13
Nursing Home Revenue Bonds	1,351	-	-	-	1,351
Total	<u>\$ 107,661</u>	<u>\$ 51,692</u>	<u>\$ 1,676,930</u>	<u>\$ 158,724</u>	<u>\$ 1,995,007</u>
Deferred inflows of resources					
Unavailable revenue	<u>\$ 107,661</u>	<u>\$ 51,692</u>	<u>\$ 1,676,930</u>	<u>\$ 158,724</u>	<u>\$ 1,995,007</u>

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

1. Plan Description

All full-time and certain part-time employees of Mahnomen County are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Local Government Correctional Service Retirement Fund (the Public Employees Correctional Fund), which are cost-sharing, multiple-employer retirement plans.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

1. Plan Description (Continued)

These plans are established and administered in accordance with Minn. Stat. chs. 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

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

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

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

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

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

2. Benefits Provided (Continued)

reverting to a 2.5 percent benefit increase, the funding ratio declines to less than 80 percent for one year or less than 85 percent for two consecutive years, the benefit increase will decrease to 1.0 percent.

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

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

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

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans (Continued)

3. Contributions

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

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

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

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

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

General Employees Retirement Fund	\$	210,815
Public Employees Police and Fire Fund		108,686
Public Employees Correctional Fund		24,302

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

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans (Continued)

4. Pension Costs

General Employees Retirement Fund

At December 31, 2015, the County reported a liability of \$2,456,513 for its proportionate share of the General Employees Retirement Fund's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the County's proportion was 0.0474 percent. It was 0.0509 percent measured as of June 30, 2014. The County's recognized pension expense of \$285,741 for its proportionate share of the General Employees Retirement Fund's pension expense.

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ -	\$ 123,850
Difference between projected and actual investment earnings	232,546	-
Changes in proportion	-	123,309
Contributions paid to PERA subsequent to the measurement date	<u>106,506</u>	<u>-</u>
Total	<u>\$ 339,052</u>	<u>\$ 247,159</u>

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

4. Pension Costs

General Employees Retirement Fund (Continued)

A total of \$106,506 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended December 31</u>	<u>Pension Expense Amount</u>
2016	\$ (24,250)
2017	(24,250)
2018	(24,250)
2019	58,137

Public Employees Police and Fire Fund

At December 31, 2015, the County reported a liability of \$806,726 for its proportionate share of the Public Employees Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the County's proportion was 0.0710 percent. It was 0.0730 percent measured as of June 30, 2014. The County recognized pension expense of \$135,305 for its proportionate share of the Public Employees Police and Fire Fund's pension expense.

The County also recognized \$6,390 as revenue, which results in a reduction of the net pension liability, for its proportionate share of the State of Minnesota's on-behalf contribution to the Public Employees Police and Fire Fund. Legislation requires the State of Minnesota to contribute \$9 million to the Public Employees Police and Fire Fund each year, starting in fiscal year 2014, until the plan is 90 percent funded.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

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 Fund's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 130,825
Difference between projected and actual investment earnings	140,559	-
Changes in proportion	-	18,001
Contributions paid to PERA subsequent to the measurement date	55,233	-
Total	\$ 195,792	\$ 148,826

A total of \$55,233 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	Pension Expense Amount
2016	\$ 5,374
2017	5,374
2018	5,374
2019	5,374
2020	(29,765)

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

4. Pension Costs (Continued)

Public Employees Correctional Fund

At December 31, 2015, the County reported a liability of \$23,190 for its proportionate share of the Public Employees Correctional Fund's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the County's proportion was 0.15 percent. It was 0.16 percent measured as of June 30, 2014. The County recognized pension expense of \$25,552 for its proportionate share of the Public Employees Correctional Fund's pension expense.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 8,879
Difference between projected and actual investment earnings	19,331	-
Changes in proportion	-	566
Contributions paid to PERA subsequent to the measurement date	12,070	-
Total	\$ 31,401	\$ 9,445

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

4. Pension Costs

Public Employees Correctional Fund (Continued)

A total of \$12,070 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended December 31</u>	<u>Pension Expense Amount</u>
2016	\$ 1,685
2017	1,685
2018	1,685
2019	4,833

Total Pension Expense

The total pension expense for all plans recognized by the County for the year ended December 31, 2015, was \$446,598.

5. Actuarial Assumptions

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

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

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

5. Actuarial Assumptions (Continued)

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

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

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

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

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

5. Actuarial Assumptions (Continued)

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

7. Pension Liability Sensitivity

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

	<u>1% Decrease in Discount Rate (6.9%)</u>	<u>Discount Rate (7.9%)</u>	<u>1% Increase in Discount Rate (8.9%)</u>
Proportionate share of the General Employees Retirement Fund net pension liability	\$ 3,862,514	\$ 2,456,514	\$ 1,295,375
Public Employees Police and Fire Fund net pension liability	1,572,318	806,726	174,214
Public Employees Correctional Fund net pension liability	161,499	23,190	(87,513)

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans (Continued)

8. Pension Plan Fiduciary Net Position

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

B. Defined Contribution Plan

Five commissioners of Mahnomen 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 Mahnomen County during the year ended December 31, 2015, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 3,015	\$ 3,015
Percentage of covered payroll	5%	5%

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits (Continued)

C. Other Postemployment Benefits (OPEB)

Plan Description

Mahnomen 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.

Funding Policy

The contribution requirements of the plan members and the County are established and may be amended by the Mahnomen County Board of Commissioners. The required contribution is based on projected pay-as-you-go financing requirements. Retirees and their spouses contribute to the health care plan at the same rate as County employees. This results in the retirees receiving an implicit rate subsidy. For 2015, there were 88 participants in the plan, including 9 retirees.

Annual OPEB Cost and Net OPEB Obligation

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

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

ARC	\$ 320,350
Interest on net OPEB obligation	35,366
Adjustment to ARC	<u>(52,749)</u>
Annual OPEB cost (expense)	\$ 302,967
Contributions made	<u>(182,686)</u>
Increase in net OPEB obligation	\$ 120,281
Net OPEB Obligation - Beginning of Year	<u>884,153</u>
Net OPEB Obligation - End of Year	<u>\$ 1,004,434</u>

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

Annual OPEB Cost and Net OPEB Obligation (Continued)

The County's annual OPEB cost for December 31, 2015, was \$302,967. The percentage of OPEB cost contributed to the plan was 60.3 percent, and the net OPEB obligation for 2015 was \$1,004,434.

The County's annual OPEB cost; the percentage of annual OPEB cost contributed to the plan; and the net OPEB obligation for 2013, 2014, and 2015 were as follows:

<u>Fiscal Year-End</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, 2013	\$ 278,326	\$ 146,435	52.7%	\$ 765,546
December 31, 2014	275,423	156,816	56.9	884,153
December 31, 2015	302,967	182,686	60.3	1,004,434

Funded Status and Funding Progress

As of January 1, 2015, the most recent actuarial valuation date, the plan was 0.0 percent funded. The actuarial accrued liability for benefits was \$2,633,010, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$2,633,010. The covered payroll (annual payroll of active employees covered by the plan) was \$3,472,700, and the ratio of the UAAL to the covered payroll was 75.8 percent.

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

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB) (Continued)

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit cost between the employer and plan members to that point. The actuarial methods and assumptions used include techniques 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 4.00 percent investment rate of return (net of investment expenses), which is Mahnomen 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 5.00 percent over 9 years. Both rates included a 2.50 percent inflation assumption. The UAAL is being amortized over 30 years on a closed basis. The remaining amortization period at December 31, 2015, was 23 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. The County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Intergovernmental Trust (MCIT). The County is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. For other risk, the County carries commercial insurance. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

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

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MAHNOMEN, MINNESOTA**

5. Risk Management (Continued)

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

6. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

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

The County, in connection with the normal conduct of its affairs, is involved in various judgments, claims, and litigation. The County Attorney identified no potential claims against the County that would materially affect the financial statements.

B. Joint Ventures

Norman-Mahnomen Public Health

The Multi-County Nursing Service was established in 1997 under the authority of the Joint Powers Act, pursuant to Minn. Stat. § 471.59, and included Becker, Mahnomen, and Norman Counties. On June 24, 2003, the Becker County Board passed a resolution to withdraw from the Multi-County Nursing Service as of January 1, 2005. On January 1, 2005, Norman and Mahnomen Counties amended the joint powers agreement forming the Multi-County Nursing Service and started doing business as Norman-Mahnomen Public Health. Effective December 31, 2012, the Norman-Mahnomen Community Health Board was dissolved. Effective January 1, 2013, the Norman-Mahnomen Board of Health was created and will do business under the name Norman-Mahnomen Public Health. The purpose of Norman-Mahnomen Public Health is the development, implementation, and operation of public health services throughout the member counties.

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MAHNOMEN, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Norman-Mahnomen Public Health (Continued)

Control of Norman-Mahnomen Public Health was vested in the Norman-Mahnomen Board of Health, which consisted of six members. Norman and Mahnomen Counties each appoint three members.

In the event of withdrawal from Norman-Mahnomen Public Health, the withdrawing county is not entitled to any reimbursement of funds contributed during the course of its membership, except to the extent of any surplus uncommitted monies remaining in the operation account upon expiration of the fiscal year of the county's withdrawal. Such surplus shall be distributed in the proportion that the withdrawing county's contribution bears to the aggregate contribution of all member parties for the year of withdrawal. Funds utilized for capital asset acquisition shall be paid only at the time of sale of such assets.

Financing is provided by state and federal grants, appropriations from member counties, charges for services, and miscellaneous revenues. Mahnomen County's contribution for 2015 was \$77,918.

Complete financial information can be obtained from:

Norman-Mahnomen Board of Health
15 East 2nd Avenue, Room 107
Ada, Minnesota 56510

Joint County Natural Resources Board

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

The purpose of the Natural Resources Board is to gather information on and formulate policies for the development, utilization, and protection of natural resources in northern Minnesota, and to ensure that there is an interrelated plan for the use and protection of both public and private resources.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Joint County Natural Resources Board (Continued)

Control of the Natural Resources Board is vested in the Joint County Natural Resources Board, which is composed of at least one resident of each county appointed by its respective County Board, as provided in the Natural Resources Board's by-laws.

In the event of dissolution of the Joint County Natural Resources Board, the net assets of the Natural Resources Board at that time shall be distributed to the respective member counties in proportion to the contribution of each. Mahnomen County contributed \$500 during 2015 to the Joint County Natural Resources Board.

The Natural Resources Board has no long-term debt. Financing is provided by appropriations from member counties. Complete financial information can be obtained from:

Mr. Wayne Bendickson
Treasurer
Joint County Natural Resources Board
Box 808
Baudette, Minnesota 56623

Mahnomen County Interagency Collaborative

The Mahnomen County Interagency Collaborative (MCIC) was established in 1998, pursuant to Minn. Stat. § 124D.23, between Mahnomen County Human Services, Mahnomen County Sheriff's Department, Independent School Districts Nos. 432 and 435, Minnesota Department of Corrections, Multi-County Nursing Service (now Norman-Mahnomen Public Health), Northwestern Mental Health Center, Steller Human Services, University of Minnesota Mahnomen County Extension Office, Mahnomen Health Center, Mahube-OTWA Community Council, White Earth Human Services, and White Earth Mental Health. Mahnomen County Human Services is the acting fiscal agent of the MCIC. The purpose of the MCIC is to provide healthier communities and families and to reduce the number of out-of-home placements.

The management of the MCIC is vested in the interagency agreements. Each participating agency is granted one vote upon the receipt of a resolution from its governing board. Mahnomen County is granted two votes.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Mahnomen County Interagency Collaborative (Continued)

In the event of dissolution of the MCIC, the withdrawing party shall give a 30-day notice. Should the MCIC cease to exist, all property, real and personal, held by the MCIC at the time of termination shall be distributed by resolution of the MCIC in accordance with law and in a manner to best accomplish the continuing purposes of the MCIC.

Financing is provided by state and federal grants. During 2015, the County did not contribute any funds to the MCIC.

Northwestern Counties Data Processing Security Association

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

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

The NCDPSA has no long-term debt. Financing is provided by grants from the State of Minnesota and appropriations from member counties.

Complete financial information can be obtained from:

Clearwater County Auditor
213 North Main Avenue
Bagley, Minnesota 56621

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

Northwest Minnesota Regional Radio Board

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

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

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

In the event of dissolution of the Northwest Minnesota Regional Radio Board, all property, assets, and funds of the Board 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 Northwest Minnesota Regional Radio Board has no long-term debt. Financing is provided by appropriations from member parties and by state and federal grants.

Complete financial information can be obtained from:

Northwest Minnesota Regional Radio Board
c/o Greater Northwest EMS
2301 Johanneson Avenue N.W., Suite 103
Bemidji, Minnesota 56601

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

Rural Minnesota Concentrated Employment Programs, Inc. (WIA - Rural Minnesota Workforce Service Area 2)

The Rural Minnesota Concentrated Employment Programs, Inc. (RMCEP), is a private non-profit corporation that provides workforce development services in a 19-county area in North Central and West Central Minnesota. The agency was incorporated in 1968 to operate employment and training programs which include Workforce Investment Act (WIA) services. RMCEP was established to create job training and employment opportunities for economically disadvantaged, underemployed and unemployed persons, and youthful persons in both the private and the public sector.

During 2015, the County did not contribute any funds to this organization.

Land of the Dancing Sky Area Agency on Aging

The Land of the Dancing Sky Area Agency on Aging provides services to a 21-county service area. This is a partnership between the Northwest Regional Development Commission, the 5-county service area of Region 2, and the West Central Area Agency on Aging. This combined area on aging was established to administer all aspects of the Older Americans Act by providing programs to meet the needs of the elderly in the 21-county area.

The Land of the Dancing Sky umbrella board meets quarterly to discuss and approve major items such as the area plan and dollar allocations, while the advisory councils and joint powers boards of the two areas on aging continue to meet monthly to make decisions affecting their local counties.

During 2015, the County contributed \$1,291 to the Land of the Dancing Sky.

Paul Bunyan Task Force

The Paul Bunyan Task Force was established July 16, 1992, under the authority of the Joint Powers Act, pursuant to Minn. Stat. § 471.59, and includes Beltrami, Cass, Clearwater, Hubbard, Lake of the Woods, Mahnommen, Pennington, Red Lake, and Roseau Counties, and the Cities of Bemidji and Thief River Falls. The purpose of the Paul Bunyan Task Force is to assist member organizations in the investigation and prosecution of persons in violation of Minnesota statutes.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Paul Bunyan Task Force (Continued)

Control of the Paul Bunyan Task Force is established by a majority vote represented with one vote from each member of the organization. In the event of dissolution of the Paul Bunyan Task Force, the net assets shall be liquidated to the member organizations based on the percentage of population of all member counties and cities.

The Paul Bunyan Task Force has no long-term debt. During 2015, Mahnomen County did not contribute to the Paul Bunyan Task Force. Financing is provided by the profits from forfeitures and seizures pursuant to Minn. Stat. § 609.531. The City of Bemidji, in an agent capacity, reports the cash transactions of the Paul Bunyan Task Force on its financial statements.

Complete financial information can be obtained from:

Ms. JoDee Treat, Auditor-Treasurer
Beltrami County
701 Minnesota Avenue, Suite 220
Bemidji, Minnesota 56601

C. Jointly-Governed Organizations

Wild Rice Watershed District

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

Control of the Watershed District is vested in the Board of Managers, which is composed of seven members appointed by the County Commissioners of Becker, Clay, Mahnomen, and Norman Counties. Becker County appoints one member, Clay County appoints one member, Mahnomen County appoints two members, and Norman County appoints three members.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations

Wild Rice Watershed District (Continued)

Complete financial information can be obtained from:

Wild Rice Watershed District Office
11 East 5th Avenue
Ada, Minnesota 56510

Minnesota Red River Basin of the North Joint Powers Agreement

The Minnesota Red River Basin of the North Joint Powers Board was established November 29, 1999, by an agreement between Mahnomen County and 17 other counties. The agreement was made to serve as a focal point for land and water concerns for those counties surrounding the Minnesota Red River Basin. Each county is responsible for its proportionate share of the administrative budget.

Control is vested in a Joint Powers Board comprised of one Commissioner from each member county. Each member of the Board is appointed by the County Commissioners of the county he or she represents.

In the event of termination of the agreement, any unexpended funds and surplus property shall be disposed of equally among the member counties. During 2015, the County contributed \$800 to the Joint Powers Board.

Complete financial statements can be obtained from:

The International Coalition for Land - Water
Stewardship in the Red River Basin
119 - 5th Street South
Moorhead, Minnesota 56560

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations (Continued)

Minnesota Rural Counties Caucus

The Minnesota Rural Counties Caucus was established in 1997 and includes Aitkin, Beltrami, Clay, Clearwater, Cook, Douglas, Grant, Itasca, Kittson, Koochiching, Lake of the Woods, Mahnomen, Marshall, McLeod, Mille Lacs, Norman, Otter Tail, Pennington, Polk, Pope, Red Lake, 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. Mahnomen County's responsibility does not extend beyond making this appointment.

During 2015, the County contributed \$2,100 to this organization.

Lake Agassiz Regional Library

The Lake Agassiz Regional Library was formed pursuant to Minn. Stat. §§ 134.20 and 471.59, effective January 1, 1961, and includes Becker, Clay, Clearwater, Mahnomen, Norman, Polk, and Wilkin Counties. Control of the Library is vested in the Agassiz Regional Library Board, with 23 members with staggered terms made up of the following: one member appointed by each Board of County Commissioners who may be a member of the Board of Commissioners; one member appointed by each participating city; and one additional member appointed by each county and city for each 6,000 of population or major percentage (85 percent) thereof. In 2015, Mahnomen County provided \$39,455 in the form of an appropriation.

Minnesota Counties Computer Cooperative (MCCC)

Under Minnesota Joint Powers Law, Minn. Stat. § 471.59, Minnesota counties have created MCCC to jointly provide for the establishment, operation, and maintenance of data processing systems, facilities, and management information systems. During the year, Mahnomen County expended \$77,243 to the MCCC.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations (Continued)

Region Three - Northwest Minnesota Homeland Security Emergency Management Organization

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

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

Communities Caring for Children

The Communities Caring for Children (CCC) Joint Powers Board promotes an implementation and maintenance of a regional immunization information system to ensure age-appropriate immunizations through complete and accurate records. The County did not contribute to the CCC during 2015.

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, the County made no payments to the joint powers.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations (Continued)

Sentence to Service

Mahnomen County, in conjunction with other local governments, participates in the State of Minnesota's Sentence to Serve (STS) program. STS is a project of the State Department of Administration's Strive Toward Excellence in Performance (STEP) program. STEP's goal is a statewide effort to make positive improvements in public services. It gives the courts an alternative to jail or fines for the nonviolent offenders who can work on a variety of community or state projects. Private funding, funds from various foundations and initiative funds, as well as the Departments of Corrections and Natural Resources, provide the funds needed to operate the STS program.

D. Related Organization

Sand Hill River Watershed District

The Sand Hill River Watershed District was formed pursuant to Minn. Stat. § 103D.201, effective August 29, 1974, and includes land within Mahnomen, Norman, and Polk Counties. The purpose of the District is to conserve the natural resources of the state by land-use planning, flood control, the use of sound scientific principles for the protection of the public health and welfare, and the provident use of natural resources. Control of the District is vested in the Sand Hill River Watershed District Board of Managers, composed of five members appointed by the Polk County Board for staggered terms of three years each.

7. Mahnomen Health Center

In addition to those identified in Note 1, the County's discretely presented component unit has the following significant accounting policies.

A. Description of Reporting Entity and Summary of Significant Accounting Policies

Reporting Entity

The Mahnomen Health Center consists of a hospital, nursing home, and clinic located in Mahnomen, Minnesota. The Health Center is an operating entity under the ownership of Mahnomen County (County) and the City of Mahnomen (City),

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

7. Mahnomen Health Center

A. Description of Reporting Entity and Summary of Significant Accounting Policies

Reporting Entity (Continued)

Minnesota, and is a component unit of Mahnomen County. The Health Center is governed under a Joint Powers Agreement between the County and City. For the year ending December 31, 2015, the County owned 78 percent of the Health Center, while the City owned 22 percent. The County and City each appoint Mahnomen Health Center Commission members who are responsible for the operation of the hospital, nursing home, and clinic. The Mahnomen Health Center Commission (the Commission) consists of nine members. The Commission is the ultimate governing body of the Health Center. The Commission shall acquire the necessary property to establish, construct, enlarge, improve, maintain, equip, operate, and control the facilities subject to the other terms of the Joint Powers Agreement.

For financial reporting purposes, the Health Center has included all funds, organizations, agencies, boards, commissions, and authorities. The Health Center has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Health Center are such that the exclusion would cause the Health Center's financial situation to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of the other organization's governing body and (1) the ability of the Health Center to impose its will on that organization, or (2) the potential for the Health Center to provide specific benefits to or impose specific financial burdens on the Health Center. The Health Center does not have a component unit which meets GASB criteria.

Basis of Accounting and Enterprise Fund Accounting

The Health Center's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the GASB. The accompanying financial statements have been prepared on the accrual basis of accounting. The Health Center uses enterprise fund accounting. Revenues are recognized when earned, and expenses are recorded when the liability is incurred based on GASB Codification Topic 1600, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, as amended.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

7. Mahnomen Health Center

A. Description of Reporting Entity and Summary of Significant Accounting Policies
(Continued)

Use of Estimates

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

Risk Management

The Health Center is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors or omissions; employee injuries and illness; and natural disasters. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less, including noncurrent cash and investments.

Patient and Resident Receivables, Net

Patient and resident receivables are uncollateralized customer and third-party obligations. Payments of patient and resident receivables are allocated to the specific claims identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

The carrying amount of patient and resident receivables is reduced by a valuation allowance that reflects management's estimate of amounts that will not be collected from patients, residents, and third-party payors. Management reviews patient and resident receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients and residents due to bad debts.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

7. Mahnomen Health Center

A. Description of Reporting Entity and Summary of Significant Accounting Policies

Patient and Resident Receivables, Net (Continued)

Management considers historical write-off and recovery information in determining the estimated bad debt provision. At December 31, 2015, the allowance for doubtful accounts was approximately \$462,000. When all collection efforts have been exhausted, the account is written off against the related allowance.

Supplies

Supplies are stated at cost (principally on the first-in, first-out basis) not in excess of market value. Market value is determined by comparison with recent purchases.

Capital Assets

Capital asset acquisitions in excess of \$5,000 are capitalized and recorded at cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. All capital assets other than land and construction in progress are depreciated or amortized (in the case of capital leases) using the straight-line method of depreciation and have estimated lives as follows:

Land improvements	15 - 20 years
Buildings	20 - 40 years
Movable equipment	3 - 15 years

Noncurrent Cash and Investments

Noncurrent cash and investments are recorded at cost, if purchased, or at fair market value on the date received, if by gift or bequest. All investments are carried at market value which approximates cost. Noncurrent cash and investments required for obligations classified as current liabilities are reported as current assets.

Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension expense and contributions from the employer after the measurement date but before the end of the employer's reporting period.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

7. Mahnomen Health Center

A. Description of Reporting Entity and Summary of Significant Accounting Policies
(Continued)

Investment in Joint Venture

The Health Center reports its investment in Central Minnesota Diagnostic, Inc., (CMDI) on the equity method of accounting which approximates the Health Center's equity in the underlying book value based on its most recent December 31 fiscal year-end. The Health Center's shares of net income from these investments are recognized as equity earnings from joint venture.

Vacation and Sick Leave

The Health Center's employees earn paid time off days at varying rates depending on years of service. Employees may accumulate paid time off up to a specified maximum. Employees are paid for accumulated paid time off if they leave the Health Center. The liability for compensated absences is included with accrued vacation and sick leave in the accompanying statement of net position.

Net Position

Net position of the Health Center is classified in three components. Net investment in capital assets consists of capital assets, net of accumulated depreciation, and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted expendable for specific operating activities are noncapital net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Health Center. Unrestricted net position is remaining net position that does not meet the definition of invested in capital assets.

Net Patient and Resident Service Revenue

The Health Center has agreements with third-party payors that provide for payments to the Health Center at amounts different from its established rates. Payment arrangements include prospectively determined rates, reimbursed costs, discounted charges, and per diem payments. Net patient and resident service revenue is reported at the estimated net realizable amounts from patients, residents, third-party payors, and others for services rendered, including estimated retroactive adjustments under

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

7. Mahnomen Health Center

A. Description of Reporting Entity and Summary of Significant Accounting Policies

Net Patient and Resident Service Revenue (Continued)

reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Charity Care

To fulfill its mission of community service, the Health Center provides care to patients and residents who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Health Center does not pursue collection of amounts determined to qualify as charity care, they are not reported as patient and resident service revenue. Charges foregone for charity care were approximately \$1,500 for the year ended December 31, 2015.

Operating Revenues and Expenses

The Health Center's statement of revenues, expenses, and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services--the Health Center's principal activity. Nonexchange revenues, including assessments, grants, and contributions received for the purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Grants and Contributions

From time to time, the Health Center receives grants from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized as revenue when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses. Grants receivable are reported in the statement of net position at net realizable value.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

7. Mahnomen Health Center

A. Description of Reporting Entity and Summary of Significant Accounting Policies
(Continued)

Electronic Health Record Incentive Payments

The Medical Center has recorded revenue related to the Electronic Health Records (EHR) Incentive Program during 2015. The Health Center recognizes revenue at the completion of the EHR reporting period and all meaningful use objectives and any other specific grant requirements that are applicable (such as, electronic transmission of quality measures to CMS). This revenue has been presented as other nonoperating revenue in the statements of revenues, expenses, and changes in net position.

Advertising Costs

The Health Center expenses advertising costs as they are incurred.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources, deferred inflows of resources related to pensions, 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. For this purpose, benefit payments (including refunds or employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Inflows of Resources

Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred inflows of resources represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred inflows of resources consist of pension related deferred inflows.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

7. Mahnomen Health Center

A. Description of Reporting Entity and Summary of Significant Accounting Policies
(Continued)

Other Postemployment Benefits

The Health Center follows GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This statement creates a uniform method to account for other postemployment benefits (OPEB) plans. OPEBs are generally provided to an employee in exchange for their services to the employer. OPEBs can be made up of several different types of plans (but not pension plans) and typically include life insurance and health care benefits. Under the accrual method of accounting, OPEB cost is recognized in the same period as the compensated services are performed.

B. Net Patient and Resident Service Revenue

The Health Center has agreements with third-party payors that provide for payments to the Health Center at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare

The Health Center became a Critical Access Hospital (CAH) as of April 1999 for Medicare reimbursement purposes. There are certain criteria that the Health Center must meet to be a CAH. Once met, the reimbursement method changed to cost-based for both inpatient and outpatient services. The Health Center is reimbursed for cost-reimbursable items at a tentative rate, with final settlement determined after submission of annual cost reports by the Health Center and audits thereof by the Medicare fiscal intermediary.

Medicaid

Inpatient acute care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Outpatient services related to Medicaid program beneficiaries are reimbursed under a cost-reimbursement methodology.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

7. Mahnomen Health Center

B. Net Patient and Resident Service Revenue (Continued)

Blue Cross

Inpatient services rendered to Blue Cross subscribers are paid at prospectively determined rates per discharge. Outpatient services are reimbursed at outpatient fee screens or at charges less a prospectively determined discount. The prospectively determined discount is not subject to retroactive adjustment.

Nursing Home Medicare

Under the Medicare program, payment for resident services is made on a prospectively determined per diem rate that varies based on a case-mix adjusted resident classification system.

Nursing Home Medicaid

Routine services rendered to nursing home residents who are beneficiaries of the Medicaid program or who pay from private resources are paid according to a schedule of prospectively determined daily rates determined by Minnesota's Medicaid program. A rate is assigned to each nursing home resident based on the resident's ability to perform certain activities of daily living and on certain other clinical factors. Payments are made for each case-mix category and are adjusted each year by an inflation index.

Other Payors

The Health Center has entered into payment agreements with certain commercial insurance carriers. The basis for payment to the Health Center under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Revenue from Medicare and Medicaid programs accounted for approximately 40 percent and 30 percent, respectively, of the Health Center's net patient revenue for the year ended December 31, 2015.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

7. Mahnomen Health Center

B. Net Patient and Resident Service Revenue

Other Payors (Continued)

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The December 31, 2015, net patient service revenue decreased by approximately \$22,000 due to prior year retroactive adjustments in excess of amounts previously estimated as a result of final settlements and years that are no longer subject to audits, reviews, and investigations.

Patient and resident service revenue and contractual adjustments for the year ended December 31, 2015, are as follows:

Total patient service revenue	\$ 12,111,543
Contractual adjustments	
Medicare	\$ (1,491,792)
Medicaid	(1,697,451)
Indian Health Service	(102,964)
Other	(598,940)
Provision for bad debts	(324,644)
Total contractual adjustments	\$ (4,215,791)
Net Patient and Resident Service Revenue	\$ 7,895,752

C. Noncurrent Cash and Investments

Deposits

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the Health Center's deposits may not be returned to it in full. The Health Center follows Minnesota statutes for deposits.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

7. Mahnomen Health Center

C. Noncurrent Cash and Investments

Deposits

Custodial Credit Risk (Continued)

In accordance with Minnesota statutes, the Health Center maintains deposits at financial institutions that are authorized by the Mahnomen Health Center's Commission members.

Minnesota statutes require that all the Health Center's 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.

Authorized collateral includes certain U.S. government securities, state or local government obligations, and other securities authorized by Minn. Stat. § 118A.03. Minnesota statutes require that securities pledged as collateral be held in safekeeping by the Treasurer or in a financial institution other than that furnishing collateral.

The Health Center's deposits in banks at December 31, 2015, were covered by federal depository insurance or by collateral held by the Health Center's custodial bank in the Health Center's name.

Interest Rate Risk

The Health Center does not have an investment policy. There is no current provision the Health Center has that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Noncurrent cash and investments consist of certificates of deposit. The Health Center has no investments as of December 31, 2015. All of the Health Center's deposits are insured or registered in the Health Center's name and held in safekeeping by the Treasurer or in a financial institution other than that furnishing collateral.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

7. Mahnomen Health Center (Continued)

D. Accounts Receivable

Patient and resident receivables reported as current assets by the Health Center at December 31, 2015, consist of these amounts:

Receivables from patients and their insurance carriers	\$ 1,096,579
Receivable from Medicare	252,185
Receivable from Medicaid	<u>268,271</u>
 Total patient and resident receivables	 \$ 1,617,035
 Less: allowance for uncollectible amounts	 <u>(462,000)</u>
 Total Patient and Resident Receivables, Net	 <u>\$ 1,155,035</u>

E. Capital Assets

Capital asset additions, retirements, and balances for the year ended December 31, 2015, are as follows:

	Balance December 31, 2014	Additions	Retirements/ Transfers	Balance December 31, 2015
Land	\$ 44,229	\$ -	\$ -	\$ 44,229
Land improvements	289,342	5,416	13,139	307,897
Buildings	5,624,852	8,230	-	5,633,082
Movable equipment	5,025,199	81,067	-	5,106,266
Construction in progress	21,742	-	(21,742)	-
	<u>\$ 11,005,364</u>	<u>\$ 94,713</u>	<u>\$ (8,603)</u>	<u>\$ 11,091,474</u>
Less: accumulated depreciation for				
Land improvements	\$ 123,488	\$ 21,563	\$ -	\$ 145,051
Buildings	3,011,753	236,635	-	3,248,388
Movable equipment	3,261,869	338,569	-	3,600,438
	<u>\$ 6,397,110</u>	<u>\$ 596,767</u>	<u>\$ -</u>	<u>\$ 6,993,877</u>
Capital Assets, Net	<u>\$ 4,608,254</u>	<u>\$ (502,054)</u>	<u>\$ (8,603)</u>	<u>\$ 4,097,597</u>

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

7. Mahnomen Health Center (Continued)

F. Long-Term Debt

The Health Center leases equipment under a noncancelable long-term lease agreement. The capitalized leased assets consist of:

Movable equipment	\$ 784,417
Less: accumulated depreciation	<u>(171,345)</u>
Total Capital Assets, Net	<u>\$ 613,072</u>

Long-term debt as of December 31, 2015, consists of the following:

	Balance December 31, 2013	Additions	Reductions	Balance December 31, 2014
2007 gross revenue bond ¹	\$ 575,000	\$ -	\$ 135,000	\$ 440,000
USDA ambulance loans	114,258	-	22,215	92,043
Capital lease obligations ²	<u>528,915</u>	<u>-</u>	<u>94,220</u>	<u>434,695</u>
Total long-term debt	<u>\$ 1,218,173</u>	<u>\$ -</u>	<u>\$ 251,435</u>	\$ 966,738
Less: current maturities				<u>(256,504)</u>
Total Long-Term Debt, Net of Current Maturities				<u>\$ 710,234</u>

¹County of Mahnomen, Minnesota, Gross Revenue Hospital Facilities Bond, Series 2007, matures in February 2018. Bond bears interest rate coupon at 4.6 percent.

²The Health Center entered into a five-year capital lease through Mahnomen County during the fiscal year ended December 31, 2012, for the purchase of an electric boiler, with an interest rate of 2.75 percent.

The following is a maturity schedule of long-term debt and capital lease obligations as of December 31, 2015:

Year Ending December 31	Long-Term Debt		Capital Lease Obligations	
	Principal	Interest	Principal	Interest
2016	\$ 160,740	\$ 19,648	\$ 95,764	\$ 17,607
2017	170,902	12,339	93,831	14,231
2018	179,475	4,662	38,037	11,489
2019	19,603	341	39,983	9,542
2020	1,323	3	42,028	7,497
Thereafter	<u>-</u>	<u>-</u>	<u>125,052</u>	<u>9,195</u>
Total	<u>\$ 532,043</u>	<u>\$ 36,993</u>	<u>\$ 434,695</u>	<u>\$ 69,561</u>

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

7. Mahnomen Health Center (Continued)

G. Investment in Joint Venture

The Health Center and other hospitals (all of which are unrelated parties to the Health Center) formed a non-profit corporation known as Central Minnesota Diagnostic, Inc. (CMDI). CMDI was organized to provide certain agreed-upon shared services to those hospitals who are members of this corporation.

CMDI provides the equipment for CT scans for the Health Center's patients. The Health Center billed and collected the revenue for these services to patients and paid CMDI \$240,465 in 2015 for the use of the equipment. Accounts payable to CMDI for these services at December 31, 2015, amounted to \$19,635. At December 31, 2015, the Health Center owned 0.79 percent of CMDI.

Summarized financial information from the financial statements of CMDI at December 31, 2015, and for the year then ended, is presented below:

Total Assets	<u>\$ 45,492,842</u>
Total Liabilities	\$ 12,119,595
Members' equity	
Retained earnings	<u>33,373,247</u>
Total Liabilities and Members' Equity	<u>\$ 45,492,842</u>
Total Operating Revenue	<u>\$ 40,559,744</u>
Net Income	<u>\$ 12,327,001</u>

H. Defined Benefit Pension Plan

Plan Description

The Health Center participates in the following defined benefit pension plans administered by PERA. PERA's defined pension 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.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

7. Mahnomen Health Center

H. Defined Benefit Pension Plan

Plan Description (Continued)

All full-time and certain part-time employees of the Health Center are covered by the General Employees Retirement Fund (GERF). GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

Benefits Provided

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can be modified by the state legislature.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90 percent funded for two consecutive years are given 2.5 percent increases. Members in plans that have not exceeded 90 percent funded, or have fallen below 80 percent, are given 1 percent increases.

The benefit provisions stated in the following paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not receiving them yet 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 PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

7. Mahnomen Health Center

H. Defined Benefit Pension Plan

Benefits Provided (Continued)

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. Disability benefits are available for vested members and are based upon years of service and average high-five salary.

Contributions

Minnesota Statutes, chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature.

Basic Plan members were required to contribute 6.5 percent of their annual covered salary in calendar year 2015, and the Health Center was required to contribute 7.5 percent of pay for Basic Plan members. The Health Center's contributions to the GERP for the plan's fiscal years ended December 31, 2015, 2014, and 2013, were \$192,494, \$232,739, and \$211,026, respectively. The Health Center's contributions were equal to the required contributions for each year as set by state statute.

Pension Costs

At December 31, 2015, the Health Center reported a liability of \$2,497,975, for its proportionate share of the GERP's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Health Center's proportion of the net pension liability was based on the Health Center's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the Health Center's proportionate share was 0.0482 percent.

There were no benefit provision changes during the measurement period.

For the year ended December 31, 2015, the Health Center recognized pension expense of \$162,558. This amount consisted of the Health Center's proportionate share of the GERP's pension expense, plus additional amortized net expenses associated with differences between estimated and actual experience of various actuarial assumptions associated with the plan.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

7. Mahnomen Health Center

H. Defined Benefit Pension Plan

Pension Costs (Continued)

At December 31, 2015, the Health Center reported its proportionate share of the GERS'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 experience	\$ 27,203	\$ 125,940
Changes of assumptions	182,676	-
Net difference between projected and actual earnings on pension plan investments	-	302,329
Changes in proportion and differences between organization contributions and proportionate share of contributions	-	295,943
Organization contributions subsequent to the measurement date	96,248	-
Total	\$ 306,127	\$ 724,212

The \$96,248 reported as deferred outflows of resources related to pensions resulting from the Health Center's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ending December 31		
2016	\$	(156,171)
2017		(156,171)
2018		(261,110)
2019		59,118
Total	\$	(514,334)

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

7. Mahnomen Health Center

H. Defined Benefit Pension Plan (Continued)

Actuarial Assumptions

The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumption:

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

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on RP-2000 tables for males and females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be 1.0 percent effective every January 1 until 2034, then 2.5 percent.

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of actuarial experience studies. The experience study in the GERS was for the period July 1, 2004, through June 30, 2008, with an update of economic assumptions in 2014. The experience study for the Public Employees Police and Fire Fund was for the period July 1, 2004, through June 30, 2009. Experience studies have not been prepared for the Public Employees Correctional Fund, but assumptions are reviewed annually.

There were no changes in actuarial assumptions in 2015.

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

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

7. Mahnomen Health Center

H. Defined Benefit Pension Plan

Actuarial Assumptions (Continued)

<u>Asset Class</u>	<u>Asset 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 investments	20	6.40
Cash	2	0.50

Discount Rate

The discount rate used to measure the total pension liability was 7.9 percent. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Pension Liability Sensitivity

The following presents the Health Center's proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the Health Center'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:

	<u>1% Decrease in Discount Rate (6.9%)</u>	<u>Discount Rate (7.9%)</u>	<u>1% Increase in Discount Rate (8.9%)</u>
Health Center's proportionate share of the net pension liability	\$ 3,927,703	\$ 2,497,975	\$ 1,317,238

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

7. Mahnomen Health Center

H. Defined Benefit Pension Plan

Pension Liability Sensitivity (Continued)

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.

I. Leases

The Health Center leases certain space under a long-term lease agreement. The lease has been recorded as an operating lease. Total lease expense for the year ended December 31, 2015, was \$62,316. Minimum future lease payments for the long-term operating lease are as follows:

Year Ending December 31	Principal
2016	\$ 62,316
2017	62,316
2018	62,316
2019	51,930
Total	\$ 238,878

J. Concentrations of Credit Risk

The Health Center grants credit without collateral to its patients and residents, most of whom are insured under third-party payor agreements. The mix of receivables from third-party payors, patients, and residents at December 31, 2015, was as follows:

Medicare	21%
Blue Cross	5
Medicaid	27
Commercial insurance	5
Other third-party payors, patients, and residents	42
Total	100%

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

7. Mahnomen Health Center (Continued)

K. Related-Party Transactions

In March 2009, the County issued \$560,000 of General Obligation Nursing Home Revenue Refunding Bonds, Series 2009A, which refunded the Series 1999 Bonds that were used to finance improvements to the nursing home portion of the Health Center. The bonds are general obligations of the County for which the County pledged its full faith, credit, and taxing powers. The County made a principal payment of \$105,000 for the year ended December 31, 2015, and made an interest payment of \$2,691 related to the Series 2009A Bonds. The final payment was made in February 2016.

L. Management Service Agreement

The Health Center has a management service agreement with Sanford Health, a nonprofit corporation (Manager). The Manager has the full authority to implement and fulfill the policy decisions of the Health Center Commission. Total management fee expense for the year ended December 31, 2015, was \$318,317. Accounts payable to Sanford Health for these services at December 31, 2015, were \$612,203.

M. Electronic Health Record

The Electronic Health Record (EHR) incentive program was enacted as part of the American Recovery and Reinvestment Act of 2009 (ARRA) and the Health Information Technology for Economic and Clinical Health (HITECH) Act. These Acts provided for incentive payments under both the Medicare and Medicaid programs to eligible health care organizations that demonstrate meaningful use of certified EHR technology. The Medicare incentive payments for Critical Access Hospitals are made based on Medicare utilization and actual costs incurred to attain meaningful use and are contingent on the Health Center continuing to meet the escalating meaningful use criteria. For the first payment year, the Health Center must attest, subject to audit, that it met the meaningful use criteria for a continuous 90-day period. For the subsequent payment year, the Health Center must demonstrate meaningful use for the entire year. The incentive payments under Medicare for Critical Access Hospitals are made in one lump sum. The State of Minnesota Medicaid incentive payments follow the same initial meaningful use requirements as the Medicare incentive, as well as certain Medicaid volume requirements. The Medicaid incentive payment is calculated using the Health Center's Medicaid volume applied to a base incentive amount. The Medicaid incentive is paid in three lump sums over the course of three years with 50 percent in year one, 40 percent in year two, and 10 percent in year three.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

7. Mahnomen Health Center

M. Electronic Health Record (Continued)

The Health Center demonstrated meaningful use for a continuous 90-day period during the year ended December 31, 2015. During the year ended December 31, 2015, the Health Center recorded \$387,000 related to the Medicaid program in nonoperating revenue in the statement of revenues, expenses, and changes in net position. These incentives have been recognized when received. The Medicare incentive payment had not yet been received as of December 31, 2015. The final amount of the Medicare payment will be determined based on information from the Health Center's Medicare cost report for the year ended December 31, 2015. Events could occur that would cause the final payment to differ materially upon final settlement.

N. Commitments and Contingencies

Malpractice Claims

The Health Center's malpractice insurance is a claims-made policy subject to a limit of \$1.0 million per claim and an annual aggregate limit of \$5.0 million. The Health Center also has an excess policy for \$1.0 million per occurrence and \$1.0 million in aggregate. Should these policies lapse and not be replaced with equivalent coverage, claims based upon occurrence during its term, but reported subsequent thereto, will be uninsured.

Litigation, Claims, and Other Disputes

The Health Center is subject to the usual contingencies in the normal course of operations relating to the performance of its tasks under its various programs. In the opinion of management, the ultimate settlement of litigation, claims, and disputes in process will not be material to the financial position of the Health Center.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

7. Mahnomen Health Center

N. Commitments and Contingencies (Continued)

Other

In the normal course of business, there could be various outstanding contingent liabilities such as, but not limited to, the following:

- lawsuits alleging negligence in care,
- environmental pollution,
- violation of the regulatory body's rules and regulations, and
- violation of federal and/or state laws.

No contingent liabilities such as, but not limited to those described above, are reflected in the accompanying financial statements. No such liabilities have been asserted and, therefore, no estimate of loss, if any, is determinable.

O. Prior Period Adjustment

GASB No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB No. 27*, was implemented during fiscal year 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, GASB Statement 68 requires a state or local government employer to recognize a net pension liability and changes in the net pension liability, deferred outflows or resources, and deferred inflows of resources which arise from other types of events related to pensions. During the transition year, as permitted, beginning balances for deferred outflows or resources and deferred inflows of resources will not be reported, except for deferred outflows of resources related to contributions made after the measurement date of the beginning net pension liability which is required to be reported by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Beginning

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

7. Mahnomen Health Center

O. Prior Period Adjustment (Continued)

net position was restated to retroactively report the beginning net pension liability and deferred outflows of resources related to contributions made after the measurement date, as follows:

	As Previously Stated	Prior Period Adjustments	As Restated
Net pension liability	\$ -	\$ (2,658,785)	\$ (2,658,785)
Professional care of patients	796,250	(29,836)	766,414
Deferred outflows	-	431,189	431,189
Deferred inflows	-	(718,401)	(718,401)
Net position	5,319,522	(2,975,833)	2,343,689

REQUIRED SUPPLEMENTARY INFORMATION

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**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT A-1

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 2,849,128	\$ 2,849,128	\$ 2,750,417	\$ (98,711)
Licenses and permits	8,115	8,115	3,629	(4,486)
Intergovernmental	4,799,225	4,799,225	4,210,227	(588,998)
Charges for services	249,230	249,230	226,481	(22,749)
Fines and forfeits	10,000	10,000	6,486	(3,514)
Gifts and contributions	-	-	19,126	19,126
Investment earnings	30,800	30,800	67,789	36,989
Miscellaneous	238,107	238,107	326,526	88,419
Total Revenues	\$ 8,184,605	\$ 8,184,605	\$ 7,610,681	\$ (573,924)
Expenditures				
Current				
General government				
Commissioners	\$ 204,571	\$ 204,571	\$ 204,578	\$ (7)
Courts	60,112	60,112	48,914	11,198
County auditor	261,165	261,165	261,576	(411)
License bureau	78,181	78,181	75,588	2,593
County treasurer	134,812	134,812	110,090	24,722
County assessor	228,692	228,692	247,957	(19,265)
Elections	4,085	4,085	3,886	199
Accounting and auditing	50,000	50,000	57,083	(7,083)
Data processing	129,152	129,152	165,253	(36,101)
Attorney	482,791	482,791	439,675	43,116
Contracted legal services	40,000	40,000	46,801	(6,801)
Law library	13,000	13,000	5,680	7,320
Recorder	115,621	115,621	109,362	6,259
Planning and zoning	23,391	23,391	27,498	(4,107)
Buildings and plant	254,985	254,985	258,145	(3,160)
Veterans service officer	30,887	30,887	30,835	52
Unallocated	966,870	966,870	877,223	89,647
Total general government	\$ 3,078,315	\$ 3,078,315	\$ 2,970,144	\$ 108,171

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

*EXHIBIT A-1
(Continued)*

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Public safety				
Sheriff	\$ 2,182,456	\$ 2,182,456	\$ 2,369,451	\$ (186,995)
Boat and water safety	4,257	4,257	1,974	2,283
Emergency services	3,400	3,400	-	3,400
Coroner	16,800	16,800	12,627	4,173
E-911 system	75,293	75,293	112,217	(36,924)
Victim assistance	65,375	65,375	64,669	706
Probation and parole	144,231	144,231	101,473	42,758
County safety program	11,228	11,228	32,171	(20,943)
Snowmobile safety	28,692	28,692	12,970	15,722
Total public safety	\$ 2,531,732	\$ 2,531,732	\$ 2,707,552	\$ (175,820)
Health				
Nursing service	\$ 77,918	\$ 77,918	\$ 77,918	\$ -
Health	1,000	1,000	1,125	(125)
Health Center	156,000	156,000	268,756	(112,756)
Total health	\$ 234,918	\$ 234,918	\$ 347,799	\$ (112,881)
Culture and recreation				
County/regional library	\$ 39,455	\$ 39,455	\$ 39,455	\$ -
Snowmobile trails	100,000	100,000	81,647	18,353
Total culture and recreation	\$ 139,455	\$ 139,455	\$ 121,102	\$ 18,353
Conservation of natural resources				
County extension	\$ 97,750	\$ 97,750	\$ 91,557	\$ 6,193
Soil and water conservation	55,322	55,322	54,980	342
Agricultural inspections	9,367	9,367	8,142	1,225
Agricultural society/County fair	5,500	5,500	3,365	2,135
Predator control	500	500	277	223
Water planning	17,133	17,133	17,133	-
Total conservation of natural resources	\$ 185,572	\$ 185,572	\$ 175,454	\$ 10,118

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

*EXHIBIT A-1
(Continued)*

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Economic development				
Housing authority	\$ -	\$ -	\$ 458	\$ (458)
Airport	1,420,083	1,420,083	833,850	586,233
Total economic development	\$ 1,420,083	\$ 1,420,083	\$ 834,308	\$ 585,775
Debt service				
Principal	\$ 15,993	\$ 15,993	\$ 19,503	\$ (3,510)
Interest	3,885	3,885	3,170	715
Total debt service	\$ 19,878	\$ 19,878	\$ 22,673	\$ (2,795)
Total Expenditures	\$ 7,609,953	\$ 7,609,953	\$ 7,179,032	\$ 430,921
Excess of Revenues Over (Under)				
Expenditures	\$ 574,652	\$ 574,652	\$ 431,649	\$ (143,003)
Other Financing Sources (Uses)				
Transfers in	\$ -	\$ -	\$ 37,101	\$ 37,101
Transfers out	-	-	(250,000)	(250,000)
Total Other Financing Sources (Uses)	\$ -	\$ -	\$ (212,899)	\$ (212,899)
Net Change in Fund Balance	\$ 574,652	\$ 574,652	\$ 218,750	\$ (355,902)
Fund Balance - January 1	3,340,819	3,340,819	3,340,819	-
Fund Balance - December 31	\$ 3,915,471	\$ 3,915,471	\$ 3,559,569	\$ (355,902)

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT A-2

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 575,000	\$ 575,000	\$ 548,558	\$ (26,442)
Special assessments	-	-	78	78
Intergovernmental	2,920,116	2,920,116	4,666,921	1,746,805
Charges for services	70,000	70,000	60,827	(9,173)
Miscellaneous	-	-	5,720	5,720
Total Revenues	\$ 3,565,116	\$ 3,565,116	\$ 5,282,104	\$ 1,716,988
Expenditures				
Current				
Highways and streets				
Administration	\$ 404,303	\$ 404,303	\$ 257,232	\$ 147,071
Maintenance	864,198	864,198	849,025	15,173
Construction	1,827,957	1,827,957	3,027,622	(1,199,665)
Equipment maintenance and shop	362,182	362,182	289,496	72,686
Materials and services for resale	73,892	73,892	6,236	67,656
Total highways and streets	\$ 3,532,532	\$ 3,532,532	\$ 4,429,611	\$ (897,079)
Intergovernmental				
Highways and streets	137,732	137,732	144,918	(7,186)
Total Expenditures	\$ 3,670,264	\$ 3,670,264	\$ 4,574,529	\$ (904,265)
Net Change in Fund Balance	\$ (105,148)	\$ (105,148)	\$ 707,575	\$ 812,723
Fund Balance - January 1	784,222	784,222	784,222	-
Increase (decrease) in inventories	-	-	(578)	(578)
Fund Balance - December 31	\$ 679,074	\$ 679,074	\$ 1,491,219	\$ 812,145

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT A-3

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 562,722	\$ 562,722	\$ 537,452	\$ (25,270)
Intergovernmental	1,960,859	1,960,859	1,968,690	7,831
Charges for services	91,391	91,391	124,567	33,176
Gifts and contributions	-	-	2,420	2,420
Miscellaneous	110,200	110,200	76,275	(33,925)
Total Revenues	\$ 2,725,172	\$ 2,725,172	\$ 2,709,404	\$ (15,768)
Expenditures				
Current				
Human services				
Income maintenance	\$ 1,077,816	\$ 1,077,816	\$ 1,069,218	\$ 8,598
Social services	1,647,356	1,647,356	1,743,450	(96,094)
Transportation	-	-	2,931	(2,931)
Total Expenditures	\$ 2,725,172	\$ 2,725,172	\$ 2,815,599	\$ (90,427)
Excess of Revenues Over (Under)				
Expenditures	\$ -	\$ -	\$ (106,195)	\$ (106,195)
Other Financing Sources (Uses)				
Transfers in	-	-	250,000	250,000
Net Change in Fund Balance	\$ -	\$ -	\$ 143,805	\$ 143,805
Fund Balance - January 1	298,483	298,483	298,483	-
Fund Balance - December 31	\$ 298,483	\$ 298,483	\$ 442,288	\$ 143,805

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT A-4

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
January 1, 2009	\$ -	\$ 1,914,577	\$ 1,914,577	0.0%	\$3,323,915	57.6%
January 1, 2012	-	2,341,568	2,341,568	0.0	3,118,242	75.1
January 1, 2015	-	2,633,010	2,633,010	0.0	3,472,700	75.8

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT A-5

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

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	Covered Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
June 30, 2015	0.0474%	\$ 2,456,514	\$ 2,788,456	88.10%	78.20%

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.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT A-6

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

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b-a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
December 31, 2015	\$ 210,815	\$ 210,815	\$ -	\$ 2,810,867	7.50%

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

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT A-7

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

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	Covered Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
June 30, 2015	0.071%	\$ 806,726	\$ 649,558	124.20%	86.60%

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.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT A-8

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

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b-a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
December 31, 2015	\$ 108,686	\$ 108,686	\$ -	\$ 670,901	16.20%

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

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT A-9

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

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	Covered Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
June 30, 2015	0.150%	\$ 23,190	\$ 277,931	8.34%	96.95%

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

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT A-10

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

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b-a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
December 31, 2015	\$ 24,302	\$ 24,302	\$ -	\$ 277,737	8.75%

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

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**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

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

1. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds, except the Forfeited Tax Sale Special Revenue Fund, the Hospital Reserve Special Revenue Fund, the Nursing Home Revenue Bonds Debt Service Fund, and the Mahnomen Health Center Debt Service Fund. All annual appropriations lapse at fiscal year-end.

On or before mid-June of each year, all departments and agencies submit requests for appropriations to the 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 budgetary amendments.

2. Excess of Expenditures Over Budget

The following major funds had expenditures in excess of budget for the year ended December 31, 2015.

	<u>Expenditures</u>	<u>Final Budget</u>	<u>Excess</u>
Road and Bridge Special Revenue Fund	\$ 4,574,529	\$ 3,670,264	\$ 904,265
Social Services Special Revenue Fund	2,815,599	2,725,172	90,427

3. Other Postemployment Benefits

Funded Status

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

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

3. Other Postemployment Benefits

Funding Status (Continued)

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

Significant Actuarial Assumption Changes

2015

Actuarial Assumptions

- The health care trend rates were changed to better anticipate short-term and long-term medical increases. This change caused a decrease in the liability.
- Mortality assumptions were updated to include the RP-2014 tables, including the generational improvement scale, to include future mortality improvement. This change caused an increase in the liability.
- The trend assumption used to project the post-retirement subsidy for law enforcement and all other County employees was changed from no trend to half of the health care trend rates.

SUPPLEMENTARY INFORMATION

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**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

The Solid Waste Fund accounts for the County's share of operations of the Fosston incinerator and for costs of the Sanitation Department and the demolition site. Financing is provided by special assessments levied against benefiting users.

The Ditch Fund accounts for the financial transactions of the County drainage systems. Financing is provided by special assessments levied against benefited property owners.

The Hospital Reserve Fund accounts for tax revenues collected and accumulated to fund future needs related to the Mahnomen Health Center.

The Forfeited Tax Sale Fund accounts for the proceeds from the sale or rental of land forfeited to the State of Minnesota. The net proceeds, after deducting the expense for the County for managing the tax-forfeited land, are apportioned to various County funds and taxing districts. Title to the tax-forfeited land remains with the state until sold by the County.

DEBT SERVICE FUNDS

The Nursing Home Revenue Bonds Fund accounts for the retirement of general obligation bonds issued for the nursing home construction project. The bonds will be retired from net revenues and an annual ad valorem tax levied by the County. The fund also accounts for the receipt and use of the proceeds of these bonds.

The Mahnomen Health Center Bonds Fund accounts for the retirement of gross revenue hospital facilities bonds issued for the Mahnomen Health Center construction project.

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**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT B-1

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

	Special Revenue (Exhibit B-3)	Debt Service (Exhibit B-5)	Total (Exhibit 3)
<u>Assets</u>			
Current assets			
Cash and pooled investments	\$ 691,230	\$ 164,958	\$ 856,188
Undistributed cash in agency funds	4,823	24	4,847
Taxes receivable delinquent	13	1,366	1,379
Special assessments receivable			
Delinquent	29,637	-	29,637
Noncurrent	40,500	-	40,500
Accrued interest receivable	-	16	16
Due from other governments	4,052	-	4,052
Noncurrent assets			
Long-term receivables	-	26,706	26,706
Total Assets	\$ 770,255	\$ 193,070	\$ 963,325
 <u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>			
Liabilities			
Accounts payable	\$ 29,233	\$ -	\$ 29,233
Salaries payable	2,013	-	2,013
Due to other funds	40,681	-	40,681
Due to other governments	31,207	-	31,207
Total Liabilities	\$ 103,134	\$ -	\$ 103,134
Deferred Inflows of Resources			
Unavailable revenue	\$ 67,682	\$ 1,351	\$ 69,033
Fund Balances			
Restricted for			
Debt service	\$ -	\$ 147,159	\$ 147,159
SCORE	46,143	-	46,143
Ditch maintenance and construction	290,894	-	290,894
Assigned to			
General government	-	44,560	44,560
Solid waste	151,110	-	151,110
Hospital reserve	111,292	-	111,292
Total Fund Balances	\$ 599,439	\$ 191,719	\$ 791,158
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 770,255	\$ 193,070	\$ 963,325

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT B-2

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

	Special Revenue (Exhibit B-4)	Debt Service (Exhibit B-6)	Total (Exhibit 5)
Revenues			
Taxes	\$ 525	\$ 557	\$ 1,082
Special assessments	243,748	-	243,748
Intergovernmental	92,370	146,943	239,313
Charges for services	7,277	-	7,277
Investment earnings	-	188	188
Miscellaneous	58,575	-	58,575
	\$ 402,495	\$ 147,688	\$ 550,183
Expenditures			
Current			
Sanitation	\$ 266,373	\$ -	\$ 266,373
Conservation of natural resources	63,805	-	63,805
Debt service			
Principal	-	235,000	235,000
Interest	-	24,845	24,845
Administrative - fiscal charges	-	450	450
	\$ 330,178	\$ 260,295	\$ 590,473
Excess of Revenues Over (Under) Expenditures	\$ 72,317	\$ (112,607)	\$ (40,290)
Other Financing Sources (Uses)			
Transfers out	(37,101)	-	(37,101)
Net Change in Fund Balance	\$ 35,216	\$ (112,607)	\$ (77,391)
Fund Balance - January 1	564,223	304,326	868,549
Fund Balance - December 31	\$ 599,439	\$ 191,719	\$ 791,158

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT B-3

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

	<u>Solid Waste</u>	<u>Ditch</u>	<u>Hospital Reserve</u>	<u>Forfeited Tax Sale</u>	<u>Total (Exhibit B-1)</u>
<u>Assets</u>					
Cash and pooled investments	\$ 209,892	\$ 316,995	\$ 111,292	\$ 53,051	\$ 691,230
Undistributed cash in agency funds	3,738	1,085	-	-	4,823
Taxes receivable delinquent	-	-	13	-	13
Special assessments receivable					
Delinquent	18,526	11,111	-	-	29,637
Noncurrent	-	40,500	-	-	40,500
Accounts receivable	-	-	-	-	-
Due from other governments	4,052	-	-	-	4,052
Total Assets	\$ 236,208	\$ 369,691	\$ 111,305	\$ 53,051	\$ 770,255
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>					
Liabilities					
Accounts payable	\$ 3,555	\$ 25,678	\$ -	\$ -	\$ 29,233
Salaries payable	2,013	-	-	-	2,013
Due to other funds	1,894	1,686	-	37,101	40,681
Due to other governments	15,257	-	-	15,950	31,207
Total Liabilities	\$ 22,719	\$ 27,364	\$ -	\$ 53,051	\$ 103,134
Deferred Inflows of Resources					
Unavailable revenue	\$ 16,236	\$ 51,433	\$ 13	\$ -	\$ 67,682
Fund Balances					
Restricted for					
SCORE	\$ 46,143	\$ -	\$ -	\$ -	\$ 46,143
Ditch maintenance and construction	-	290,894	-	-	290,894
Assigned to					
Solid waste	151,110	-	-	-	151,110
Hospital reserve	-	-	111,292	-	111,292
Total Fund Balances	\$ 197,253	\$ 290,894	\$ 111,292	\$ -	\$ 599,439
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 236,208	\$ 369,691	\$ 111,305	\$ 53,051	\$ 770,255

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT B-4

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

	<u>Solid Waste</u>	<u>Ditch</u>	<u>Hospital Reserve</u>	<u>Forfeited Tax Sale</u>	<u>Total (Exhibit B-2)</u>
Revenues					
Taxes	\$ 519	\$ -	\$ 6	\$ -	\$ 525
Special assessments	197,067	46,681	-	-	243,748
Intergovernmental	92,370	-	-	-	92,370
Charges for services	7,277	-	-	-	7,277
Miscellaneous	100	-	-	58,475	58,575
Total Revenues	\$ 297,333	\$ 46,681	\$ 6	\$ 58,475	\$ 402,495
Expenditures					
Current					
Sanitation	\$ 266,373	\$ -	\$ -	\$ -	\$ 266,373
Conservation of natural resources	-	42,431	-	21,374	63,805
Total Expenditures	\$ 266,373	\$ 42,431	\$ -	\$ 21,374	\$ 330,178
Excess of Revenues Over (Under)					
Expenditures	\$ 30,960	\$ 4,250	\$ 6	\$ 37,101	\$ 72,317
Other Financing Sources (Uses)					
Transfers out	-	-	-	(37,101)	(37,101)
Net Change in Fund Balance	\$ 30,960	\$ 4,250	\$ 6	\$ -	\$ 35,216
Fund Balance - January 1	166,293	286,644	111,286	-	564,223
Fund Balance - December 31	\$ 197,253	\$ 290,894	\$ 111,292	\$ -	\$ 599,439

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT B-5

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

	<u>Nursing Home Revenue Bonds</u>	<u>Mahnomen Health Center Bonds</u>	<u>Total (Exhibit B-1)</u>
<u>Assets</u>			
Current assets			
Cash and pooled investments	\$ 44,521	\$ 120,437	\$ 164,958
Undistributed cash in agency funds	24	-	24
Taxes receivable delinquent	1,366	-	1,366
Accrued interest receivable	-	16	16
Due from other governments	-	26,706	26,706
	<hr/>	<hr/>	<hr/>
Total Assets	<u>\$ 45,911</u>	<u>\$ 147,159</u>	<u>\$ 193,070</u>
<u>Deferred Inflows of Resources and Fund Balances</u>			
Deferred Inflows of Resources			
Unavailable revenue	<u>\$ 1,351</u>	<u>\$ -</u>	<u>\$ 1,351</u>
Fund Balances			
Restricted for			
Debt service	\$ -	\$ 147,159	\$ 147,159
Assigned to			
General government	<u>44,560</u>	<u>-</u>	<u>44,560</u>
	<hr/>	<hr/>	<hr/>
Total Fund Balances	<u>\$ 44,560</u>	<u>\$ 147,159</u>	<u>\$ 191,719</u>
Total Deferred Inflows of Resources and Fund Balances			
	<u>\$ 45,911</u>	<u>\$ 147,159</u>	<u>\$ 193,070</u>

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT B-6

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

	Nursing Home Revenue Bonds	Mahnomen Health Center Bonds	Total (Exhibit B-2)
Revenues			
Taxes	\$ 557	\$ -	\$ 557
Intergovernmental	157	146,786	146,943
Investment earnings	-	188	188
	\$ 714	\$ 146,974	\$ 147,688
Expenditures			
Debt service			
Principal	\$ 100,000	\$ 135,000	\$ 235,000
Interest	1,500	23,345	24,845
Administrative - fiscal charges	450	-	450
	\$ 101,950	\$ 158,345	\$ 260,295
Net Change in Fund Balance	\$ (101,236)	\$ (11,371)	\$ (112,607)
Fund Balance - January 1	145,796	158,530	304,326
Fund Balance - December 31	\$ 44,560	\$ 147,159	\$ 191,719

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT B-7

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ -	\$ -	\$ 519	\$ 519
Special assessments	188,000	188,000	197,067	9,067
Intergovernmental	92,269	92,269	92,370	101
Charges for services	6,000	6,000	7,277	1,277
Miscellaneous	100	100	100	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Revenues	\$ 286,369	\$ 286,369	\$ 297,333	\$ 10,964
Expenditures				
Current				
Sanitation				
Solid waste	253,515	253,515	266,373	(12,858)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net Change in Fund Balance	\$ 32,854	\$ 32,854	\$ 30,960	\$ (1,894)
Fund Balance - January 1	166,293	166,293	166,293	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Fund Balance - December 31	\$ 199,147	\$ 199,147	\$ 197,253	\$ (1,894)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT B-8

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Special assessments	\$ 40,500	\$ 40,500	\$ 46,681	\$ 6,181
Expenditures				
Current				
Conservation of natural resources				
Drainage ditches	40,500	40,500	42,431	(1,931)
Net Change in Fund Balance	\$ -	\$ -	\$ 4,250	\$ 4,250
Fund Balance - January 1	286,644	286,644	286,644	-
Fund Balance - December 31	\$ 286,644	\$ 286,644	\$ 290,894	\$ 4,250

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

FIDUCIARY FUNDS

AGENCY FUNDS

The Headwaters Commission Fund accounts for the collection and payment of taxes due to the Headwaters Regional Development Commission.

The School Districts Fund accounts for the collection and payment of funds due to school districts.

The State Revenue Fund accounts for the state's share of fines, delinquent and severed mineral tax, assurance, and mortgage registry tax.

The Taxes and Penalties Fund accounts for the collection of taxes and penalties and their payment to the various taxing districts.

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

The Watershed Fund accounts for the collection and payment of funds due to the watershed districts.

The Advanced Life Support Fund accounts for the collection and payment of funds due to the Mahnomen Health Center for ambulance services.

The Cafeteria Plan Fund accounts for the payroll deductions and disbursements of a County-administered cafeteria plan.

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**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT C-1

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

	Balance January 1	Additions	Deductions	Balance December 31
<u>HEADWATERS COMMISSION</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 17,288	\$ 17,288	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 17,288	\$ 17,288	\$ -
 <u>SCHOOL DISTRICTS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 1,103,029	\$ 1,103,029	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 1,103,029	\$ 1,103,029	\$ -
 <u>STATE REVENUE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 1,048	\$ 414,484	\$ 413,849	\$ 1,683
<u>Liabilities</u>				
Due to other governments	\$ 1,048	\$ 414,484	\$ 413,849	\$ 1,683

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

*EXHIBIT C-1
(Continued)*

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

	Balance January 1	Additions	Deductions	Balance December 31
<u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 119,307	\$ 6,796,328	\$ 6,858,115	\$ 57,520
<u>Liabilities</u>				
Due to other governments	\$ 119,307	\$ 6,796,328	\$ 6,858,115	\$ 57,520
 <u>TOWNSHIPS AND CITIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 1,044,852	\$ 1,044,852	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 1,044,852	\$ 1,044,852	\$ -
 <u>WATERSHED</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 288,894	\$ 288,894	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 288,894	\$ 288,894	\$ -

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

*EXHIBIT C-1
(Continued)*

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

	Balance January 1	Additions	Deductions	Balance December 31
<u>ADVANCED LIFE SUPPORT</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 53,138	\$ 53,112	\$ 26
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 53,138	\$ 53,112	\$ 26
 <u>CAFETERIA PLAN</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 3,217	\$ 16,531	\$ 15,945	\$ 3,803
<u>Liabilities</u>				
Accounts payable	\$ -	\$ 112	\$ -	\$ 112
Due to other governments	3,217	16,419	15,945	3,691
Total Liabilities	\$ 3,217	\$ 16,531	\$ 15,945	\$ 3,803
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 123,572	\$ 9,734,544	\$ 9,795,084	\$ 63,032
<u>Liabilities</u>				
Accounts payable	\$ -	\$ 112	\$ -	\$ 112
Due to other governments	123,572	9,734,432	9,795,084	62,920
Total Liabilities	\$ 123,572	\$ 9,734,544	\$ 9,795,084	\$ 63,032

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OTHER SCHEDULES

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**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT D-1

**SCHEDULE OF DEPOSITS AND INVESTMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Number</u>	<u>Interest Rate (%)</u>	<u>Maturity Dates</u>	<u>Fair Value</u>
Cash and Pooled Investments				
Cash on hand	N/A	N/A	N/A	\$ 1,700
Interest-bearing checking	Six	0.05 to 0.30	Continuous	2,032,306
Passbook savings	One	0.10	Continuous	165,832
Certificates of deposit	Three	0.25 to 0.65	February 29, 2016 to October 13, 2016	90,866
Money market savings	Three	0.15 to 0.30	Continuous	1,971,511
Negotiable certificates of deposit	Eleven	2.00 to 2.35	November 15, 2018 to May 8, 2023	2,130,323
Federal National Mortgage Association	Two	1.10 to 2.00	March 13, 2018 August 26, 2020	399,180
Total Cash and Pooled Investments				<u>\$ 6,791,718</u>

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT D-2

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

	<u>County Ditch No. 3</u>	<u>Joint Ditch No. 55</u>	<u>County Ditch No. 91-91A</u>	<u>Total</u>
<u>Assets</u>				
Cash and pooled investments	\$ 15,334	\$ 141,253	\$ 160,408	\$ 316,995
Undistributed cash in agency funds	45	-	1,040	1,085
Special assessments receivable				
Delinquent	39	-	11,072	11,111
Noncurrent	3,000	7,500	30,000	40,500
Total Assets	\$ 18,418	\$ 148,753	\$ 202,520	\$ 369,691
<u>Liabilities, Deferred Inflows of Resources, and Fund Balance</u>				
Liabilities				
Accounts payable	\$ -	\$ -	\$ 25,678	\$ 25,678
Due to other funds	111	-	1,575	1,686
Total Liabilities	\$ 111	\$ -	\$ 27,253	\$ 27,364
Deferred Inflows of Resources				
Unavailable revenue	2,997	7,500	40,936	51,433
Fund Balance				
Restricted				
Restricted for ditch maintenance and construction	15,310	141,253	134,331	290,894
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	\$ 18,418	\$ 148,753	\$ 202,520	\$ 369,691

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT D-3

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

Shared Revenue

State

Highway users tax	\$	4,571,927
County program aid		2,159,795
PERA rate reimbursement		10,235
Disparity reduction aid		63,937
Aquatic invasive species aid		27,829
Police aid		87,067
Market value credit		112,389
Indian casino aid		135,785
Property tax reimbursement - casino		900,000
		900,000

Total shared revenue

\$ 8,068,964

Reimbursement for Services

State

Minnesota Department of Human Services	\$	446,750
		446,750

Payments

Local

Other contributions	\$	157,487
Local contributions		22,678
Payments in lieu of taxes		99,785
		99,785

Total payments

\$ 279,950

Grants

State

Minnesota Department/Board of		
Agriculture	\$	12,111
Human Services		305,306
Veterans Affairs		5,992
Public Safety		125,293
Corrections		10,956
Natural Resources		154,956
Labor and Industry		10,000
Water and Soil Resources		50,851
Transportation		62,466
MNsure		70
Peace Officer Standards and Training Board		4,431
Pollution Control Agency		69,692
		69,692

Total state

\$ 812,124

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

**EXHIBIT D-3
(Continued)**

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

Grants (Continued)

Federal

Department of	
Agriculture	\$ 139,677
Transportation	522,372
Health and Human Services	796,115
Homeland Security	19,199
	<hr/>

Total federal **\$ 1,477,363**

Total state and federal grants **\$ 2,289,487**

Total Intergovernmental Revenue **\$ 11,085,151**

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT D-4

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

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Pass-Through Grant Number	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	Not Provided	\$ <u>139,677</u>
U.S. Department of Transportation			
Passed Through Minnesota Department of Transportation Airport Improvement Program	20.106	4678, 6623, and 1001591	\$ 673,882
Highway Planning and Construction	20.205	00044	21,049
Formula Grants for Rural Areas	20.509	05046	<u>5,221</u>
Total U.S. Department of Transportation			\$ <u>700,152</u>
U.S. Department of Health and Human Services			
Passed Through Minnesota Department of Human Services Promoting Safe and Stable Families	93.556	1401MNFPS	\$ 1,134
Temporary Assistance for Needy Families	93.558	1502MNTANF	135,456
Child Support Enforcement	93.563	1504MN4005	128,778
Refugee and Entrant Assistance - State-Administered Programs	93.566	1501MNRCA	190
Child Care and Development Block Grant	93.575	G1501MNCCDF	1,222
Stephanie Tubbs Jones Child Welfare Services Program	93.645	1401MNCWSS	777
Foster Care - Title IV-E	93.658	1501MNFOS	124,103
Social Services Block Grant	93.667	1501MNSOSR	61,410
Chafee Foster Care Independence Program	93.674	1401MN1420	1,201
Children's Health Insurance Program	93.767	1405MN5021	56
Medical Assistance Program	93.778	1505MNSADM	<u>341,788</u>
Total U.S. Department of Health and Human Services			\$ <u>796,115</u>
U.S. Department of Homeland Security			
Passed Through Minnesota Department of Natural Resources Boating Safety Financial Assistance	97.012	101331	\$ 1,270
Passed Through Minnesota Department of Public Safety			
Emergency Management Performance Grants	97.042	A-EMPG-2014- MAHNOMCO-00046	<u>17,929</u>
Total U.S. Department of Homeland Security			\$ <u>19,199</u>
Total Federal Awards			\$ <u>1,655,143</u>

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

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**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

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

1. Reporting Entity

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

2. Basis of Presentation

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

3. Summary of Significant Accounting Policies

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

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

4. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 1,477,363
Grants received more than 60 days after year-end, unavailable in 2015	
Airport Improvement Program	212,025
Grants unavailable in 2014, recognized as revenue in 2015	
Airport Improvement Program	<u>(34,245)</u>
Expenditures Per Schedule of Expenditures of Federal Awards	<u>\$ 1,655,143</u>

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**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

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

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Internal control over financial reporting:

- Material weaknesses identified? **No**
- 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 programs: **Unmodified**

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

The major programs are:

State Administrative Matching Grants for the	
Supplemental Nutrition Assistance Program	CFDA #10.561
Airport Improvement Program	CFDA #20.106

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

Mahnomen 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 1996-004

Segregation of Duties

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

Condition: Due to the limited number of personnel within several Mahanomen County offices, segregation of accounting duties necessary to ensure adequate internal accounting control is not possible. The smaller fee offices generally have one staff person who is responsible for billing, collecting, recording, and depositing receipts as well as reconciling bank accounts.

Context: This is not unusual in operations the size of Mahanomen 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: The County informed us that the individual departments collecting fees have direct knowledge of the services provided, making it more efficient for the department providing the service to collect the fees, periodically remitting those fees to the County Treasurer with the proper coding for posting to the County's general ledger. The County stated that the department heads are aware that employees collecting those fees and recording those fees have incompatible duties and that they monitor the operations of their respective offices to ensure collections are properly receipted and periodically remitted to the County Treasurer.

Recommendation: We recommend Mahnomen 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.

Client's Response:

While understanding that implementation of "Segregation of Duties" is not a cost effective practice for the taxpayers of the County, the Department Heads are aware of the incompatible duties and will continue to be mindful and to monitor the operations of their respective offices to ensure that cash, reporting, receivables, and other items are maintained currently and correctly. The Auditor's and Treasurer's Office will continue, to the best of their abilities, to ensure safe handling of all County, State, and Federal transactions.

Finding 2008-001

Documenting and Monitoring Internal Controls

Criteria: 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: Mahnomen 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 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 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 Auditor stated that lack of time and resources dedicated to establish a formal process for assessing risks, documenting the internal controls established to reduce those risks, and monitoring of those controls has prevented them from completing a formal process. The County plans to continue working towards establishing a formal risk assessment process.

Recommendation: Mahnomon 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.

Client's Response:

The County has established an Internal Control/Fraud Risk Assessment Committee under the guidance of the OSA in order to review and document areas of risk and to implement procedures and policies used to minimize potential risks. This Committee will again attempt to meet and will continue to attempt to document significant internal controls as much as possible and develop a formal plan, given the limited staff time available.

Finding 2010-002

Departmental Control Procedures

Criteria: Bank statements should be routinely reconciled with the cash balances recorded in the books of the account. A periodic inventory of the Sheriff's Department evidence room will ensure that all recorded items are still in custody.

Condition: During our follow-up on departmental control procedures in the Sheriff's Department, we noted the following items reported in our previous audit have not been corrected as of January 1, 2016:

- Bank reconciliations are not maintained current for the Sheriff's Department. A review of the check register and bank statements revealed the bank had removed \$300 for check number 3127 that was written for \$200, there was \$42 in interest charges and bank fees that was not recorded in the register, and an unknown difference of \$8. The account balance includes \$2,689 in collections dating back several years that should be remitted to the County.
- The Sheriff's Department does not maintain a detailed listing or perform a periodic inventory of the items held in the evidence room. They have organized the evidence, but still do not have a master list to update when evidence is received or removed from the inventory.

Context: The establishment and oversight of departmental control procedures is particularly important because, generally, these smaller departments lack proper segregation of duties, which increases the risk of errors or fraud.

Effect: Internal control procedures assumed to be in place may not be working as intended to ensure accounting records are properly maintained and compared with the underlying items they represent, resulting in errors that need to be corrected. If the internal controls are not working as intended, there is increased risk that errors or fraud could occur and not be detected timely.

Cause: The County Board relies on management within the individual departments to ensure proper internal controls have been established and are working as intended. Although individual department managers may be aware certain control procedures should be performed, there is limited formal guidance documenting the internal control policies and procedures and consequences for not complying with those policies and procedures.

Recommendation: Mahnomen County's management should implement oversight and monitoring procedures to ensure that internal control policies and procedures are being implemented by staff.

The Office of the State Auditor has a Statement of Position 2007-1010 (The Importance of Internal Controls) which discusses internal controls. It can be found on our website along with other useful information, and may offer additional guidance:

http://www.auditor.state.mn.us/other/Statements/importanceic_0703_statement.pdf.

Client's Response:

Sheriff's secretary Tammy Benson is going to be contacting, and then working with, Chief Deputy Auditor Randy Waller to get the bank reconciliations done in a timely manner.

The Sheriff's Chief Deputy offered to work on finalizing a new evidence collection and evidence room policy. Once the policy is in place, there will be two evidence technicians who will be the only ones that will have access to the evidence room. Evidence will be entered into our records management system and will be inventoried through this system. This will allow us to have an ongoing updated list of everything in the room.

PREVIOUSLY REPORTED ITEM RESOLVED

Audit Adjustments (2014-001)

During our audit, we proposed audit adjustments which were material. Audit adjustments were necessary in the Road and Bridge Special Revenue Fund to increase deferred inflows of resources - unavailable revenue and reduce state aid - regular construction revenue in the amount of \$254,552 to properly reflect the unexpended balance of the County State-Aid Highways allotment not received within the revenue recognition period and to reclassify federal highway planning and construction revenue in the amount of \$1,346,682 incorrectly posted to the state aid - regular construction revenue account.

Resolution

No material audit adjustments were proposed for the 2015 audit.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

PREVIOUSLY REPORTED ITEM RESOLVED

Review Over Eligibility Intake Function (2011-001)

Mahnomen County's corrective action plan for this finding in the past was to review a minimum of one case file per month to ensure that all the required information affecting eligibility is obtained and correctly entered. The County reviewed 12 case files in 2014, but only 3 of those were related to either Temporary Assistance for Needy Families (TANF) (CFDA No. 93.558) or Medical Assistance Program (MA) CFDA No. 93.778, which were the programs the previous finding was written for.

Resolution

During the audit, we noted the County reviewed 12 case files during 2015 related to either the TANF or MA programs. All of these case files passed the review process without any notable findings.

IV. OTHER FINDINGS AND RECOMMENDATIONS

MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM RESOLVED

Insufficient Collateral (2013-001)

During our tests of collateral pledged for bank deposits in excess of FDIC insurance, we noted the County had deposits at First National Bank that were not adequately covered in accordance with the requirements of Minn. Stat. § 118A.03, subd. 3.

Resolution

All bank deposits tested for 2015 were adequately covered by FDIC insurance and collateral, as required by Minn. Stat. § 118A.03, subd. 3.

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REBECCA OTTO
STATE AUDITOR

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

Independent Auditor's Report

Board of County Commissioners
Mahnomen County
Mahnomen, 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 Mahnomen County, Minnesota, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated June 27, 2016. Our report includes a reference to other auditors who audited the financial statements of Mahnomen Health Center, a 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 auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Mahnomen 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.

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 the attention of those charged with governance.

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. Given these limitations, during our audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as items 1996-004, 2008-001, and 2010-002, that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Mahnomen 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 Mahnomen County has no tax increment financing.

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

Mahnomen County's Response to Findings

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

Purpose of This Report

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

June 27, 2016

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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
Mahnomen County
Mahnomen, Minnesota

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Mahnomen 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 Mahnomen 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, Mahnommen 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, 2015.

Report on Internal Control Over Compliance

Management of Mahnommen 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

June 27, 2016