

STATE OF MINNESOTA

Office of the State Auditor



Julie Blaha
State Auditor

LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA

YEAR ENDED DECEMBER 31, 2016

Description of the Office of the State Auditor

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

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

The State Auditor performs approximately 100 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 600 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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**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

Year Ended December 31, 2016



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

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**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

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**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

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**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

**ORGANIZATION
AS OF DECEMBER 31, 2016**

		<u>Term Expires</u>
Elected		
Commissioners		
District 1	James "Buck" Nordlof	January 2019
District 2	Tom Hanson	January 2017
District 3	Kenneth Moorman	January 2019
District 4	Patricia Beckel	January 2017
District 5	Edward Arnesen*	January 2021
Officers		
Elected		
Attorney	James Austad	January 2019
Auditor/Treasurer	Lorene G. Hanson	January 2019
Recorder	Susan J. Ney	January 2019
Sheriff	Gary Fish	January 2019
Appointed		
Assessor	Mary Jo Otten	December 2020
Medical Examiner	University of ND	Indefinite
Highway Engineer	Tim Erickson	May 2019
Veteran Services Officer	Roderick Rone, Jr.	December 2018
Surveyor	Donn Rasmussen	December 2020
Social Services Director	Amy Ballard	Indefinite
Manager of Information Systems	Peder Hovland	Indefinite
Land and Water Planning Director	Josh Stromlund	Indefinite

*Chair

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JULIE BLAHA
STATE AUDITOR

STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Lake of the Woods County
Baudette, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Lake of the Woods County, Minnesota, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control

relevant to the County's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Lake of the Woods County as of December 31, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Lake of the Woods 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 24, 2019, on our consideration of Lake of the Woods County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Lake of the Woods County's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Lake of the Woods County's internal control over financial reporting and compliance.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Lake of the Woods 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/Julie Blaha

JULIE BLAHA
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

June 24, 2019

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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LAKE OF THE WOODS COUNTY

Lake of the Woods County Auditor/Treasurer

Lorene Hanson
206 8th Ave SE
Suite 260
Baudette, MN 56623

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

The management of Lake of the Woods County offers readers of the County's financial statements this narrative overview and analysis of the financial activities of Lake of the Woods County for the fiscal year ended December 31, 2016. The Management's Discussion and Analysis provides comparisons with the previous year and is designed to focus on the current year's activities, resulting changes, and currently known facts, and should be read in conjunction with the County's basic financial statements that follow this section.

FINANCIAL HIGHLIGHTS

The total net position of governmental activities is \$56,462,422, of which \$44,258,208 is the net investment in capital assets, \$4,639,632 is restricted for specific purposes, and \$7,564,582 is unrestricted. The total net position of governmental activities increased by \$1,596,270 for the year ended December 31, 2016. This is attributed primarily to the increase in capital assets.

At the close of 2016, the County's governmental funds reported combined ending fund balances of \$11,563,253, an increase of \$156,539 from the prior year. Of the total fund balance amount, \$342,602 is nonspendable, \$930,639 is legally or contractually restricted, \$654,053 is committed, and \$6,705,476 is assigned for specific purposes. Maintaining an adequate fund balance is necessary to provide County services throughout the year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to Lake of the Woods County's basic financial statements, which are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the County's finances. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector businesses. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The *Statement of Net Position* presents information on all of the County's assets, deferred inflows of resources, liabilities, and deferred outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes).

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

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

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Lake of the Woods County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the County can be divided into two categories: governmental funds and fiduciary funds.

Governmental Funds—Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, fund-level financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's short-term financing decisions. Both the Balance Sheet – Governmental Funds and the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds provide a reconciliation to facilitate the comparison between governmental funds and governmental activities.

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

Lake of the Woods County adopts an annual budget for its governmental funds. Budgetary comparisons have been provided for these funds to demonstrate compliance with their budgets.

Fiduciary Funds—Fiduciary funds are used to account for assets held by the County as an agent for individuals, private organizations, other governments, or other funds. Lake of the Woods County's fiduciary funds consist of five agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. In addition, the fiduciary funds are not reflected in the government-wide financial statements because those resources are not available to support the County's programs. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found beginning on page 26 of this report.

Other information—In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. The County also provides supplementary and other information including combining statements, budgetary comparison schedules, and a schedule of intergovernmental revenue.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Over time, net position serves as a useful indicator of the County’s financial position. The County’s assets exceeded liabilities by \$56,462,422 at the close of 2016. The largest portion of the County’s net position (approximately 78 percent) reflects its net investment in capital assets (i.e., land, construction in progress, infrastructure, buildings and improvements, and machinery and equipment). It should be noted that this amount is not available for future spending. Approximately eight percent of the County’s net position is restricted and 14 percent of the County’s net position is unrestricted. The unrestricted net position amount of \$7,564,582 as of December 31, 2016, may be used to meet the County’s ongoing obligations to citizens.

The County’s overall financial position increased from last year. Total assets and deferred outflows of resources increased by \$5,202,612 from the prior year, primarily due to an increase in capital assets and an increase of deferred outflows of resources relating to pension, and total liabilities and deferred inflows of resources increased by \$3,606,342 from the prior year, primarily due to the increase in net pension liability of \$2,908,310. This resulted in an increased net position of \$1,596,270 from the prior year.

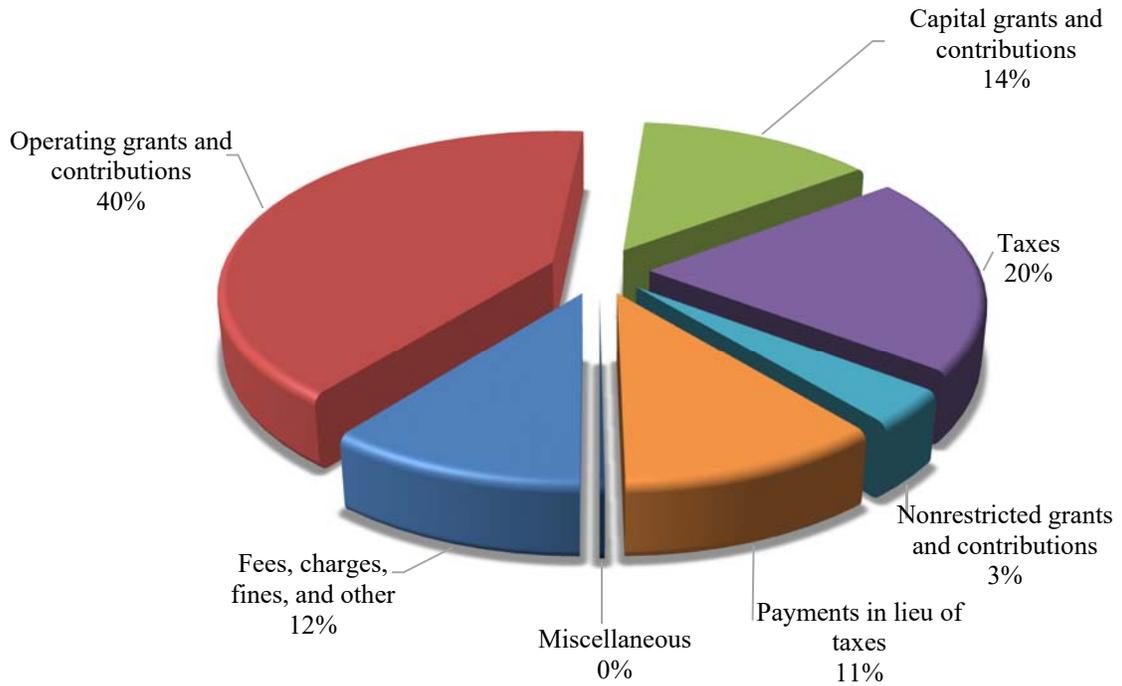
Net Position

	Governmental Activities	
	2016	2015
Current and other assets	\$ 17,216,375	\$ 17,303,903
Capital assets	44,468,208	41,759,167
Total Assets	\$ 61,684,583	\$ 59,063,070
Deferred outflows – pensions	\$ 3,075,042	\$ 493,943
Other liabilities	\$ 950,438	\$ 552,788
Longer-term liabilities outstanding	6,778,498	3,834,076
Total Liabilities	\$ 7,728,936	\$ 4,386,864
Deferred inflows – pensions	\$ 568,267	\$ 303,997
Net position		
Net investment in capital assets	\$ 44,258,208	\$ 41,504,171
Restricted	4,639,632	5,701,885
Unrestricted	7,564,582	7,660,096
Total Net Position	\$ 56,462,422	\$ 54,866,152

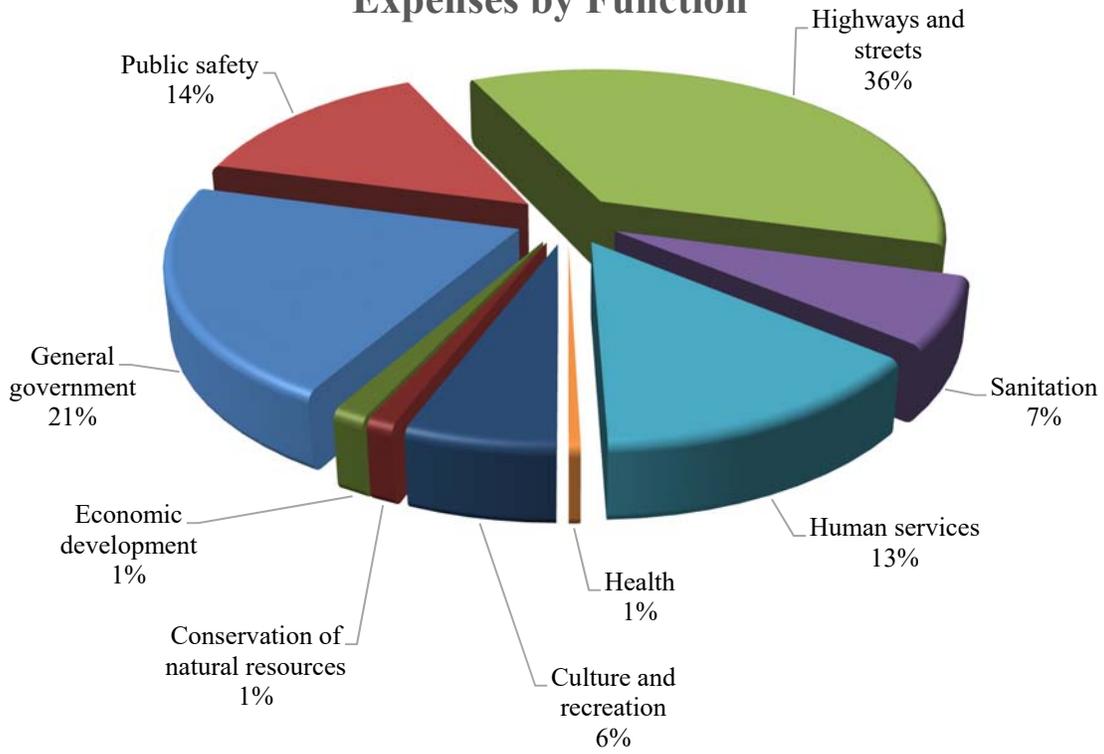
Changes in Net Position

	Governmental Activities	
	2016	2015
Revenues		
Program revenues		
Fees, charges, fines, and other	\$ 1,701,703	\$ 2,127,680
Operating grants and contributions	5,884,605	4,403,617
Capital grants and contributions	2,030,021	2,230,013
General revenues		
Taxes	3,026,415	3,069,574
Grants and contributions not restricted to specific programs	488,858	348,162
Payments in lieu of taxes	1,608,224	1,798,413
Investment earnings	30,918	50,968
Total Revenues	\$ 14,770,744	\$ 14,028,427
Expenses		
General government	\$ 2,748,327	\$ 2,543,602
Public safety	1,824,427	1,397,296
Highways and streets	4,771,700	4,211,248
Sanitation	878,153	784,418
Human services	1,713,653	1,706,795
Health	139,848	219,494
Culture and recreation	779,624	423,177
Conservation of natural resources	142,524	168,057
Economic development	176,104	222,573
Interest	114	-
Total Expenses	\$ 13,174,474	\$ 11,676,660
Increase (decrease) in net position	\$ 1,596,270	\$ 2,351,767
Net position, January 1, as previously reported	\$ 54,866,152	\$ 52,010,531
Prior period adjustment	-	503,854
Net position, January 1, as restated	\$ 54,866,152	\$ 52,514,385
Net position, December 31	<u>\$ 56,462,422</u>	<u>\$ 54,866,152</u>

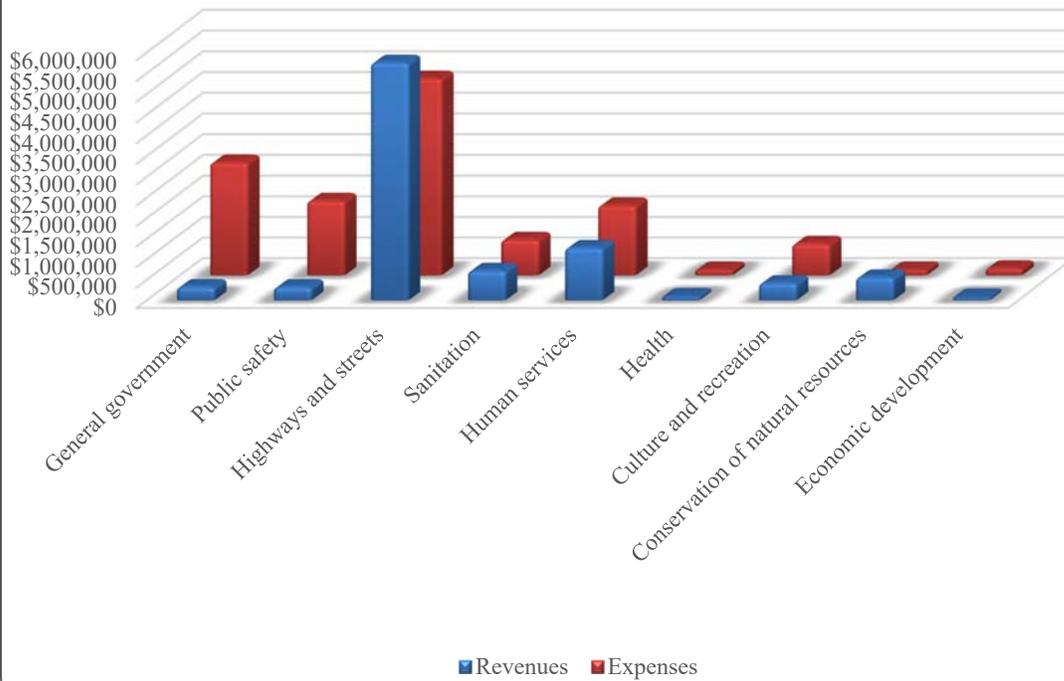
Revenues by Source



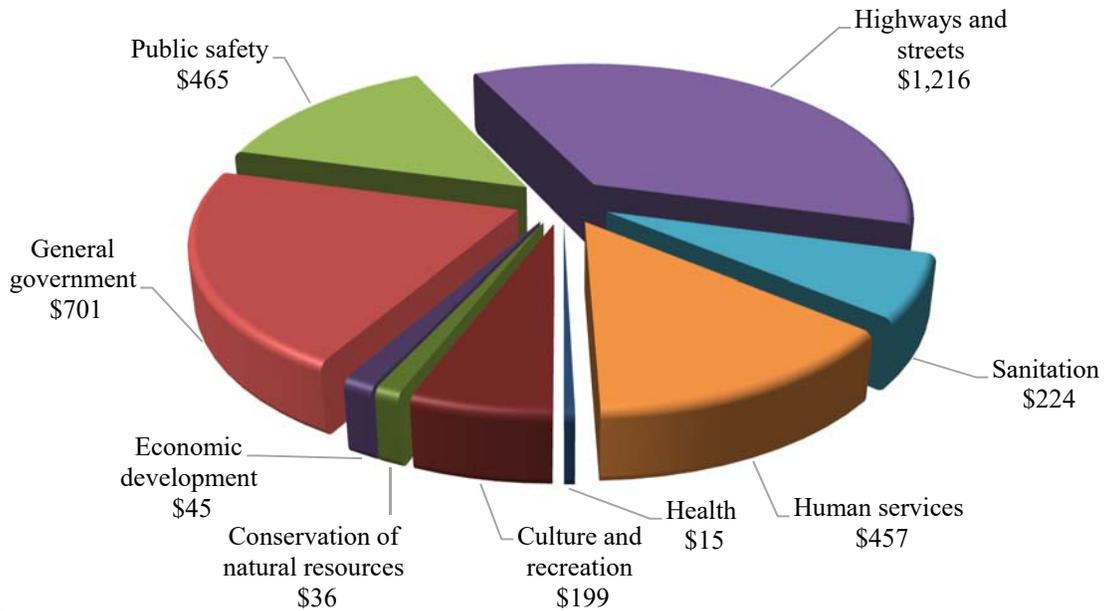
Expenses by Function



Program Revenues and Expenses



Expenditures Per Capita 3,923 Population as of July 1, 2016



(Unaudited)

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements, with a focus on short-term inflows, outflows, and balances of spendable resources. In particular, unrestricted fund balance may serve as a useful measure of the County's net resources available for spending at the end of the fiscal year.

Governmental Funds

At the end of 2016, the County's governmental funds reported combined ending fund balances of \$11,563,253. Of this amount, approximately three percent constitutes nonspendable fund balance, eight percent constitutes legally or contractually restricted fund balance, six percent constitutes committed fund balance, 58 percent constitutes specifically assigned fund balance, and 25 percent constitutes unassigned fund balance.

The General Fund is the operating fund of the County. At the end of the current fiscal year, the General Fund's total fund balance was \$5,743,857. The General Fund's nonspendable fund balance was \$51,418, restricted fund balance was \$309,034, and assigned fund balance was \$2,421,578. As a measure of the General Fund's liquidity, it is useful to compare both unrestricted fund balance and total fund balance to total fund expenditures for 2016. Unrestricted fund balance represents 113 percent of total General Fund expenditures, while total fund balance represents 119 percent of that same amount.

In 2016, the fund balance amount in the General Fund increased from the prior year by \$43,208, the fund balance of the Road and Bridge Special Revenue Fund decreased from the prior year by \$150,274, and the fund balance of the Social Services Special Revenue Fund increased from the prior year by \$218,257 as a result of department heads monitoring spending and operating within their budgets.

GENERAL FUND BUDGETARY HIGHLIGHTS

There were no amendments to the original budget as approved for 2016.

Actual revenues were more than overall final budgeted revenues by \$703,627, with the largest positive variances in intergovernmental revenues due to the \$400,000 Mighty Ducks grant for the Arena project. Actual expenditures were more than overall final budgeted expenditures by \$657,419, primarily as a result of unbudgeted capital outlay for public safety.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The County's investment in capital assets for its governmental activities as of December 31, 2016, amounted to \$44,468,208 (net of accumulated depreciation). The total increase in the County's investment in capital assets for the current fiscal year was approximately six percent, primarily due to an increase in capital assets.

	Governmental Activities	
	2016	2015
Land	\$ 549,431	\$ 543,328
Construction in progress	157,903	2,556,434
Infrastructure	38,934,135	33,569,973
Buildings and improvements	2,780,239	2,916,914
Machinery and equipment	2,046,500	2,172,518
Total Capital Assets	<u>\$ 44,468,208</u>	<u>\$ 41,759,167</u>

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

Long-Term Debt

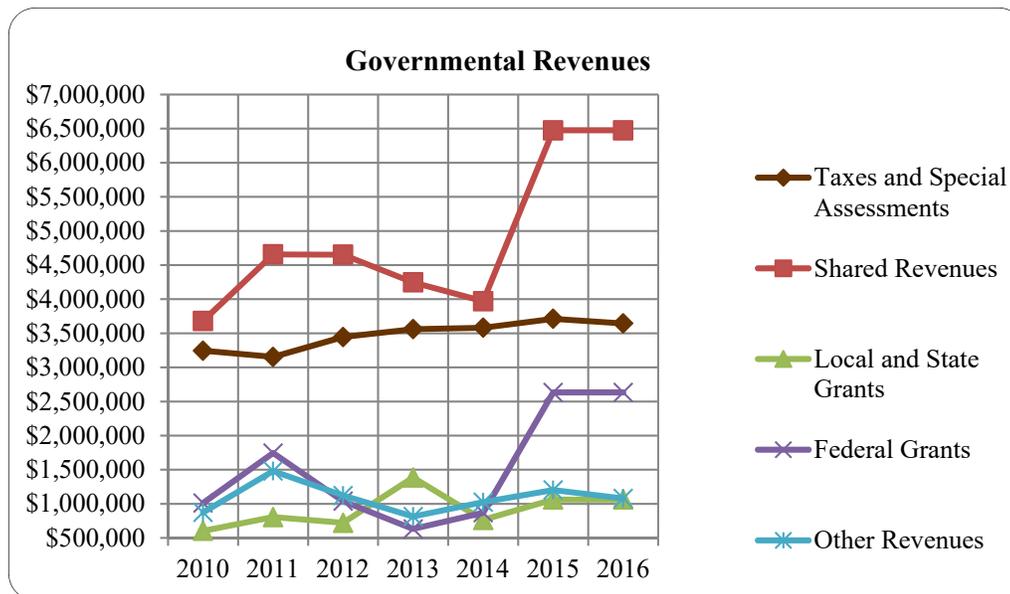
At the end of the current fiscal year, the County Economic Development Authority (EDA), a blended component unit, had total debt outstanding of \$210,000, which is anticipated to be paid by lease revenue from the building. The County has agreed to consider annually whether to impose a County-wide levy of the EDA as authorized by Minn. Stat. § 469.107 in the event lease payments are insufficient to cover debt payment on the loan.

	Governmental Activities	
	2016	2015
North Star Electric Loan	<u>\$ 210,000</u>	<u>\$ 255,000</u>

Minnesota statutes limit the amount of debt that a County may have to three percent of its total market value, excluding revenue bonds. At the end of 2016, overall debt of the County is well below the three percent debt limit.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

- The County depends on financial resources flowing from, or associated with, both the Federal Government and the State of Minnesota. Because of this dependency, the County is subject to changes in specific flows of intergovernmental revenues based on modifications to federal and state laws and federal and state appropriations. It is also subject to changes in investment earnings and asset values associated with U.S. Treasury Securities because of actions by foreign governments and other holders of publicly-held U.S. Treasury Securities. The analysis below focuses on the revenues of the County's governmental funds taken from Exhibit 5 and the Schedule of Intergovernmental Revenue.



- Lake of the Woods County's unemployment rate was 6.0 percent as of December 2016. This is higher than the statewide rate of 4.1 percent and the national average rate 4.5 percent.
- Lake of the Woods County's population at July 1, 2016, was 3,923, a decline of 122 since the 2010 census. This ranks Lake of the Woods County 86th of 87 in the State of Minnesota.
- On December 13, 2016, Lake of the Woods County set its 2017 revenue and expenditure budgets.

REQUESTS FOR INFORMATION

This annual financial report is designed to provide a general overview of Lake of the Woods County for all those with an interest in the County's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Lorene Hanson, Lake of the Woods County Auditor/Treasurer, 206 – 8th Avenue Southeast, Suite 260, Baudette, Minnesota 56623.

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

EXHIBIT 1

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

Assets

Cash and pooled investments	\$	11,332,433
Taxes receivable		
Delinquent		144,437
Special assessments receivable		
Delinquent		58,180
Accounts receivable – net		92,970
Accrued interest receivable		29,194
Due from other governments		4,896,688
Loans receivable		319,871
Inventories		291,184
Prepaid items		51,418
Capital assets		
Non-depreciable		707,334
Depreciable – net of accumulated depreciation		43,760,874
		61,684,583
Total Assets	\$	61,684,583

Deferred Outflows of Resources

Deferred pension outflows	\$	3,075,042
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Liabilities

Accounts payable	\$	586,721
Salaries payable		166,379
Contracts payable		109,818
Due to other governments		87,520
Long-term liabilities		
Due within one year		315,213
Due in more than one year		165,000
Net pension liability		5,770,497
Other postemployment benefits		527,788
		7,728,936
Total Liabilities	\$	7,728,936

Deferred Inflows of Resources

Deferred pension inflows	\$	568,267
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**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

***EXHIBIT 1
(Continued)***

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

Net Position

Net investment in capital assets	\$ 44,258,208
Restricted for	
General government	138,021
Public safety	125,630
Highways and streets	3,708,993
Sanitation	21,380
Human services	74,284
Culture and recreation	17,721
Conservation of natural resources	547,321
Economic development	6,282
Unrestricted	<u>7,564,582</u>
Total Net Position	<u><u>\$ 56,462,422</u></u>

**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

EXHIBIT 2

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

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Fees, Charges, Fines, and Other	Operating Grants and Contributions	Capital Grants and Contributions	
Functions/Programs					
Primary Government					
Governmental activities					
General government	\$ 2,748,327	\$ 335,644	\$ -	\$ -	\$ (2,412,683)
Public safety	1,824,427	102,366	230,807	-	(1,491,254)
Highways and streets	4,771,700	249,791	3,486,006	2,030,021	994,118
Sanitation	878,153	659,732	68,710	-	(149,711)
Human services	1,713,653	222,896	1,062,915	-	(427,842)
Health	139,848	12,241	79,848	-	(47,759)
Culture and recreation	779,624	28,560	400,000	-	(351,064)
Conservation of natural resources	142,524	17,191	552,319	-	426,986
Economic development	176,104	73,282	4,000	-	(98,822)
Interest	114	-	-	-	(114)
Total Governmental Activities	\$ 13,174,474	\$ 1,701,703	\$ 5,884,605	\$ 2,030,021	\$ (3,558,145)
General Revenues					
Property taxes				\$ 3,022,139	
Mortgage registry and deed tax				4,276	
Payments in lieu of tax				1,608,224	
Grants and contributions not restricted to specific programs				488,858	
Investment earnings				30,918	
Total general revenues				\$ 5,154,415	
Change in Net Position				\$ 1,596,270	
Net Position – January 1				54,866,152	
Net Position – December 31				\$ 56,462,422	

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

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**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

EXHIBIT 3

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

	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Assets</u>					
Cash and pooled investments	\$ 5,826,452	\$ 2,381,187	\$ 1,477,418	\$ 1,647,376	\$ 11,332,433
Taxes receivable					
Delinquent	68,877	42,983	29,785	2,792	144,437
Special assessments receivable					
Delinquent	-	-	-	58,180	58,180
Accounts receivable	10,970	1,898	80,102	-	92,970
Accrued interest receivable	24,780	265	-	4,149	29,194
Due from other funds	31,494	490	-	194	32,178
Due from other governments	468,513	4,324,455	103,720	-	4,896,688
Loans receivable	26,997	-	-	292,874	319,871
Inventories	-	291,184	-	-	291,184
Prepaid items	51,418	-	-	-	51,418
Total Assets	<u>\$ 6,509,501</u>	<u>\$ 7,042,462</u>	<u>\$ 1,691,025</u>	<u>\$ 2,005,565</u>	<u>\$ 17,248,553</u>
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>					
Liabilities					
Accounts payable	\$ 494,511	\$ 14,961	\$ 39,304	\$ 37,945	\$ 586,721
Salaries payable	87,064	39,638	32,093	7,584	166,379
Contracts payable	-	109,818	-	-	109,818
Due to other funds	413	194	36	31,535	32,178
Due to other governments	25,243	51,079	10,492	706	87,520
Total Liabilities	<u>\$ 607,231</u>	<u>\$ 215,690</u>	<u>\$ 81,925</u>	<u>\$ 77,770</u>	<u>\$ 982,616</u>
Deferred Inflows of Resources					
Unavailable revenue – taxes	\$ 52,110	\$ 32,009	\$ 22,322	\$ 877	\$ 107,318
Unavailable revenue – special assessments	-	-	-	46,227	46,227
Unavailable revenue – loans	26,997	-	-	292,874	319,871
Unavailable revenue – grants	79,306	4,304	-	-	83,610
Unavailable revenue – other	-	436,446	219	-	436,665
Unavailable revenue – County state-aid highway allotments	-	3,708,993	-	-	3,708,993
Total Deferred Inflows of Resources	<u>\$ 158,413</u>	<u>\$ 4,181,752</u>	<u>\$ 22,541</u>	<u>\$ 339,978</u>	<u>\$ 4,702,684</u>

**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

**EXHIBIT 3
(Continued)**

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

	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>					
(Continued)					
Fund Balances					
Nonspendable					
Inventories	\$ -	\$ 291,184	\$ -	\$ -	\$ 291,184
Prepaid items	51,418	-	-	-	51,418
Restricted for					
Alcohol assessments	3,352	-	-	-	3,352
Law library	5,642	-	-	-	5,642
Recorder's technology equipment	61,723	-	-	-	61,723
Handgun permits	15,868	-	-	-	15,868
E-911	107,857	-	-	-	107,857
Enhancement	47,558	-	-	-	47,558
Attorney forfeiture	526	-	-	-	526
Help America Vote Act	12,071	-	-	-	12,071
Housing rehabilitation	6,282	-	-	-	6,282
Parks	16,085	-	-	-	16,085
DWI forfeiture	7,149	-	-	-	7,149
Trails	1,636	-	-	-	1,636
Sewer	21,380	-	-	-	21,380
Sheriff' contingencies	1,905	-	-	-	1,905
Child protection	-	-	74,284	-	74,284
Conservation of natural resources	-	-	-	85,181	85,181
County development	-	-	-	462,140	462,140
Committed for					
Wetlands	-	-	-	654,053	654,053
Assigned to					
Borderland DUI court	6,775	-	-	-	6,775
Technology	22,803	-	-	-	22,803
Transit	30,180	-	-	-	30,180
Buildings	1,015,904	-	-	-	1,015,904
Elections	61,048	-	-	-	61,048
Health	150,099	-	-	-	150,099
Housing rehabilitation	8,904	-	-	-	8,904
Land and building purchases	1,125,000	-	-	-	1,125,000
Sheriff's posse	865	-	-	-	865
Highways and streets	-	1,706,904	-	-	1,706,904
Drainage maintenance	-	38,227	-	-	38,227
Sanitation	-	-	-	221,135	221,135
Human services	-	-	1,491,107	-	1,491,107
Extended juvenile jurisdiction	-	-	21,168	-	21,168
Economic development	-	-	-	146,452	146,452

**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

**EXHIBIT 3
(Continued)**

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

	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u> (Continued)					
Fund Balances					
Assigned to (Continued)					
Capital improvements – equipment	-	608,705	-	-	608,705
Forfeited land sales	-	-	-	200	200
Capital expenditures	-	-	-	50,000	50,000
Unassigned	2,961,827	-	-	(31,344)	2,930,483
Total Fund Balances	\$ 5,743,857	\$ 2,645,020	\$ 1,586,559	\$ 1,587,817	\$ 11,563,253
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 6,509,501	\$ 7,042,462	\$ 1,691,025	\$ 2,005,565	\$ 17,248,553

**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

EXHIBIT 4

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

Fund balance – total governmental funds		\$ 11,563,253
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.		44,468,208
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as deferred inflows of resources in the governmental funds.		4,702,684
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
Loan payable	\$ (210,000)	
Other postemployment benefits	(527,788)	
Compensated absences	(270,213)	
Net pension liability	<u>(5,770,497)</u>	(6,778,498)
Deferred outflows of resources and deferred inflows of resources are created as a result of various differences related to pensions that are not recognized in the governmental funds.		
Deferred outflows related to pensions	\$ 3,075,042	
Deferred inflows related to pensions	<u>(568,267)</u>	<u>2,506,775</u>
Net Position of Governmental Activities		<u><u>\$ 56,462,422</u></u>

**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

EXHIBIT 5

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

	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues					
Taxes	\$ 1,506,821	\$ 859,869	\$ 586,358	\$ 79,993	\$ 3,033,041
Special assessments	-	-	-	613,954	613,954
Licenses and permits	55,725	-	-	-	55,725
Intergovernmental	2,944,869	6,438,437	1,095,217	243,320	10,721,843
Charges for services	228,421	85,825	113,611	60,551	488,408
Fines and forfeitures	29,576	-	-	-	29,576
Gifts and contributions	-	-	3,284	-	3,284
Investment earnings	16,688	3,854	-	10,376	30,918
Miscellaneous	166,306	40,039	122,462	88,792	417,599
Total Revenues	\$ 4,948,406	\$ 7,428,024	\$ 1,920,932	\$ 1,096,986	\$ 15,394,348
Expenditures					
Current					
General government	\$ 2,437,057	\$ -	\$ -	\$ 23,851	\$ 2,460,908
Public safety	1,369,088	-	-	1,255	1,370,343
Highways and streets	-	7,300,615	-	-	7,300,615
Sanitation	-	-	-	774,772	774,772
Human services	-	-	1,622,827	-	1,622,827
Health	60,000	-	79,848	-	139,848
Culture and recreation	684,689	-	-	55,550	740,239
Conservation of natural resources	72,059	-	-	70,465	142,524
Economic development	70,317	-	-	83,631	153,948
Capital outlay					
Public safety	136,488	-	-	-	136,488
Highways and streets	-	247,211	-	-	247,211
Debt service					
Principal	-	-	-	45,000	45,000
Interest	-	-	-	114	114
Total Expenditures	\$ 4,829,698	\$ 7,547,826	\$ 1,702,675	\$ 1,054,638	\$ 15,134,837
Excess of Revenues Over (Under)					
Expenditures	\$ 118,708	\$ (119,802)	\$ 218,257	\$ 42,348	\$ 259,511
Other Financing Sources (Uses)					
Transfers in	\$ -	\$ 72,500	\$ -	\$ 13,000	\$ 85,500
Transfers out	(75,500)	-	-	(10,000)	(85,500)
Total Other Financing Sources (Uses)	\$ (75,500)	\$ 72,500	\$ -	\$ 3,000	\$ -
Net Change in Fund Balances	\$ 43,208	\$ (47,302)	\$ 218,257	\$ 45,348	\$ 259,511
Fund Balances – January 1	5,700,649	2,795,294	1,368,302	1,542,469	11,406,714
Increase (decrease) in inventories	-	(102,972)	-	-	(102,972)
Fund Balances – December 31	\$ 5,743,857	\$ 2,645,020	\$ 1,586,559	\$ 1,587,817	\$ 11,563,253

**LAKE OF THE WOODS COUNTY
BAUDETTE, 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, 2016**

Net change in fund balance – total governmental funds (Exhibit 5) \$ 259,511

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

In the governmental funds, under the modified accrual basis, receivables not available for expenditure are deferred. In the statement of activities, those revenues are recognized when earned. The adjustment to revenues between the governmental fund statements and the statement of activities is the increase or decrease in revenues deferred as unavailable.

Unavailable revenue – December 31	\$ 4,702,684	
Unavailable revenue – January 1	<u>(5,344,401)</u>	(641,717)

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the statement of activities, only the gain or loss on the disposal of capital assets is reported; whereas, in the governmental funds, the proceeds from the sale increase financial resources. Therefore, the change in net position differs from the change in fund balance by the net book value of the assets sold.

Expenditures for general capital assets and infrastructure	\$ 4,528,117	
Net book value of assets sold	(32,248)	
Current year depreciation expense	<u>(1,786,828)</u>	2,709,041

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

Principal payments		
Loan payable		45,000

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

Change in compensated absences	\$ (48,500)	
Change in inventories	(102,972)	
Change in other postemployment benefits	(32,612)	
Change in deferred pension outflows	2,581,099	
Change in deferred pension inflows	(264,270)	
Change in net pension liability	<u>(2,908,310)</u>	<u>(775,565)</u>

Net Change in Net Position of Governmental Activities (Exhibit 2) \$ 1,596,270

FIDUCIARY FUNDS

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**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

EXHIBIT 7

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

	<u>Agency</u>
<u>Assets</u>	
Cash and pooled investments	<u>\$ 106,757</u>
<u>Liabilities</u>	
Due to other governments	<u>\$ 106,757</u>

**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

EXHIBIT 8

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
CHILDREN AND FAMILIES COLLABORATIVE INVESTMENT TRUST FUND
FOR THE YEAR ENDED DECEMBER 31, 2016**

<u>Additions</u>	
Investment income	\$ 64
<u>Deductions</u>	
Distributions to participants	<u>30,064</u>
Change in net assets	\$ (30,000)
Net Position – January 1	<u>30,000</u>
Net Position – December 31	<u><u>\$ -</u></u>

**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

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

1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as of and for the year ended December 31, 2016. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

Lake of the Woods County was established January 1, 1923, and is an organized county having the powers, duties, and privileges granted counties by Minn. Stat. ch. 373. The County is governed by a five-member Board of Commissioners elected from districts within the County. The Board is organized with a chair and vice chair elected at the annual meeting in January of each year. The County Auditor/Treasurer, elected on a County-wide basis, serves as the clerk of the Board but has no vote.

Blended Component Unit

The Lake of the Woods Economic Development Authority (EDA) is presented in the financial statements as a blended component unit. Although the EDA is legally separate from the County, it is reported as if it were part of Lake of the Woods County because its governing body is appointed by the County Board Chair with the approval of the County Commissioners. The governing body of the EDA consists of nine members; five of the members shall be members of the Lake of the Woods County Board of Commissioners. The activity of the EDA is recorded in the Economic Development Authority Special Revenue Fund of the County. Separate financial statements are not prepared for the EDA.

Joint Ventures and Jointly-Governed Organizations

The County participates in joint ventures and jointly-governed organizations described in Notes 6.B. and 6.C., respectively.

**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

B. Basic Financial Statements

1. Government-Wide Statements

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

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

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

2. Fund Financial Statements

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

**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

The County reports the following major governmental funds:

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

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

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

Additionally, the County reports the following fund types:

Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects.

Investment trust funds account for the external pooled and non-pooled investments held on behalf of external participants.

Agency funds are custodial in nature and do not present results of operations or have a measurement focus. These funds account for assets that the County holds for others in an agent capacity.

C. Measurement Focus and Basis of Accounting

The government-wide and fiduciary-type trust fund financial statements are reported using the economic resources measurement focus and the full accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as

**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

revenues in the year for which they are levied. Shared revenues are generally recognized in the period the appropriation goes into effect. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. The County considers all revenues as available if collected within 60 days after the end of the current period. Property and other taxes, licenses, and interest are all considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured.

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

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

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Auditor/Treasurer for the purpose of increasing earnings through investment activities. Investments are reported at fair value at December 31, 2016. A market approach is used to value all investments other than external investment pools, which are measured at the net asset value or fair value per share. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2016 were \$30,918.

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

**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

2. Receivables and Payables

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

All receivables are shown net of an allowance for uncollectible amounts, if applicable.

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

3. Special Assessments Receivable

Special assessments receivable consist of delinquent special assessments and noncurrent special assessments. All special assessments receivable are shown net of an allowance for uncollectibles.

4. Inventories and Prepaid Items

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.

**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

5. Capital Assets

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

Assets	Capitalization Threshold
Land	\$ 1
Construction in progress	1
Infrastructure	50,000
All other classes of assets	5,000

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

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

Assets	Years
Infrastructure	50 – 75
Buildings and improvements	20 – 40
Improvements other than buildings	20 – 40
Machinery and equipment	4 – 15

**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

6. Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated annual vacation and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. Compensated absences are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements and are charged to the department from which the employee resigned or retired. Compensated absences are generally liquidated by the General Fund and the Road and Bridge and Social Services Special Revenue Funds.

7. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expenditure/expense) until then. Currently, the County has one item, deferred pension outflows, that qualifies for reporting in this category. These outflows arise only under the full accrual basis of accounting and consist of pension plan contributions paid subsequent to the measurement date, differences between expected and actual economic experience, differences between projected and actual earnings on pension plan investments, changes in proportionate share, and changes in actuarial assumptions and, accordingly, are reported only in the statement of net position.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The County has two types of items, unavailable revenue and deferred

**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

7. Deferred Outflows/Inflows of Resources (Continued)

pension inflows, that qualify for reporting in this category. 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 amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. Deferred pension inflows arise only under the full accrual basis of accounting and consist of differences between expected and actual pension plan economic experience and pension plan changes in proportionate share and, accordingly, are reported only in the statement of net position.

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

9. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are recognized as an expenditure in the period incurred.

**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

9. Long-Term Obligations (Continued)

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

10. Classification of Net Position

Net position in the government-wide statement of net position is classified in the following categories:

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

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

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

11. Classification of Fund Balances

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

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

**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

11. Classification of Fund Balances (Continued)

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

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

Assigned – amounts the County intends to use for specific purposes that do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the County Board or the County Auditor/Treasurer who has been delegated that authority by Board resolution.

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

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.

**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

12. Minimum Fund Balance

The County will maintain an unrestricted fund balance in the General Fund of an amount not less than eight months of next year's budgeted expenditures of the General Fund. Unrestricted fund balance can be "spent down" if there is an anticipated budget shortfall. If spending unrestricted fund balance in designated circumstances has reduced unrestricted fund balance to a point below the minimum targeted level, as noted above, the replenishment will be funded by increasing the levy within a three-year period. At December 31, 2016, the unrestricted fund balance for the General Fund was at or above the minimum fund balance level.

Stabilization arrangements are defined as formally setting aside amounts for use in emergency situations or when revenue shortages or budgetary imbalances arise. The County Board will set aside amounts by resolution as deemed necessary that can only be expended when the need for stabilization arises. The need for stabilization will only be utilized for situations that are not expected to occur routinely. The County does not identify an amount for stabilization at December 31, 2016.

13. Use of Estimates

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

**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

2. Stewardship, Compliance, and Accountability

A. Deficit Fund Balance

The Ditch Special Revenue Fund had a positive fund balance of \$53,837 as of December 31, 2016, however, two of the six ditch systems had a deficit balance. The deficit will be eliminated with future special assessment levies against the benefited properties. The following is a summary of the individual ditch systems:

Four ditches with positive fund balance	\$	85,181
Two ditches with deficit fund balance		(31,344)
Total Fund Balance	\$	53,837

B. Excess of Expenditures Over Budget

The following individual nonmajor funds had expenditures in excess of budget for the year ended December 31, 2016.

	Expenditures	Budget	Excess
Ditch Special Revenue Fund	\$ 21,860	\$ 12,000	\$ 9,860
Natural Resource Enhancement			
Special Revenue Fund	35,213	10,500	24,713
Solid Waste Special Revenue Fund	774,386	688,442	85,944

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

The County's total cash and investments follows:

Government-wide statement of net position	
Governmental activities	
Cash and pooled investments	\$ 11,332,433
Statement of fiduciary net position	
Cash and pooled investments	106,757
Total Cash and Investments	\$ 11,439,190

**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

a. Deposits

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

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County's deposit policy for custodial credit risk requires the level of collateral to be 110 percent or greater than the deposits. As of December 31, 2016, the County's deposits were not exposed to custodial credit risk.

**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

b. Investments

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

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

**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Interest Rate Risk

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

Credit Risk

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

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities in the possession of an outside party. The County does not have a policy on custodial credit risk. At December 31, 2016, none of the County's investments were subject to custodial credit risk.

Concentration of Credit Risk

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

**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

The following table presents the County's deposit and investment balances at December 31, 2016, 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 Home Loan Mortgage Corporation	NR	N/A		03/01/2028	\$ 50,638
Federal Home Loan Mortgage Corporation	NR	N/A		12/01/2024	89,182
Total Federal Home Loan Mortgage Corporation Discount Note			<5%		\$ 139,820
Federal National Mortgage Association	NR	N/A	<5%	09/01/2025	\$ 28,181
U.S. Treasury Obligation	AAA/NR	Moody's/S&P		05/15/2019	\$ 396,196
U.S. Treasury Obligation	AAA/NR	Moody's/S&P		08/31/2018	566,483
Total U.S. Treasury Obligations			23.7%		\$ 962,679
Municipal Bonds					
Birmingham Jefferson AL Civic Txbl-Ref-Ser B	NR/AA	Moody's/S&P	<5%	07/01/2018	\$ 50,059
Chattanooga TN Elec Revenue Txbl-Ref-Ser B	NR/AA+	Moody's/S&P	<5%	09/01/2019	50,137
Cincinnati OH TXBL Ref-Variou Purpose-Ser C	AA2/AA-	Moody's/S&P	<5%	12/01/2019	50,214
Commerce Chrt Twp MI Txbl-Ref-Downtown Dev-Ser B	AA1/AA+	Moody's/S&P	<5%	10/01/2020	48,937
Denver Co City & Cnty Dedicate Txbl-Ref & Impt-Ser B	AA3/AA-	Moody's/S&P	<5%	08/01/2020	34,927
Durham NC Ltd Oblig Revenue Txbl-Ref	NR/AA+	Moody's/S&P	<5%	06/01/2019	50,016
Great Neck NY North Wtr Auth Txbl-Ref-Ser B	NR/AA+	Moody's/S&P	<5%	01/01/2020	49,031
Griffith IN Public Sch Dist Txbl-Ref-Pensn	NR/AA+	Moody's/S&P	<5%	01/05/2020	50,129
Hawaii St Txbl-Ref-Ser FF	AA1/AA+	Moody's/S&P	<5%	10/01/2020	48,830
Honolulu City & County HI Wstwr Txbl-Ref-First C	AA2/NR	Moody's/S&P	<5%	07/01/2020	50,153
Illinois St Hsg Dev Auth Reven Ref-Txbl-Homeowner	AA3/AA	Moody's/S&P	<5%	02/01/2021	49,258
Imperial CA Irr Dist Elec Reve Ser B-Txbl	NR/AA-	Moody's/S&P	<5%	11/01/2019	50,073
Kalamazoo MI Txbl	NR/AA-	Moody's/S&P	<5%	12/01/2020	50,484
Maine St Hsg Augh Mtge Purchas Txbl-Ser C	AA1/AA+	Moody's/S&P	<5%	11/15/2019	50,261
Marion & Polk Cntys or Sch Dis Txbl	AA3/NR	Moody's/S&P	<5%	06/30/2019	49,997
Mesa AZ Txbl-Ref-Ser B	AA2/AA-	Moody's/S&P	<5%	07/01/2020	48,940
Mississippi St Txbl-Ref-Ser D	AA2/AA	Moody's/S&P	<5%	10/01/2018	50,053
New Hampshire St Hsg Fin Auths Txbl-Ref-Ser A	AA2/NR	Moody's/S&P	<5%	07/01/2020	39,959
Ohio St Spl Oblg Txbl-Cap Facs Lease-Ser B	AA2/AA	Moody's/S&P	<5%	04/01/2019	50,182
Oklahoma Dev Fin Auth Lease Re Txbl-St Sys Hgr Edu	NR/AA	Moody's/S&P	<5%	06/01/2020	49,766
Oregon St Dept of Admin Svcs L Txbl-Ser B	AA2/AAA	Moody's/S&P	<5%	04/01/2019	50,198
Palatine IL Park Dist Txbl-Ref-Txbl-Ser B	AA1/NR	Moody's/S&P	<5%	12/01/2018	50,064
Pasadena CA Unif Sch Dist Txbl-Ref-Ser B	AA2/A+	Moody's/S&P	<5%	11/01/2019	50,795
San Antonio TX Txbl-CTFS Oblg	AAA/AAA	Moody's/S&P	<5%	06/01/2020	49,986
Texas St A&M Univ Sys Brd of Txbl-Ref-Ser C	AAA/AA+	Moody's/S&P	<5%	05/15/2020	50,459
Univ Mississippi MS Edu Ed Txbl-Campus Impt Proj	AA2/NR	Moody's/S&P	<5%	11/01/2020	50,048
Univ of Colorado Co Enterprise Ref-Txbl-Ser C	AA2/NR	Moody's/S&P	<5%	06/01/2020	49,737
Univ of N Texas Tx Ref-Txbl-Ser B	AA2/NR	Moody's/S&P	<5%	04/15/2020	49,691
Washington Cnty Or Sch Dist #4 Txbl-Pensn	AA3/AA-	Moody's/S&P	<5%	06/30/2018	50,137
Westminster Co Cops Txbl-Ser B	NR/AA-	Moody's/S&P	<5%	12/01/2019	50,269
Wilkes-Barre PA Txbl-Ref-Ser C	NR/AA	Moody's/S&P	<5%	11/15/2019	50,986
Total Municipal Bonds					\$ 1,523,776

**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5 Percent of Portfolio	Maturity Date	
Negotiable certificates of deposit					
Ally Bk Midvale Utah	N/A	N/A	6.0%	07/02/2018	\$ 244,402
Wex Bk Midvale Utah	N/A	N/A	<5%	11/02/2018	99,325
American Express Centurion Bk	N/A	N/A	<5%	12/03/2018	100,127
Capital One Bk USA Natl Assn Glen Allen	N/A	N/A	5.9%	08/12/2019	242,479
Sallie Mae Bk Salt Lake City Utah	N/A	N/A	5.9%	08/10/2020	241,029
Countryside Fed Cr Un East Syracuse NY	N/A	N/A	<5%	10/28/2020	98,075
First Technology Fed Cr Un Mtn View CA	N/A	N/A	5.9%	06/30/2021	241,229
American Express Centurion Bk	N/A	N/A	<5%	12/01/2016	99,901
Total negotiable certificates of deposit					\$ 1,366,567
Investment pools/mutual funds					
Wells Fargo Money Market	NR	N/A	<5%	N/A	\$ 40,360
Total investments					\$ 4,061,383
Deposits					7,374,207
Change funds					3,600
Total Cash and Investments					\$ 11,439,190

N/A – Not Applicable

NR – Not Rated

<5% – Concentration is less than five percent of investments

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

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

**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

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

	December 31, 2016	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Debt securities				
Federal Home Loan Mortgage Corporation Discount Note	\$ 139,820	\$ -	\$ 139,820	\$ -
Federal National Mortgage Association	28,181	-	28,181	-
U.S. Treasury Obligations	962,679	-	962,679	-
Municipal Bonds	1,523,776	-	1,523,776	-
Negotiable certificates of deposit	1,366,567	-	1,366,567	-
Total debt securities	<u>\$ 4,021,023</u>	<u>\$ -</u>	<u>\$ 4,021,023</u>	<u>\$ -</u>
Investments measured at the net asset value (NAV)				
Money Market Mutual Funds	<u>\$ 40,360</u>			
Total Investments Measured at NAV	<u>\$ 4,061,383</u>			

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

The County invests in money market funds for the benefit of liquid investments that can readily be re-invested or made available for use. Money market funds held by the County seek a constant NAV of \$1.00 per share. The money market fund reserves the right to require one or more days prior notice before permitting withdrawals.

**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2016, for the County's governmental activities are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Taxes	\$ 144,437	\$ -
Special assessments	58,180	-
Accounts	92,970	-
Accrued Interest	29,194	-
Due from other governments	4,896,688	-
Loans	319,871	319,871
Total	\$ 5,541,340	\$ 319,871

Loans Receivable

Loans receivable represents amounts owed from private/public enterprises within the County for economic development and from individuals for housing rehabilitation. Housing rehabilitation activity is included in the General Fund, and economic development loans are included in the Economic Development Authority Special Revenue Fund.

**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (continued)

3. Capital Assets

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

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets not depreciated				
Land	\$ 543,328	\$ 6,103	\$ -	\$ 549,431
Construction in progress	<u>2,556,434</u>	<u>1,521,481</u>	<u>3,920,012</u>	<u>157,903</u>
Total capital assets not depreciated	<u>\$ 3,099,762</u>	<u>\$ 1,527,584</u>	<u>\$ 3,920,012</u>	<u>\$ 707,334</u>
Capital assets depreciated				
Infrastructure	\$ 49,024,170	\$ 6,432,367	\$ -	\$ 55,456,537
Buildings and improvements	6,097,117	47,825	-	6,144,942
Machinery and equipment	<u>8,259,930</u>	<u>440,353</u>	<u>51,922</u>	<u>8,648,361</u>
Total capital assets depreciated	<u>\$ 63,381,217</u>	<u>\$ 6,920,545</u>	<u>\$ 51,922</u>	<u>\$ 70,249,840</u>
Less: accumulated depreciation for				
Infrastructure	\$ 15,454,197	\$ 1,068,205	\$ -	\$ 16,522,402
Buildings and improvements	3,180,203	184,500	-	3,364,703
Machinery and equipment	<u>6,087,412</u>	<u>534,123</u>	<u>19,674</u>	<u>6,601,861</u>
Total accumulated depreciation	<u>\$ 24,721,812</u>	<u>\$ 1,786,828</u>	<u>\$ 19,674</u>	<u>\$ 26,488,966</u>
Total capital assets depreciated, net	<u>\$ 38,659,405</u>	<u>\$ 5,133,717</u>	<u>\$ 32,248</u>	<u>\$ 43,760,874</u>
Governmental Activities				
Capital Assets, Net	<u>\$ 41,759,167</u>	<u>\$ 6,661,301</u>	<u>\$ 3,952,260</u>	<u>\$ 44,468,208</u>

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

General government	\$ 143,287
Public safety	123,571
Highways and streets, including depreciation of infrastructure assets	1,381,954
Sanitation	1,770
Human services	74,705
Culture and recreation	22,156
Economic development	<u>39,385</u>
Total Depreciation Expense	<u>\$ 1,786,828</u>

**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables and Payables

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

Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
General Fund	Ditch Special Revenue Fund Social Services Special Revenue Fund	\$ 31,458 36
Total Due to General Fund		\$ 31,494
Road and Bridge Special Revenue Fund	General Fund Solid Waste Special Revenue Fund	\$ 413 77
Total Due to Road and Bridge Special Revenue Fund		\$ 490
Solid Waste Special Revenue Fund	Road and Bridge Special Revenue Fund	\$ 194
Total Due To/From Other Funds		\$ 32,178

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.

Interfund Transfers

Interfund transfers for the year ended December 31, 2016, consisted of the following:

Transfers to Road and Bridge Special Revenue Fund from General Fund	\$ 72,500	Payment in lieu of taxes
Transfers to Natural Resource Enhancement Special Revenue Fund from General Fund	3,000	Reimbursement for services
Transfer to Economic Development Authority Special Revenue Fund from Development Special Revenue Fund	10,000	Operations
Total Transfers to Governmental Funds	\$ 85,500	

**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

C. Liabilities

Long-Term Debt

North Star Electric Loan

The North Star Electric Loan represents debt incurred by the Economic Development Authority, a blended component unit of the County, for construction of the LineWorkers Facility. This interest-free loan has an original issue amount of \$360,000 and is due in monthly installments of \$3,750, beginning on September 1, 2015, through August 1, 2021. The balance due on this loan at December 31, 2016, is \$210,000.

Debt Service Requirements

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

Year Ending December 31	North Star Electric Loan	
	Principal	Interest
2017	\$ 45,000	\$ -
2018	45,000	-
2019	45,000	-
2020	45,000	-
2021	30,000	-
Total	<u>\$ 210,000</u>	<u>\$ -</u>

Changes in Long-Term Liabilities

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

	Beginning Balances	Additions	Reductions	Ending Balance	Due Within One Year
North Star Electric Loan	\$ 255,000	\$ -	\$ 45,000	\$ 210,000	\$ 45,000
Compensated absences	221,713	420,510	372,010	270,213	
Total Long-Term Liabilities	<u>\$ 476,713</u>	<u>\$ 420,510</u>	<u>\$ 417,010</u>	<u>\$ 480,213</u>	

**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

1. Plan Description

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

The General Employees Retirement Plan (accounted for in the General Employees Fund) has multiple benefit structures with members belonging to the Coordinated Plan, the Basic Plan, or the Minneapolis Employees Retirement Fund. Coordinated Plan members are covered by Social Security and Basic Plan and Minneapolis Employees Retirement Fund members are not. The Basic Plan was closed to new members in 1967. The Minneapolis Employees Retirement Fund was closed to new members during 1978 and merged into the General Employees Retirement Plan in 2015. All new members must participate in the Coordinated Plan, for which benefits vest after five years of credited service.

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

**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans (Continued)

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 1.00 percent post-retirement benefit increase. If the funding ratio reaches 90 percent for two consecutive years, the benefit increase will revert to 2.50 percent. If, after reverting to a 2.50 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 1.00 percent.

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

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for General Employees Retirement Plan Coordinated and Basic Plan members. Members hired prior to July 1, 1989, receive the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.20 percent of average salary for each of the first ten years of service and 2.70 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.20 percent of average salary for each of the first ten years of service and 1.70 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.70 percent of average salary for Basic Plan members and 1.70 percent for Coordinated Plan members for each year of service. Only Method 2 is used for members hired after June 30, 1989. Minneapolis Employees Retirement Fund members have an annuity accrual rate of 2.00 percent of average salary for each of the first ten years of service and 2.50 percent for each remaining year. For Public Employees Police and Fire Plan members, the annuity accrual rate is 3.00 percent of average salary for each year of service. For Public Employees Correctional Plan members, the annuity accrual rate is 1.90 percent of average salary for each year of service.

**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

2. Benefits Provided (Continued)

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

3. Contributions

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the state legislature. General Employees Retirement Plan Basic members, Coordinated members, and Minneapolis Employees Retirement Fund members were required to contribute 9.10 percent, 6.50 percent, and 9.75 percent, respectively, of their annual covered salary in 2016. Public Employees Police and Fire Plan members were required to contribute 10.80 percent of their annual covered salary in 2016. Public Employees Correctional Plan members were required to contribute 5.83 percent of their annual covered salary in 2016.

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

General Employees Retirement Plan	
Basic Plan members	11.78%
Coordinated Plan members	7.50
Minneapolis Employees Retirement Fund members	9.75
Public Employees Police and Fire Plan	16.20
Public Employees Correctional Plan	8.75

**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

3. Contributions (Continued)

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

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

General Employees Retirement Plan	\$ 221,400
Public Employees Police and Fire Plan	65,595
Public Employees Correctional Plan	22,049

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

4. Pension Costs

General Employees Retirement Plan

At December 31, 2016, the County reported a liability of \$3,726,851 for its proportionate share of the General Employees Retirement Plan's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the County's proportion was 0.0459 percent. It was 0.0461 percent measured as of June 30, 2015. The County recognized pension expense of \$510,449 for its proportionate share of the General Employees Retirement Plan's pension expense.

The County also recognized \$14,513 as revenue, which results in a reduction of the net pension liability, for its proportionate share of the State of Minnesota's contribution to the General Employees Retirement Plan, which qualifies as a special funding situation. Legislation requires the State of Minnesota to contribute \$6 million to the General Employees Retirement Plan each year, starting September 15, 2015, through September 15, 2031.

**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

4. Pension Costs

General Employees Retirement Plan (Continued)

The County's proportionate share of the net pension liability	\$ 3,726,851
State of Minnesota's proportionate share of the net pension liability associated with the County	<u>48,675</u>
Total	<u><u>\$ 3,775,526</u></u>

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 303,100
Changes in actuarial assumptions	729,721	-
Difference between projected and actual investment earnings	708,109	-
Changes in proportion	-	75,888
Contributions paid to PERA subsequent to the measurement date	<u>113,082</u>	<u>-</u>
Total	<u><u>\$ 1,550,912</u></u>	<u><u>\$ 378,988</u></u>

The \$113,082 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

4. Pension Costs

General Employees Retirement Plan (Continued)

<u>Year Ended December 31</u>	<u>Pension Expense Amount</u>
2017	\$ 283,338
2018	283,338
2019	357,546
2020	134,620

Public Employees Police and Fire Plan

At December 31, 2016, the County reported a liability of \$1,605,269 for its proportionate share of the Public Employees Police and Fire Plan's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the County's proportion was 0.040 percent. It was 0.040 percent measured as of June 30, 2015. The County recognized pension expense of \$283,906 for its proportionate share of the Public Employees Police and Fire Plan's pension expense.

The County also recognized \$3,600 as revenue, which results in a reduction of the net pension liability, for its proportionate share of the State of Minnesota's on-behalf contribution to the Public Employees Police and Fire Plan. Legislation requires the State of Minnesota to contribute \$9 million to the Public Employees Police and Fire Plan each year, starting in fiscal year 2014, until the plan is 90 percent funded.

**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

4. Pension Costs

Public Employees Police and Fire Plan (Continued)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 184,155
Changes in actuarial assumptions	883,450	-
Difference between projected and actual investment earnings	244,975	-
Changes in proportion	21,601	-
Contributions paid to PERA subsequent to the measurement date	34,265	-
Total	\$ 1,184,291	\$ 184,155

The \$34,265 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	Pension Expense Amount
2017	\$ 208,504
2018	208,504
2019	208,504
2020	188,707
2021	151,652

**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

4. Pension Costs (Continued)

Public Employees Correctional Plan

At December 31, 2016, the County reported a liability of \$438,377 for its proportionate share of the Public Employees Correctional Plan's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the County's proportion was 0.12 percent. It was 0.12 percent measured as of June 30, 2015. The County recognized pension expense of \$124,283 for its proportionate share of the Public Employees Correctional Plan's pension expense.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 343	\$ 4,735
Changes in actuarial assumptions	279,299	-
Difference between projected and actual investment earnings	49,253	-
Changes in proportion	-	389
Contributions paid to PERA subsequent to the measurement date	10,944	-
Total	\$ 339,839	\$ 5,124

**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

4. Pension Costs

Public Employees Correctional Plan (Continued)

The \$10,944 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended December 31</u>	<u>Pension Expense Amount</u>
2017	\$ 103,950
2018	103,950
2019	106,495
2020	9,376

Total Pension Expense

The total pension expense for all plans recognized by the County for the year ended December 31, 2016, was \$918,638.

5. Actuarial Assumptions

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

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

**LAKE OF THE WOODS COUNTY
BAUDETTE, 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 in the General Employees Retirement Plan were based on RP-2014 tables, while mortality rates for the Public Employees Police and Fire Plan and the Public Employees Correctional Plan were based on RP-2000 tables for males or females, as appropriate, with slight adjustments. For the General Employees Retirement Plan and the Public Employees Police and Fire Plan, cost of living benefit increases for retirees are assumed to be 1.00 percent. Cost of living benefit increases for retirees are assumed to be 2.50 percent for the Public Employees Correctional Plan.

Actuarial assumptions used in the June 30, 2016, valuation were based on the results of actuarial experience studies. The experience study in the General Employees Retirement Plan was for the period 2008 through 2015. The experience study for the Public Employees Police and Fire Plan was for the period 2004 through 2009. The experience study for the Public Employees Correctional Plan was for the period 2006 through 2011.

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

The long-term expected rate of return on pension plan investments is 7.50 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:

**LAKE OF THE WOODS COUNTY
BAUDETTE, 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 7.50 percent in 2016, a reduction of the 7.90 percent used in 2015. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, the fiduciary net position of the General Employees Retirement Plan was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. In the Public Employees Police and Fire Plan and the Public Employees Correctional Plan, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members through June 30, 2056, and June 30, 2058, respectively. Beginning in fiscal years ended June 30, 2057, for the Police and Fire Plan and June 30, 2059, for the Public Employees Correctional Plan, when projected benefit payments exceed the Plans' projected fiduciary net position, benefit payments were discounted at the municipal bond rate of 2.85 percent based on an index of 20-year general obligation bonds with an average AA credit rating at the measurement date. An equivalent single discount rate of 5.60 percent for the Public Employees Police and Fire Plan and 5.31 percent for the Public Employees Correctional Plan was determined that produced approximately the same present value of the projected benefits when applied to all years of projected benefits as the present value of projected benefits using 7.50 percent applied to all years of projected benefits through the point of asset depletion and 2.85 percent thereafter.

**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans (Continued)

7. Changes in Actuarial Assumptions

The following changes in actuarial assumptions occurred in 2016:

General Employees Retirement Plan

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

Public Employees Police and Fire Plan

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

**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

7. Changes in Actuarial Assumptions (Continued)

Public Employees Correctional Plan

- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was changed from 7.90 percent to 5.31 percent.
- The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

8. Pension Liability Sensitivity

The following presents the County's proportionate share of the net pension liability calculated using the discount rate disclosed in the preceding paragraph, as well as what the County's proportionate share of the net pension liability would be if it were calculated using a discount rate 1.00 percentage point lower or 1.00 percentage point higher than the current discount rate:

	Proportionate Share of the					
	General Employees Retirement Plan		Public Employees Police and Fire Plan		Public Employees Correctional Plan	
	Discount Rate	Net Pension Liability	Discount Rate	Net Pension Liability	Discount Rate	Net Pension Liability
1% Decrease	6.50%	\$ 5,293,235	4.60%	\$ 2,247,164	4.31%	\$ 660,060
Current	7.50	3,726,852	5.60	1,605,269	5.31	438,377
1% Increase	8.50	2,436,579	6.60	1,080,793	6.31	265,310

9. Pension Plan Fiduciary Net Position

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

**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits (Continued)

B. Defined Contribution Plan

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

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

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

	Employee	Employer
Contribution amount	\$ 4,768	\$ 4,768
Percentage of covered payroll	5.00%	5.00%

C. Other Postemployment Benefits (OPEB)

Plan Description

Lake of the Woods 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.

**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB) (Continued)

Funding Policy

The contribution requirements of the plan members and the County are established and may be amended by the Lake of the Woods County Board of Commissioners. The required contribution is based on projected pay-as-you-go financing requirements. Retirees are required to pay 100 percent of the total premium cost. Since the premium is determined on the entire active and retiree population, the retirees are receiving an implicit rate subsidy. This postemployment benefit is funded on a pay-as-you-go basis usually paying retiree benefits out of the General Fund. For 2016, there were approximately 65 participants in the plan, with no 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	\$ 66,567
Interest on net OPEB obligation	19,807
Adjustment to ARC	<u>(28,080)</u>
Annual OPEB cost (expense)	\$ 58,294
Contributions made	<u>(25,682)</u>
Increase in net OPEB obligation	\$ 32,612
Net OPEB Obligation – Beginning of Year	<u>495,176</u>
Net OPEB Obligation – End of Year	<u>\$ 527,788</u>

**LAKE OF THE WOODS COUNTY
BAUDETTE, 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 the year ended December 31, 2016, was \$58,294. The percentage of annual OPEB cost contributed to the plan was 44.1 percent, and the net OPEB obligation for 2016 was \$527,788. The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2015 and 2016, was 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, 2015	\$ 58,951	\$ 19,648	33.3%	\$ 495,176
December 31, 2016	58,294	25,682	44.1	527,788

This schedule is intended to show information for three years. For the first time, in 2015, Lake of the Woods County used actuarial assistance in the preparation of the OPEB liability and disclosure information using the alternative measurement method. Due to significant differences from the amounts presented in previous years, only two years are presented. Additional years will be provided as the information is available.

Funded Status and Funding Progress

As of January 1, 2015, the most recent actuarial valuation date, the plan was 0.00 percent funded. The actuarial accrued liability for benefits was \$479,097, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$479,097. The covered payroll (annual payroll of active employees covered by the plan) was \$3,476,183, and the ratio of the UAAL to the covered payroll was 13.78 percent.

Actuarial Methods and Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual

**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

Actuarial Methods and Assumptions (Continued)

required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress – Other Postemployment Benefits, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

In the January 1, 2015, actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 4.00 percent discount rate, which is based on the estimated short-term investment yield on the general assets of the County. The annual health care cost trend rate is 7.25 percent initially, reduced incrementally to an ultimate rate of 5.00 percent after nine years. The unfunded actuarial accrued liability is being amortized by a level dollar amount on a closed basis. The remaining amortization period at December 31, 2016, was 29 years.

The OPEB liability is generally liquidated by the General Fund and the Road and Bridge and Social Services Special Revenue Funds.

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.

**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

5. Risk Management (Continued)

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 \$500,000 per claim in 2016 and 2017. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

6. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

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

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

B. Joint Ventures

Baudette International Airport

The Baudette-Lake of the Woods Airport Commission was formed in 1975 under the authority of the Joint Powers Act with the City of Baudette to create and operate the Baudette International Airport, pursuant to Minn. Stat. § 471.59. Minnesota Statute, section 360.042 allows a municipality to acquire property for the purpose of establishing, constructing, and enlarging airports.

**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Baudette International Airport (Continued)

Control of the Baudette International Airport is vested in the Joint Board, which is composed of two members appointed by the City Council of Baudette, two members appointed by the County Board, and a fifth member appointed by the four members appointed by the City and County.

Financing is provided by state grants, appropriations from the City of Baudette and Lake of the Woods County, and miscellaneous revenues. Lake of the Woods County's share of the budget is 50 percent. The operations of the airport do not create a financial benefit or burden for the County. A special account called the Airport Fund was created in the City of Baudette's records to account for the revenues and expenditures of the Baudette International Airport. The County's share of the budget in 2016 was \$31,500. Complete financial information can be obtained from the Baudette City Administrator's Office at City Hall, Baudette, Minnesota 56623.

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

The HSEM Region 3 Emergency Managers Joint Powers Board was formed in 2007 under the authority of the Joint Powers Act, pursuant to Minn. Stat. § 471.59 and Minn. Stat. ch. 12. Members include Becker, Beltrami, Clay, Clearwater, Hubbard, Kittson, Lake of the Woods, Mahnommen, Marshall, Norman, Pennington, Polk, Red Lake, and Roseau Counties.

The purpose of the HSEM Region 3 Emergency Managers Joint Powers Board is to engage in planning, training, and/or the purchase of equipment in order to better respond to emergencies and natural and other disasters within HSEM Region 3, specifically within the jurisdictional boundaries of the member counties.

Control is vested in the HSEM Region 3 Emergency Managers Joint Powers Board, which is composed of one representative from each member county, appointed by their respective governing bodies as provided in the entity's Joint Powers Agreement. Funding for the HSEM Region 3 Emergency Managers Joint Powers Board is adequate so that the participating counties do not experience an additional financial benefit or burden.

**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

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

The HSEM Region 3 Emergency Managers Joint Powers Board has no long-term debt. Financing will be provided by a Homeland Security Grant Program and other grant programs and awards. Complete financial information can be obtained from the Clay County Sheriff's Office, 915 – 9th Avenue North, Moorhead, Minnesota 56560.

Karlstad Mobile Relay Station

The Karlstad Mobile Relay Station was formed in 1973 under the authority of the Joint Powers Act, pursuant to Minn. Stat. § 471.59, and includes Kittson, Lake of the Woods, Marshall, and Roseau Counties. The purpose of the Karlstad Mobile Relay Station is to provide access to radio communications equipment for member counties.

Control of the Karlstad Mobile Relay Station is vested in an advisory board, which is composed of one representative appointed by each County Board and the Kittson County Auditor or Deputy Auditor. In the event of dissolution of the Relay Station, the net assets at the time shall be distributed to the respective member counties in proportion to the contributions made by each.

The Karlstad Mobile Relay Station has no long-term debt. Financing is provided by contributions from each member county representing an equal share of the annual expense. Lake of the Woods County did not contribute to the Relay Station for the year ended December 31, 2016. Complete financial information can be obtained from the Kittson County Administrator's Office, PO Box 848, Hallock, Minnesota 56728.

North Country Community Health Service

The North Country Community Health Service was formed in 1979 under the authority of the Joint Powers Act, pursuant to Minn. Stat. § 471.59, and includes Beltrami, Clearwater, Hubbard, and Lake of the Woods Counties. The purpose of the Health Service is to develop and implement policies and procedures to promote efficiency and economy in the delivery of community health services.

**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

North Country Community Health Service (Continued)

Control of the Health Service is vested in the North Country Health Service Board of Health, which is composed of three members appointed by Beltrami County and two members appointed by each of the other member counties in the same proportion as their allocated share of the subsidy funds as determined by the Minnesota Department of Health.

The Health Service has no long-term debt. Financing is provided by state and federal grants and appropriations from member counties. Lake of the Woods County did not contribute to the Health Service for the year ended December 31, 2016. Clearwater County, in an agent capacity, reports the cash transactions of the Health Service as an agency fund on its financial statements. Complete financial information can be obtained from the Clearwater County Auditor/Treasurer's Office or the Health Service's office located at 212 Main Avenue, Bagely, Minnesota 56621.

Northwest Minnesota Household Hazardous Waste Management Group

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

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

The Waste Management Group has no long-term debt. Financing is provided by appropriations from the member counties when needed. Lake of the Woods County paid \$7,857 to the Waste Management Group in 2016. Clearwater County, in an agent capacity, reports the cash transactions of the Waste Management Group as an agency fund on its financial statements. Separate financial information can be obtained from the Waste Management Group, PO Box 186, Bagely, Minnesota 56621.

**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

Northwest Minnesota Regional Emergency Communications Board

The Northwest Minnesota Regional Emergency Communications 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, Cass, Clay, Clearwater, Hubbard, Kittson, Lake of the Woods, Mahnomon, Marshall, Norman, Pennington, Polk, Red Lake, and Roseau.

The purpose of the Northwest Minnesota Regional Emergency Communications 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 Emergency Communications 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 its City Council, as provided in the Northwest Minnesota Regional Radio Board's bylaws.

In the event of dissolution of the Northwest Minnesota Regional Emergency Communications 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 Emergency Communications Board has no long-term debt. Financing is provided by appropriations from member parties and by state and federal grants. Lake of the Woods County did not contribute to the Board for the year ended December 31, 2016. Complete financial information can be obtained from the Northwest Minnesota Regional Radio Board, c/o Greater Northwest EMS, 2301 Johanneson Avenue Northwest, Suite 103, Bemidji, Minnesota 56601.

**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

Northwest Service Cooperative (NWSC)

The NWSC was established in February 1977, pursuant to Minn. Stat. §§ 471.59 and 123.582 (now Minn. Stat. § 123A.21). The NWSC is located in State Development Regions One and Two which include 12 counties covering a total of 14,853 miles. These are the most sparsely populated regions of the state with only 11 persons per square mile. The regions are known as “Pine to Prairie.” The NWSC provides service to all school districts and many cities, counties, and other governmental agencies in the northwest region. The NWSC’s purpose is to meet or exceed the needs of participating members by developing and delivering high quality, cost-effective services and programs that will support the activities of its members.

The NWSC is governed by a Board of Directors consisting of school board members elected at large by their peers, one city representative, with a maximum of three at-large appointees and three ex-officio superintendents. Adequate rates are charged so that the members do not experience additional benefit or burden. Lake of the Woods County did not contribute to the NWSC for the year ended December 31, 2016. Complete financial information can be obtained from the Northwest Service Cooperative, 114 First Street West, Thief River Falls, Minnesota 56701.

Northwestern Counties Data Processing Security Association

The Northwestern Counties Data Processing Security Association 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, Mahnomon, Marshall, Pennington, Polk, Roseau, and Wadena Counties. The purpose of the Association is to provide a mechanism whereby the counties may cooperatively provide for a data processing disaster recovery plan and back-up system.

Control of the Association is vested in the Northwestern Counties Data Processing Security Association Joint Powers Board, which is composed of one County Commissioner appointed by each member County Board. In the event of dissolution, the net assets of the Association at that time shall be distributed to the respective member counties in proportion to the contribution of each.

**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Northwestern Counties Data Processing Security Association (Continued)

The Northwestern Counties Data Processing Security Association has no long-term debt. Financing is provided by state grants and appropriations from member counties when needed. Lake of the Woods County did not contribute to the Association for the year ended December 31, 2016. Clearwater County, in an agent capacity, reports the cash transactions of the Association as an agency fund on its financial statements. Complete financial information can be obtained from the Clearwater County Auditor/Treasurer's Office, 213 North Main Avenue, Bagley, Minnesota 56621.

Northwestern Minnesota Juvenile Center

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

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

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

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

**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

Pine to Prairie Drug and Violent Crime Task Force

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

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

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

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

**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

Williams Mobile Relay Station

The Williams Mobile Relay Station was formed in 1975 under the authority of the Joint Powers Act, pursuant to Minn. Stat. § 471.59, and includes Kittson, Lake of the Woods, Marshall, and Roseau Counties. The purpose of the Relay Station is to provide access to radio communications equipment for member counties.

Control of the Williams Mobile Relay Station is vested in an advisory board, which is composed of one representative appointed by each County Board and the Lake of the Woods County Auditor/Treasurer or Deputy Auditor/Treasurer. In the event of dissolution of the Relay Station, the net assets at the time shall be distributed to the respective member counties in proportion to the contributions made by each.

The Williams Mobile Relay Station has no long-term debt. Financing is provided by contributions from each member county representing an equal share of the annual expense. Lake of the Woods County did not contribute to the Relay Station for the year ended December 31, 2016. Complete financial information can be obtained from the Lake of the Woods County Auditor/Treasurer's Office, 206 – 8th Avenue Southeast, Suite 260 Baudette, Minnesota 56623.

C. Jointly-Governed Organizations

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

Arrowhead Library System

The Arrowhead Library System was formed pursuant to Minn. Stat. § 134.20, effective January 1968, and includes Carlton, Cook, Itasca, Koochiching, Lake, Lake of the Woods, and St. Louis Counties. Control of the Library is vested in the Arrowhead Library Board, which is composed of 20 members with staggered terms made up of the following: six members from St. Louis County, three members from Itasca County, two members from each of the other member counties, and one member from the area at large. Lake of the Woods County appropriated \$33,118 to the Library for the year ended December 31, 2016.

**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations (Continued)

Giziibii Resource Conservation and Development (RC&D) Council

The Giziibii RC&D Council was incorporated in June 1974 and serves the residents of Beltrami, Clearwater, Hubbard, Lake of the Woods, and Mahnommen Counties. Lake of the Woods County appropriated \$300 to the Giziibii RC&D Council for the year ended December 31, 2016.

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, Mahnommen, 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.

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 their respective County Board, as provided in the Natural Resources Board's bylaws.

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.

The Natural Resources Board has no long-term debt. Financing is provided by appropriations from member counties. Lake of the Woods County contributed \$1,000 to the Joint County Natural Resources Board for the year ended December 31, 2016. Complete financial information can be obtained from the Natural Resources Board's Treasurer, Josh Stromlund, 206 – 8th Avenue Southeast, Baudette, Minnesota 56623.

Lake of the Woods Area Tourism Bureau

The Lake of the Woods Area Tourism Bureau was formed pursuant to Minn. Stat. § 471.59, effective 1989, and includes Lake of the Woods County and the City of Baudette. Control of the Tourism Bureau is vested in the Lake of the Woods Area Tourism Bureau Board of Directors, which is composed of ten voting members and ten

**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations

Lake of the Woods Area Tourism Bureau (Continued)

alternates made up of the following: one member from each County district with one alternate for each district, and one member from each City precinct with one alternate for each precinct.

Lake of the Woods County Children and Families Collaborative

The Lake of the Woods County Children and Families Collaborative was formed pursuant to Minn. Stat. §§ 121.8355 (now Minn. Stat. § 124D.23) and 245.491, effective May 1, 2002, and includes Lake of the Woods County Social Services; Lake of the Woods Schools; LakeWood Health Center; Upper Mississippi Mental Health Center, Inc.; Minnesota Department of Corrections; and Northwest Community Action.

Control of the Collaborative is vested in the Collaborative Governing Board and includes one representative from each member. Lake of the Woods County Social Services has accepted responsibility as the fiscal agent for reporting, claiming, and receiving payments. Lake of the Woods County contributed \$6,000 to the Collaborative for the year ended December 31, 2016.

Minnesota Association of Governments Investing for Counties (MAGIC)

MAGIC is a joint powers entity in the form of a common law trust organized and existing under the laws of the State of Minnesota in accordance with provisions of the Minnesota Joint Powers Act. MAGIC was established in the fall of 1990 for the purpose of allowing Minnesota counties and instrumentalities of counties to pool their investment funds to seek the highest possible investment yield, while maintaining liquidity and preserving capital. Information can be obtained by contacting a representative at 1-800-731-7150.

Minnesota Counties Computer Cooperative (MCCC)

Under Minnesota Joint Powers Law, Minn. Stat. § 471.59, Minnesota counties have created the MCCC to jointly provide for the establishment, operation, and maintenance of data processing systems, facilities, and management information systems. Lake of the Woods County did not contribute to the MCCC in 2016.

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

Northern Counties Land Use Coordinating Board

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

Financing is provided by appropriations from member counties. Lake of the Woods County provided no funding to this organization during 2016. St. Louis County, in an agent capacity, reports the cash transactions as an agency fund on its financial statements. Complete financial information can be obtained from the St. Louis County Auditor, 100 North 5th Avenue West, Suite 214, Duluth, Minnesota 55802.

**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations (Continued)

Roseau River Watershed District

The Roseau River Watershed District was formed pursuant to Minn. Stat. § 103D.201, effective June 17, 1963, and includes land within Beltrami, Kittson, Lake of the Woods, Marshall, and Roseau Counties. The purpose of the District is to conserve the natural resources of the state by land use planning, flood control, and other conservation projects by using sound scientific principles for the protection of public health and welfare and the provident use of natural resources. Control of the District is vested in the Roseau River Watershed Board of Managers, which is composed of five members having staggered terms of three years each, with four appointed by the Roseau County Board and one appointed by the Kittson County Board.

Warroad Watershed District

The Warroad Watershed District was formed pursuant to Minn. Stat. § 103D.201, effective September 13, 1965, and includes land within Lake of the Woods and Roseau Counties. The purpose of the District is to conserve the natural resources of the state by land use planning, flood control, and other conservation projects by using 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 Warroad Watershed District Board of Managers, which is composed of five members appointed by the Roseau County Board for staggered terms of three years each.

D. Tax-Forfeited Land

The County manages approximately 1,566 acres of state-owned, tax-forfeited land. This land generates revenues primarily from recreational land leases and land and timber sales. Land management costs, including forestry costs such as site preparation, seedlings, tree planting, and logging roads, are accounted for as current operating expenditures. Revenues in excess of expenditures are distributed to the County and cities, towns, and school districts within the County according to state statute.

REQUIRED SUPPLEMENTARY INFORMATION

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**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

EXHIBIT A-1

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 1,544,015	\$ 1,544,015	\$ 1,506,821	\$ (37,194)
Licenses and permits	46,000	46,000	55,725	9,725
Intergovernmental	2,362,839	2,362,839	2,944,869	582,030
Charges for services	174,825	174,825	228,421	53,596
Fines and forfeits	24,500	24,500	29,576	5,076
Investment earnings	15,000	15,000	16,688	1,688
Miscellaneous	77,600	77,600	166,306	88,706
Total Revenues	\$ 4,244,779	\$ 4,244,779	\$ 4,948,406	\$ 703,627
Expenditures				
Current				
General government				
Commissioners	\$ 229,070	\$ 229,070	\$ 203,178	\$ 25,892
Courts	15,000	15,000	14,464	536
Law library	10,500	10,500	11,280	(780)
County administration	51,400	51,400	49,029	2,371
County auditor	454,670	454,670	427,461	27,209
County assessor	234,881	234,881	189,558	45,323
Elections	26,000	26,000	34,691	(8,691)
Accounting and auditing	20,000	20,000	20,473	(473)
Management information systems	280,845	280,845	324,610	(43,765)
Attorney	200,430	200,430	199,337	1,093
Government center north	18,700	18,700	15,150	3,550
Recorder	162,815	162,815	156,317	6,498
Surveyor	11,000	11,000	11,000	-
Planning advisory commission	314,753	314,753	286,674	28,079
Buildings and grounds	195,695	195,695	200,945	(5,250)
Veterans service officer	66,565	66,565	67,891	(1,326)
Insurance	30,000	30,000	26,811	3,189
Other general government	74,100	74,100	198,188	(124,088)
Total general government	\$ 2,396,424	\$ 2,396,424	\$ 2,437,057	\$ (40,633)

**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

**EXHIBIT A-1
(Continued)**

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Public safety				
Sheriff	\$ 564,220	\$ 564,220	\$ 577,906	\$ (13,686)
Boat and water safety	7,000	7,000	17,041	(10,041)
Coroner	10,500	10,500	5,220	5,280
E-911 system	55,000	55,000	46,428	8,572
Emergency services	41,181	41,181	52,803	(11,622)
All-terrain vehicle	5,500	5,500	16,948	(11,448)
Law enforcement center	441,545	441,545	508,910	(67,365)
Drug and substance abuse court	19,000	19,000	31,113	(12,113)
Operation Stonegarden	44,000	44,000	59,616	(15,616)
Probation and parole	30,000	30,000	34,970	(4,970)
Sex offender treatment	15,000	15,000	13,069	1,931
Snowmobile safety	4,000	4,000	5,064	(1,064)
Total public safety	\$ 1,236,946	\$ 1,236,946	\$ 1,369,088	\$ (132,142)
Health				
Community health services	\$ 66,000	\$ 66,000	\$ 60,000	\$ 6,000
Culture and recreation				
Centennial celebrations	\$ 4,600	\$ 4,600	\$ 4,100	\$ 500
County television	33,900	33,900	32,522	1,378
Historical society	59,900	59,900	54,900	5,000
Parks	13,800	13,800	5,903	7,897
Regional library	33,118	33,118	33,118	-
Snowmobile and ski trails	160,000	160,000	154,146	5,854
Baudette Area Arena	-	-	400,000	(400,000)
Total culture and recreation	\$ 305,318	\$ 305,318	\$ 684,689	\$ (379,371)
Conservation of natural resources				
Agricultural society	\$ 25,000	\$ 25,000	\$ 25,000	\$ -
County extension	39,941	39,941	44,559	(4,618)
Soil and water conservation	2,500	2,500	2,500	-
Total conservation of natural resources	\$ 67,441	\$ 67,441	\$ 72,059	\$ (4,618)

**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

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

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Economic development				
Airport	\$ 31,500	\$ 31,500	\$ 31,500	\$ -
Gizibii Resource Conservation and Development	300	300	300	-
Housing rehabilitation	7,000	7,000	6,232	768
Red River Valley Development	800	800	800	-
Tourism	300	300	275	25
Other economic development	26,250	26,250	31,210	(4,960)
Total economic development	<u>\$ 66,150</u>	<u>\$ 66,150</u>	<u>\$ 70,317</u>	<u>\$ (4,167)</u>
Capital outlay				
Public safety	<u>\$ 34,000</u>	<u>\$ 34,000</u>	<u>\$ 136,488</u>	<u>\$ (102,488)</u>
Total Expenditures	<u>\$ 4,172,279</u>	<u>\$ 4,172,279</u>	<u>\$ 4,829,698</u>	<u>\$ (657,419)</u>
Excess of Revenues Over (Under) Expenditures	<u>\$ 72,500</u>	<u>\$ 72,500</u>	<u>\$ 118,708</u>	<u>\$ 46,208</u>
Other Financing Sources (Uses)				
Transfers out	<u>(72,500)</u>	<u>(72,500)</u>	<u>(75,500)</u>	<u>(3,000)</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 43,208</u>	<u>\$ 43,208</u>
Fund Balance – January 1	<u>5,700,649</u>	<u>5,700,649</u>	<u>5,700,649</u>	<u>-</u>
Fund Balance – December 31	<u><u>\$ 5,700,649</u></u>	<u><u>\$ 5,700,649</u></u>	<u><u>\$ 5,743,857</u></u>	<u><u>\$ 43,208</u></u>

**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

EXHIBIT A-2

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 897,935	\$ 897,935	\$ 859,869	\$ (38,066)
Intergovernmental	4,816,476	4,816,476	6,438,437	1,621,961
Charges for services	42,000	42,000	85,825	43,825
Investment earnings	5,000	5,000	3,854	(1,146)
Miscellaneous	31,000	31,000	40,039	9,039
Total Revenues	\$ 5,792,411	\$ 5,792,411	\$ 7,428,024	\$ 1,635,613
Expenditures				
Current				
Highways and streets				
Administration	\$ 182,865	\$ 182,865	\$ 169,813	\$ 13,052
Maintenance	1,368,760	1,368,760	1,490,444	(121,684)
Engineering/construction	3,263,248	3,263,248	5,109,174	(1,845,926)
Equipment, maintenance, and shop	535,659	535,659	496,429	39,230
Other highways and streets	161,677	161,677	34,755	126,922
Total highways and streets	\$ 5,512,209	\$ 5,512,209	\$ 7,300,615	\$ (1,788,406)
Capital outlay				
Highways and streets	260,000	260,000	247,211	12,789
Total Expenditures	\$ 5,772,209	\$ 5,772,209	\$ 7,547,826	\$ (1,775,617)
Excess of Revenues Over (Under)				
Expenditures	\$ 20,202	\$ 20,202	\$ (119,802)	\$ (140,004)
Other Financing Sources (Uses)				
Transfers in	-	-	72,500	72,500
Net Change in Fund Balance	\$ 20,202	\$ 20,202	\$ (47,302)	\$ (67,504)
Fund Balance – January 1	2,795,294	2,795,294	2,795,294	-
Increase (decrease) in inventories	-	-	(102,972)	(102,972)
Fund Balance – December 31	\$ 2,815,496	\$ 2,815,496	\$ 2,645,020	\$ (170,476)

**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

EXHIBIT A-3

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 610,435	\$ 610,435	\$ 586,358	\$ (24,077)
Intergovernmental	849,414	849,414	1,095,217	245,803
Charges for services	99,519	99,519	113,611	14,092
Gifts and contributions	2,000	2,000	3,284	1,284
Miscellaneous	93,550	93,550	122,462	28,912
Total Revenues	\$ 1,654,918	\$ 1,654,918	\$ 1,920,932	\$ 266,014
Expenditures				
Current				
Health				
Prevention Coalition	\$ -	\$ -	\$ 79,848	\$ (79,848)
Human services				
Income maintenance	\$ 531,312	\$ 531,312	\$ 584,923	\$ (53,611)
Social services	1,097,372	1,097,372	1,037,904	59,468
Total human services	\$ 1,628,684	\$ 1,628,684	\$ 1,622,827	\$ 5,857
Total Expenditures	\$ 1,628,684	\$ 1,628,684	\$ 1,702,675	\$ (73,991)
Net Change in Fund Balance	\$ 26,234	\$ 26,234	\$ 218,257	\$ 192,023
Fund Balance – January 1	1,368,302	1,368,302	1,368,302	-
Fund Balance – December 31	\$ 1,394,536	\$ 1,394,536	\$ 1,586,559	\$ 192,023

**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

EXHIBIT A-4

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b – a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
January 1, 2015	\$ -	\$ 479,097	\$ 479,097	0.00%	\$ 3,476,183	13.78%

This schedule is intended to show information for three years. For the first time, in 2015, Lake of the Woods County used actuarial assistance in the preparation of the other postemployment benefits liability and disclosure information using the alternative measure method. Due to significant differences in the amounts presented in previous years, only one year is presented. Additional years will be provided as the information is available.

**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

EXHIBIT A-5

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

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	State's Proportionate Share of the Net Pension Liability Associated with Lake of the Woods County (b)	Employer's Proportionate Share of the Net Pension Liability and the State's Related Share of the Net Pension Liability (Asset) (a + b)	Covered Payroll (c)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2016	0.0459%	\$ 3,726,851	\$ 48,675	\$ 3,775,526	\$ 2,846,973	130.91%	68.91%
2015	0.0461	2,389,141	N/A	2,389,141	2,777,971	86.00	78.19

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.
The measurement date for each year is June 30.
N/A - Not Applicable

**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

EXHIBIT A-6

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

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b - a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
2016	\$ 221,400	\$ 221,400	\$ -	\$ 2,952,000	7.50%
2015	211,979	211,979	-	2,826,387	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.

**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

EXHIBIT A-7

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

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	Covered Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2016	0.040%	\$ 1,605,269	\$ 388,377	413.33%	63.88%
2015	0.040	454,494	364,002	124.86	86.61

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

**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

EXHIBIT A-8

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

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b - a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
2016	\$ 65,595	\$ 65,595	\$ -	\$ 404,907	16.20%
2015	61,066	61,066	-	376,951	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.

**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

EXHIBIT A-9

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

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	Covered Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2016	0.12%	\$ 438,377	\$ 233,531	187.72%	58.16%
2015	0.12	18,552	222,057	8.35	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.

**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

EXHIBIT A-10

**SCHEDULE OF CONTRIBUTIONS
PERA PUBLIC EMPLOYEES CORRECTIONAL PLAN
DECEMBER 31, 2016**

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b - a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
2016	\$ 22,049	\$ 22,049	\$ -	\$ 251,989	8.75%
2015	19,804	19,804	-	226,331	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.

**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

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

1. Budgetary Information

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

On or before the last Tuesday in August of each year, all departments and agencies submit requests for appropriations to the County Auditor/Treasurer so that a budget can be prepared. Before October 31, the proposed budget is presented to the County Board for review. The Board holds 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 departmental level.

2. Excess of Expenditures Over Appropriations

The following funds and departments had expenditures exceeding appropriations for the year ended December 31, 2016:

	Expenditures	Budget	Excess
Major governmental funds			
General Fund			
Current			
General government			
Law library	\$ 11,280	\$ 10,500	\$ 780
Elections	34,691	26,000	8,691
Accounting and auditing	20,473	20,000	473
Management information systems	324,610	280,845	43,765
Buildings and grounds	200,945	195,695	5,250
Veterans service officer	67,891	66,565	1,326
Other general government	198,188	74,100	124,088
Public safety			
Sheriff	577,906	564,220	13,686
Boat and water safety	17,041	7,000	10,041
Emergency services	52,803	41,181	11,622
All-terrain vehicle	16,948	5,500	11,448
Law enforcement center	508,910	441,545	67,365

**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

2. Excess of Expenditures Over Appropriations (Continued)

	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
Major governmental funds			
General Fund			
Current			
Public safety (Continued)			
Drug and substance abuse court	31,113	19,000	12,113
Operation Stonegarden	59,616	44,000	15,616
Probation and parole	34,970	30,000	4,970
Snowmobile safety	5,064	4,000	1,064
Culture and recreation			
Baudette Area Arena	400,000	-	400,000
Conservation of natural resources			
County extension	44,559	39,941	4,618
Economic development			
Other economic development	31,210	26,250	4,960
Capital outlay			
Public safety	136,488	34,000	102,488
Road and Bridge Special Revenue Fund			
Current			
Highways and streets			
Maintenance	1,490,444	1,368,760	121,684
Engineering/construction	5,109,174	3,263,248	1,845,926
Social Services Special Revenue Fund			
Current			
Health			
Prevention Coalition	79,878	-	79,858
Human services			
Income maintenance	584,923	531,312	53,611

3. Other Postemployment Benefits

Governmental Accounting Standards Board Statement 45 requires a Schedule of Funding Progress – Other Postemployment Benefits for the three most recent valuations and accompanying notes to describe factors that significantly affect the trends in the amounts reported. For the first time, in 2015, Lake of the Woods County used actuarial assistance in the preparation of the other postemployment benefits liability and disclosure information using the alternative measurement method. Due to significant differences from the amounts presented in previous years, only one year is presented. Additional years will be provided as the information is available.

**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

3. Other Postemployment Benefits (Continued)

Significant Actuarial Assumptions

Actuarial Assumptions

- The health care trend rates anticipate short-term and long-term medical increases.
- The discount rate is changed to 4.00 percent.
- The percentage of active employees who are assumed to be married is 85 percent for males and 65 percent for females, with males assumed to be three years older than females.
- The percentage of future retirees who are assumed to continue on the County's medical plan post-employment is 50 percent.
- The percentage of future spouses of retirees who are assumed to continue on the County's medical plan post-employment is 25 percent.
- The mortality table used was the RP-2014 White Collar mortality table with MP-2014 Generational Improvement Scale (Blue Collar Tables for Police and Fire Personnel).
- Retirement and withdrawal assumptions are used similar to those used to value pension liabilities for Minnesota public employees. The state pension plans base their assumptions on periodic experience studies.

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

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

General Employees Retirement Plan

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2035 and 2.50 percent per year thereafter, to 1.00 percent for all future years.

**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

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

General Employees Retirement Plan (Continued)

- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was also changed from 7.90 percent to 7.50 percent.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

Public Employees Police and Fire Plan

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

Public Employees Correctional Plan

- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was changed from 7.90 percent to 5.31 percent.
- The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

SUPPLEMENTARY INFORMATION

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**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

NONMAJOR GOVERNMENTAL FUNDS

The Development Special Revenue Fund is used to account for and report the expenditures of funds restricted to County development. Financing is provided by a distribution from the state for consolidated conservation areas.

The Ditch Special Revenue Fund is used to account for and report the cost of constructing and maintaining an agricultural drainage ditch system. Financing is provided by special assessments levied against benefited property restricted for conservation of natural resources.

The Economic Development Authority Special Revenue Fund is used to account for and report financial transactions assigned to various economic development activities of the Economic Development Authority.

The Forfeited Tax Sale Special Revenue Fund is used to account for and report funds collected from timber sales and sale and lease of tax forfeited lands, and for expenditures related to the operation and maintenance of those lands. The net proceeds, after deducting allowable expenses, are restricted to various County funds and taxing districts. Titles to the tax-forfeited lands remains with the state until the lands are sold by the County.

The Natural Resource Enhancement Special Revenue Fund is used to account for and report financial transactions committed for use for community-minded projects. Financing is provided by the sale of land for the wetland replacement program and permit fees.

The Solid Waste Special Revenue Fund is used to account for and report financial transactions of the solid waste transfer station. Financing is provided by special assessments, intergovernmental revenues, and charges for services restricted to various solid waste purposes.

**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

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

	Development	Ditch
<u>Assets</u>		
Cash and pooled investments	\$ 462,140	\$ 85,651
Taxes receivable		
Delinquent	-	-
Special assessments receivable		
Delinquent	-	4,907
Accrued interest receivable	-	-
Due from other funds	-	-
Loans receivable	-	-
	\$ 462,140	\$ 90,558
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>		
Liabilities		
Accounts payable	\$ -	\$ -
Salaries payable	-	-
Due to other funds	-	31,458
Due to other governments	-	420
	\$ -	\$ 31,878
Deferred Inflows of Resources		
Unavailable revenue – taxes	\$ -	\$ -
Unavailable revenue – special assessments	-	4,843
Unavailable revenue – loans	-	-
	\$ -	\$ 4,843

EXHIBIT B-1

Special Revenue Funds				
Economic Development Authority	Forfeited Tax Sale	Natural Resource Enhancement	Solid Waste	Total
\$ 163,455	\$ 200	\$ 649,904	\$ 286,026	\$ 1,647,376
2,787	-	-	5	2,792
-	-	-	53,273	58,180
-	-	4,149	-	4,149
-	-	-	194	194
292,874	-	-	-	292,874
\$ 459,116	\$ 200	\$ 654,053	\$ 339,498	\$ 2,005,565
\$ 18,913	\$ -	\$ -	\$ 19,032	\$ 37,945
-	-	-	7,584	7,584
-	-	-	77	31,535
-	-	-	286	706
\$ 18,913	\$ -	\$ -	\$ 26,979	\$ 77,770
\$ 877	\$ -	\$ -	\$ -	\$ 877
-	-	-	41,384	46,227
292,874	-	-	-	292,874
\$ 293,751	\$ -	\$ -	\$ 41,384	\$ 339,978

**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

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

	Development	Ditch
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u> (Continued)		
Fund Balances		
Restricted for		
Conservation of natural resources	\$ -	\$ 85,181
County development	462,140	-
Committed for		
Wetlands	-	-
Assigned to		
Sanitation	-	-
Economic development	-	-
Forfeited land sales	-	-
Capital expenditures	-	-
Unassigned	-	(31,344)
	\$ 462,140	\$ 53,837
Total Fund Balances	\$ 462,140	\$ 53,837
 Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 462,140	\$ 90,558

EXHIBIT B-1
(Continued)

Special Revenue Funds				
Economic Development Authority	Forfeited Tax Sale	Natural Resource Enhancement	Solid Waste	Total
\$ -	\$ -	\$ -	\$ -	\$ 85,181
-	-	-	-	462,140
-	-	654,053	-	654,053
-	-	-	221,135	221,135
146,452	-	-	-	146,452
-	200	-	-	200
-	-	-	50,000	50,000
-	-	-	-	(31,344)
\$ 146,452	\$ 200	\$ 654,053	\$ 271,135	\$ 1,587,817
\$ 459,116	\$ 200	\$ 654,053	\$ 339,498	\$ 2,005,565

**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

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

	Development	Ditch
Revenues		
Taxes	\$ -	\$ -
Special assessments	-	15,492
Intergovernmental	174,610	-
Charges for services	-	-
Investment earnings	-	-
Miscellaneous	-	-
	\$ 174,610	\$ 15,492
Total Revenues	\$ 174,610	\$ 15,492
Expenditures		
Current		
General government	\$ 16,838	\$ -
Public safety	-	-
Sanitation	386	-
Culture and recreation	55,550	-
Conservation of natural resources	21,774	21,746
Economic development	-	-
Debt service		
Principal	-	-
Interest	-	114
	\$ 94,548	\$ 21,860
Total Expenditures	\$ 94,548	\$ 21,860
Excess of Revenues Over (Under) Expenditures	\$ 80,062	\$ (6,368)
Other Financing Sources (Uses)		
Transfers in	\$ -	\$ -
Transfers out	(10,000)	-
	\$ (10,000)	\$ -
Total Other Financing Sources (Uses)	\$ (10,000)	\$ -
Net Change in Fund Balance	\$ 70,062	\$ (6,368)
Fund Balance – January 1	392,078	60,205
Fund Balance – December 31	\$ 462,140	\$ 53,837

EXHIBIT B-2

Special Revenue Funds				
Economic Development Authority	Forfeited Tax Sale	Natural Resource Enhancement	Solid Waste	Total
\$ 79,993	\$ -	\$ -	\$ -	\$ 79,993
-	-	-	598,462	613,954
-	-	-	68,710	243,320
-	-	-	60,551	60,551
-	-	10,376	-	10,376
86,175	-	1,699	918	88,792
\$ 166,168	\$ -	\$ 12,075	\$ 728,641	\$ 1,096,986
\$ -	\$ -	\$ 7,013	\$ -	\$ 23,851
-	-	1,255	-	1,255
-	-	-	774,386	774,772
-	-	-	-	55,550
-	-	26,945	-	70,465
83,631	-	-	-	83,631
45,000	-	-	-	45,000
-	-	-	-	114
\$ 128,631	\$ -	\$ 35,213	\$ 774,386	\$ 1,054,638
\$ 37,537	\$ -	\$ (23,138)	\$ (45,745)	\$ 42,348
\$ 10,000	\$ -	\$ 3,000	\$ -	\$ 13,000
-	-	-	-	(10,000)
\$ 10,000	\$ -	\$ 3,000	\$ -	\$ 3,000
\$ 47,537	\$ -	\$ (20,138)	\$ (45,745)	\$ 45,348
98,915	200	674,191	316,880	1,542,469
\$ 146,452	\$ 200	\$ 654,053	\$ 271,135	\$ 1,587,817

**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

EXHIBIT B-3

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	<u>\$ 150,000</u>	<u>\$ 150,000</u>	<u>\$ 174,610</u>	<u>\$ 24,610</u>
Expenditures				
Current				
General government				
Remonumentation	\$ 16,000	\$ 16,000	\$ 15,988	\$ 12
Clementson Cemetery	500	500	-	500
Professional services	700	700	850	(150)
Total general government	<u>\$ 17,200</u>	<u>\$ 17,200</u>	<u>\$ 16,838</u>	<u>\$ 362</u>
Sanitation				
Solid waste	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 386</u>	<u>\$ (386)</u>
Culture and recreation				
Baudette Arena	\$ 15,000	\$ 15,000	\$ 20,000	\$ (5,000)
Celebrations	7,100	7,100	5,800	1,300
Historical society	12,500	12,500	12,500	-
Library	650	650	650	-
Senior fishing	2,000	2,000	2,000	-
Take-a-kid fishing	600	600	600	-
Theater	4,000	4,000	4,000	-
Rod and Gun Club	3,500	3,500	3,500	-
Williams Arena	5,000	5,000	6,500	(1,500)
Other culture and recreation	10,550	10,550	-	10,550
Total culture and recreation	<u>\$ 60,900</u>	<u>\$ 60,900</u>	<u>\$ 55,550</u>	<u>\$ 5,350</u>
Conservation of natural resources				
County extension	\$ 2,000	\$ 2,000	\$ 2,000	\$ -
Ditch maintenance and repairs	2,400	2,400	8,274	(5,874)
Humane Society	6,000	6,000	6,000	-
Joint County Natural Resources Board	1,000	1,000	1,000	-
Soil and Water Conservation District	2,500	2,500	2,500	-
Northern Counties Land Use Coordinating Board	2,000	2,000	2,000	-
Other conservation of natural resources	11,000	11,000	-	11,000
Total conservation of natural resources	<u>\$ 26,900</u>	<u>\$ 26,900</u>	<u>\$ 21,774</u>	<u>\$ 5,126</u>

**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

**EXHIBIT B-3
(Continued)**

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Economic development				
Other economic development	\$ 35,000	\$ 35,000	\$ -	\$ 35,000
Total Expenditures	<u>\$ 140,000</u>	<u>\$ 140,000</u>	<u>\$ 94,548</u>	<u>\$ 45,452</u>
Excess of Revenues Over (Under)				
Expenditures	\$ 10,000	\$ 10,000	\$ 80,062	\$ 70,062
Other Financing Sources (Uses)				
Transfers out	(10,000)	(10,000)	(10,000)	-
Net Change in Fund Balance	\$ -	\$ -	\$ 70,062	\$ 70,062
Fund Balance – January 1	<u>392,078</u>	<u>392,078</u>	<u>392,078</u>	<u>-</u>
Fund Balance – December 31	<u>\$ 392,078</u>	<u>\$ 392,078</u>	<u>\$ 462,140</u>	<u>\$ 70,062</u>

**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

EXHIBIT B-4

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Special assessments	\$ 12,000	\$ 12,000	\$ 15,492	\$ 3,492
Expenditures				
Current				
Conservation of natural resources				
Administration	\$ 600	\$ 600	\$ 400	\$ 200
Ditch maintenance and repairs	10,400	10,400	19,956	(9,556)
Roseau River Watershed	1,000	1,000	1,390	(390)
Total conservation of natural resources	\$ 12,000	\$ 12,000	\$ 21,746	\$ (9,746)
Debt service				
Interest	-	-	114	(114)
Total Expenditures	\$ 12,000	\$ 12,000	\$ 21,860	\$ (9,860)
Net Change in Fund Balance	\$ -	\$ -	\$ (6,368)	\$ (6,368)
Fund Balance – January 1	60,205	60,205	60,205	-
Fund Balance – December 31	\$ 60,205	\$ 60,205	\$ 53,837	\$ (6,368)

**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

EXHIBIT B-5

**BUDGETARY COMPARISON SCHEDULE
ECONOMIC DEVELOPMENT AUTHORITY SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 70,000	\$ 70,000	\$ 79,993	\$ 9,993
Miscellaneous	62,100	62,100	86,175	24,075
Total Revenues	\$ 132,100	\$ 132,100	\$ 166,168	\$ 34,068
Expenditures				
Current				
Economic development				
Bur Oak Villas	\$ 10,000	\$ 10,000	\$ 20,609	\$ (10,609)
LineWorkers Facility	17,100	17,100	14,283	2,817
Other economic development	70,000	70,000	48,739	21,261
Total economic development	\$ 97,100	\$ 97,100	\$ 83,631	\$ 13,469
Debt service				
Principal	45,000	45,000	45,000	-
Total Expenditures	\$ 142,100	\$ 142,100	\$ 128,631	\$ 13,469
Excess of Revenues Over (Under) Expenditures	\$ (10,000)	\$ (10,000)	\$ 37,537	\$ 47,537
Other Financing Sources (Uses)				
Transfers in	10,000	10,000	10,000	-
Net Change in Fund Balance	\$ -	\$ -	\$ 47,537	\$ 47,537
Fund Balance – January 1	98,915	98,915	98,915	-
Fund Balance – December 31	\$ 98,915	\$ 98,915	\$ 146,452	\$ 47,537

**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

EXHIBIT B-6

**BUDGETARY COMPARISON SCHEDULE
FORFEITED TAX SALE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Miscellaneous	\$ 500	\$ 500	\$ -	\$ (500)
Expenditures				
Current				
Conservation of natural resources	<u>500</u>	<u>500</u>	<u>-</u>	<u>500</u>
Net Change in Fund Balance	\$ -	\$ -	\$ -	\$ -
Fund Balance – January 1	<u>200</u>	<u>200</u>	<u>200</u>	<u>-</u>
Fund Balance – December 31	<u><u>\$ 200</u></u>	<u><u>\$ 200</u></u>	<u><u>\$ 200</u></u>	<u><u>\$ -</u></u>

**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

EXHIBIT B-7

**BUDGETARY COMPARISON SCHEDULE
NATURAL RESOURCE ENHANCEMENT SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Investment earnings	\$ 6,500	\$ 6,500	\$ 10,376	\$ 3,876
Miscellaneous	1,500	1,500	1,699	199
Total Revenues	\$ 8,000	\$ 8,000	\$ 12,075	\$ 4,075
Expenditures				
Current				
General government				
Remuneration	\$ 10,000	\$ 10,000	\$ 6,900	\$ 3,100
Other general government	500	500	113	387
Total general government	\$ 10,500	\$ 10,500	\$ 7,013	\$ 3,487
Public safety				
E-911 system	-	-	1,255	(1,255)
Conservation of natural resources				
Wetlands management	-	-	26,945	(26,945)
Total Expenditures	\$ 10,500	\$ 10,500	\$ 35,213	\$ (24,713)
Excess of Revenues Over (Under) Expenditures	\$ (2,500)	\$ (2,500)	\$ (23,138)	\$ (20,638)
Other Financing Sources (Uses)				
Transfers in	2,500	2,500	3,000	500
Net Change in Fund Balance	\$ -	\$ -	\$ (20,138)	\$ (20,138)
Fund Balance – January 1	674,191	674,191	674,191	-
Fund Balance – December 31	\$ 674,191	\$ 674,191	\$ 654,053	\$ (20,138)

**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

EXHIBIT B-8

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Special assessments	\$ 571,000	\$ 571,000	\$ 598,462	\$ 27,462
Intergovernmental	70,000	70,000	68,710	(1,290)
Charges for services	45,000	45,000	60,551	15,551
Miscellaneous	500	500	918	418
	<u>500</u>	<u>500</u>	<u>918</u>	<u>418</u>
Total Revenues	\$ 686,500	\$ 686,500	\$ 728,641	\$ 42,141
Expenditures				
Current				
Sanitation				
Graceton	\$ 354,596	\$ 354,596	\$ 402,544	\$ (47,948)
Northwest Angle	86,600	86,600	107,645	(21,045)
Recycling	247,246	247,246	264,197	(16,951)
	<u>247,246</u>	<u>247,246</u>	<u>264,197</u>	<u>(16,951)</u>
Total Expenditures	\$ 688,442	\$ 688,442	\$ 774,386	\$ (85,944)
Net Change in Fund Balance	\$ (1,942)	\$ (1,942)	\$ (45,745)	\$ (43,803)
Fund Balance – January 1	316,880	316,880	316,880	-
Fund Balance – December 31	\$ 314,938	\$ 314,938	\$ 271,135	\$ (43,803)

FIDUCIARY FUNDS

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**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

FIDUCIARY FUNDS

The Children and Families Collaborative Investment Trust Fund is used to account for the investments held by Lake of the Woods County for the Children and Families Collaborative Joint Venture. (See Exhibit 8.)

AGENCY FUNDS

The Lake of the Woods Area Tourism Bureau Agency Fund is used to account for the collection and distribution of lodging tax for the Lake of the Woods Area Tourism Bureau.

The Lake of the Woods County Children and Families Collaborative Agency Fund is used to account for financial transactions of the collaborative joint venture.

The Lake of the Woods Prevention Coalition Agency Fund is used to account for financial transactions of the Coalition.

The Red Lake Game Preserve Agency Fund is used to account for the collection and distribution of proceeds from the sale of land and timber with the Red Lake Game Preserve.

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

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**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

EXHIBIT C-1

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

	Balance January 1	Additions	Deductions	Balance December 31
<u>LAKE OF THE WOODS AREA</u>				
<u>TOURISM BUREAU</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 23,330	\$ 366,668	\$ 389,998	\$ -
<u>Liabilities</u>				
Due to other governments	\$ 23,330	\$ 366,667	\$ 389,997	\$ -
 <u>LAKE OF THE WOODS COUNTY</u>				
<u>CHILDREN AND FAMILIES</u>				
<u>COLLABORATIVE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 7,497	\$ 26,697	\$ 18,333	\$ 15,861
<u>Liabilities</u>				
Due to other governments	\$ 7,497	\$ 26,697	\$ 18,333	\$ 15,861
 <u>LAKE OF THE WOODS</u>				
<u>PREVENTION COALITION</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 8,341	\$ 237,075	\$ 242,000	\$ 3,416
<u>Liabilities</u>				
Due to other governments	\$ 8,341	\$ 237,075	\$ 242,000	\$ 3,416

**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

*EXHIBIT C-1
(Continued)*

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

	Balance January 1	Additions	Deductions	Balance December 31
<u>RED LAKE GAME PRESERVE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 286	\$ 1,435	\$ 237	\$ 1,484
<u>Liabilities</u>				
Due to other governments	\$ 286	\$ 1,435	\$ 237	\$ 1,484
 <u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 99,176	\$ 7,678,088	\$ 7,691,268	\$ 85,996
<u>Liabilities</u>				
Due to other governments	\$ 99,176	\$ 7,673,995	\$ 7,687,175	\$ 85,996
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 138,630	\$ 8,309,963	\$ 8,341,836	\$ 106,757
<u>Liabilities</u>				
Due to other governments	\$ 138,630	\$ 8,305,869	\$ 8,337,742	\$ 106,757

OTHER SCHEDULES

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**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

EXHIBIT D-1

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

Appropriations and Shared Revenue

State

Highway users tax	\$	4,076,672
County program aid		249,234
Market value credit		40,978
PERA rate reimbursement		12,302
Disparity reduction aid		6,259
Police aid		46,857
Aquatic invasive species		40,071
E-911		73,530
		73,530

Total appropriations and shared revenue **\$ 4,545,903**

Reimbursement for Services

State

Minnesota Department of Human Services	\$	225,448
		225,448

Payment

State

Payments in lieu of taxes	\$	1,608,224
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Local

Local contributions		209,554
		209,554

Total payments **\$ 1,817,778**

Grants

State

Minnesota Department/Board of		
Corrections	\$	15,263
Public Safety		1,521
Natural Resources		396,403
Human Services		436,181
Pollution Control Agency		68,710
Transportation		17,355
Water and Soil Resources		106,315
Veterans Affairs		7,500
Amateur Sports Commission		400,000
		400,000

Total state **\$ 1,449,248**

**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

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

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

Grants (Continued)

Federal

Department of Agriculture	\$ 49,928
Transportation	2,108,679
Health and Human Services	431,298
Homeland Security	<u>93,561</u>

Total federal **\$ 2,683,466**

Total state and federal grants **\$ 4,132,714**

Total Intergovernmental Revenue **\$ 10,721,843**

**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

EXHIBIT D-2

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

Federal Grantor Pass-Through Agency Program or Cluster Title	Federal CFDA Number	Pass-Through Grant Numbers	Expenditures	Passed Through to Subrecipients
U.S. Department of Agriculture				
Passed Through Minnesota Department of Human Services SNAP Cluster				
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	16162MN101S2514	\$ 49,928	\$ -
U.S. Department of Transportation				
Passed Through Minnesota Department of Transportation Highway Planning and Construction Cluster				
Highway Planning and Construction	20.205	00039	\$ 1,986,439	\$ -
U.S. Department of Health and Human Services				
Passed Through Minnesota Department of Human Services				
Promoting Safe and Stable Families TANF Cluster	93.556	G-1601MNFPS	\$ 1,228	\$ -
Temporary Assistance for Needy Families	93.558	1601MNTANF	12,211	-
Temporary Assistance for Needy Families (Total Temporary Assistance for Needy Families CFDA 93.558 \$30,868)	93.558	1601MFTANF	18,657	-
Child Support Enforcement	93.563	1604MNCSES	7,064	-
Child Support Enforcement (Total Child Support Enforcement CFDA 93.563 \$68,131)	93.563	1604MNCES	61,067	-
Refugee and Entrant Assistance – State Administered Programs	93.566	1601MNRCA	47	-
CCDF Cluster				
Child Care and Development Block Grant	93.575	G1601MNCCDF	667	-
Community-Based Child Abuse Prevention Grants	93.590	G-1502MNFPRG	2,138	-
Stephanie Tubbs Jones Child Welfare Services Program	93.645	G-1601MNCWSS	653	-
Foster Care – Title IV-E	93.658	1601MNFOS	22,199	-
Social Services Block Grant	93.667	16-01MNSOSR	32,184	-
Chafee Foster Care Independence Program	93.674	G-1601MNCILP	478	-
Medicaid Cluster				
Medical Assistance Program	93.778	05-1605MN5ADM	190,185	-
Medical Assistance Program (Total Medical Assistance Program CFDA 93.778 \$191,057)	93.778	05-1605MN5MAP	872	-
Block Grants for Prevention and Treatment of Substance Abuse	93.959	TI010027-15	79,848	79,848
Total U.S. Department of Health and Human Services			\$ 429,498	\$ 79,848

**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

**EXHIBIT D-2
(Continued)**

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

Federal Grantor Pass-Through Agency Program or Cluster Title	Federal CFDA Number	Pass-Through Grant Numbers	Expenditures	Passed Through to Subrecipients
U.S. Department of Homeland Security				
Passed Through Minnesota Department of Natural Resources Boating Safety Financial Assistance	97.012	LOW FBE-021417	\$ 1,855	\$ -
Passed Through Minnesota Department of Public Safety Emergency Management Performance Grants	97.042	F-EMPG-2016-LOTW-CO	13,666	-
Homeland Security Grant Program	97.067	F-OSPG-2014-LOTW	57,702	-
Homeland Security Grant Program	97.067	F-OSPG-2015-LOTW	20,338	-
(Total Homeland Security Grant Program CFDA 97.067 \$78,040)			<u>93,561</u>	<u>-</u>
Total U.S. Department of Homeland Security			\$ 93,561	\$ -
Total Federal Awards			\$ 2,559,426	\$ 79,848
Totals by Cluster				
Total expenditures for the SNAP Cluster			\$ 49,928	
Total expenditures for the Highway Planning and Construction Cluster			1,986,439	
Total expenditures for the TANF Cluster			30,868	
Total expenditures for the CCDF Cluster			667	
Total expenditures for the Medicaid Cluster			191,057	

**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

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

1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by Lake of the Woods 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 Lake of the Woods County under programs of the federal government for the year ended December 31, 2016. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of Lake of the Woods County, it is not intended to and does not present the financial position, changes in net position, or cash flows of Lake of the Woods County.

3. Summary of Significant Accounting Policies

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

4. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 2,683,466
Grants received more than 60 days after year-end, deferred in 2016	
Highway Planning and Construction	4,304
Unavailable in 2015, recognized as revenue in 2016	
Highway Planning and Construction	(126,544)
Child Support Enforcement	(1,800)
	<hr/>
Expenditures Per Schedule of Expenditures of Federal Awards	<u>\$ 2,559,426</u>

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JULIE BLAHA
STATE AUDITOR

STATE OF MINNESOTA

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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
Lake of the Woods County
Baudette, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Lake of the Woods County, Minnesota, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated June 24, 2019.

Internal Control Over Financial Reporting

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

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

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as item 2015-006 to be a material weakness and items 1996-001, 2015-001 through 2015-005, and 2015-009 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lake of the Woods 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.

In connection with our audit, nothing came to our attention that caused us to believe that Lake of the Woods County failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Counties*, except as described in the Schedule of Findings and Questioned Costs as items 2015-012 and 2015-013. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the County's noncompliance with the above referenced provisions.

Other Matters

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

Lake of the Woods County's Response to Findings

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

Purpose of This Report

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

/s/Julie Blaha

JULIE BLAHA
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

June 24, 2019

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JULIE BLAHA
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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
Lake of the Woods County
Baudette, Minnesota

Report on Compliance for the Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

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

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

Basis for Qualified Opinion on Highway Planning and Construction (CFDA No. 20.205)

As described in the accompanying Schedule of Findings and Questioned Costs, Lake of the Woods County did not comply with requirements regarding CFDA No. 20.205, Highway Planning and Construction, as described in finding number 2015-010 for Identification of Federal Awards. Compliance with such requirements is necessary, in our opinion, for the County to comply with the requirements applicable to that program.

Qualified Opinion on Highway Planning and Construction (CFDA No. 20.205)

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, Lake of the Woods County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on Highway Planning and Construction for the year ended December 31, 2016.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2016-001 and 2016-002. Our opinion on the major federal program is not modified with respect to these matters.

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

Report on Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a deficiency in internal control over compliance, described in the accompanying Schedule of Findings and Questioned Costs as item 2015-010, that we consider to be a material weakness, and deficiencies 2015-011, 2016-001, and 2016-002 that we consider to be significant deficiencies.

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

Purpose of This Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

/s/Julie Blaha

JULIE BLAHA
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

June 24, 2019

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**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

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

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Internal control over financial reporting:

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

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

Federal Awards

Internal control over major programs:

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

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

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

The major federal program is:

Highway Planning and Construction Cluster

CFDA No. 20.205

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

Lake of the Woods County qualified as a low-risk auditee? **No**

**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2016

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding Number 1996-001

Segregation of Duties

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

Condition: The limited number of personnel within several Lake of the Woods County offices results in a lack of segregation of accounting duties necessary to ensure adequate internal accounting control. The smaller offices that collect fees, including the Sheriff's Department, generally have one staff person who is responsible for the receipting, disbursing, recording, depositing, and reconciling of funds for the department.

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

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

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

**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

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

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

View of Responsible Official: Acknowledged

Finding Number 2015-001

Segregation of Duties – Vendor Setup

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

Condition: Seven of the active Integrated Financial System (IFS) users had the ability to both add/delete/edit vendors and process disbursements.

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

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

Cause: The County has indicated that this is due to staffing limitations.

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

View of Responsible Official: Acknowledged

**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

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

Finding Number 2015-002

Documenting and Monitoring Internal Controls

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

Condition: The County has some administrative policies, but is lacking documented accounting policies and procedures over significant accounting functions and controls. In addition, there are no formal risk assessment and monitoring procedures in place to determine if the internal controls established by County management are still effective or if changes are needed to maintain a sound internal control structure.

Context: It is not uncommon in operations the size of Lake of the Woods County to fail to periodically review internal controls. Documentation and monitoring of internal controls is necessary to determine controls are in place and operating effectively. Documented policies and procedures will enhance employees' understanding of their role and function in the internal control system, establish responsibilities, provide guidance for employees, improve efficiency and consistency of transaction processing, and improve compliance with established policies. Monitoring of internal controls can help prevent deterioration of key elements in the County's internal control system.

Effect: As a result of this condition, the County's practices may not be followed as intended by management, and employees may not understand the purpose of internal controls. Errors or irregularities may not be prevented or detected timely.

**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

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

Cause: Due to limited time and resources, the County has been unable to complete the process of documenting significant policies and procedures and formalizing its risk assessment and monitoring process.

Recommendation: We recommend County management continue its efforts to document the significant internal controls in its significant accounting functions. We further recommend that a formal plan be developed to assess and monitor the significant internal controls on a regular basis, no less than annually. The monitoring should be documented to show the results of the review, changes required, and who performed the work.

View of Responsible Official: Acknowledged

Finding Number 2015-003

Journal Entry Approval

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

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

Context: Support is submitted for journal entries.

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

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

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

View of Responsible Official: Acknowledged

**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

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

Finding Number 2015-004

Bank Reconciliations – Sheriff’s Department

Criteria: Internal controls in place over operations should be designed and implemented to provide reasonable assurance that errors and irregularities are prevented, or detected and corrected, in a timely manner.

Condition: As of October 2017, the County had not been receiving, and therefore not reviewing or reconciling, the bank statements for the Sheriff’s Department bank account since September 2013.

Context: The Sheriff’s Department mistakenly thought the County Auditor’s Office was receiving the bank statements.

Effect: There is greater risk that banking and accounting errors or irregularities are not detected in a timely manner.

Cause: The Sheriff’s Department was unaware that the bank was sending electronic bank statements instead of paper statements.

Recommendation: We recommend the County obtain the bank statements for the Sheriff’s Department bank account and complete bank reconciliations in a timely manner. The bank reconciliations should be reviewed and approved by an employee not involved in the preparation of the reconciliations.

View of Responsible Official: Concur

Finding Number 2015-005

Fund Balance Reporting

Criteria: Governments are required to report amounts in the appropriate fund balance classifications, in accordance with Governmental Accounting Standards Board Statement 54 (GASB 54), by applying their accounting policies to determine whether restricted, committed, assigned, or unassigned resources are considered to have been spent. Resources identified to be used for specific purposes pursuant to constraints imposed by formal action of the County Board should be reported as committed fund balance.

**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

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

Condition: The County did not classify fund balance in the general ledger in accordance with GASB 54. The County reported committed funds for various categories for which a Board resolution could not be located. In addition, funds were assigned for operations, which does not qualify as an appropriate classification in accordance with GASB 54, and not all restricted fund balances were properly identified.

Context: On December 30, 2011, the County Board approved a fund balance policy that established procedures for the classification of fund balance.

Effect: Reclassifications of fund balance were required in the General Fund and in the Social Services, Development, Ditch, and Natural Resource Enhancement Special Revenue Funds to adjust committed, restricted, assigned, and unassigned fund balance to properly reflect the classifications authorized by the County Board and allowed under GASB 54.

The most significant reclassifications were:

- reduced committed fund balance in the General Fund and in the Social Services and Solid Waste Special Revenue Funds by \$2,414,803, \$21,168, and \$50,000, respectively;
- eliminated the classification of assigned for operating budget in the General Fund in the amount of \$2,961,935;
- increased restricted fund balance in the Social Services Special Revenue Fund in the amount of \$74,284 to account for unspent child protection services funds;
- reclassified \$462,140 from assigned to restricted fund balance in the Development Special Revenue Fund;
- increased both the restricted and the negative unassigned fund balance by \$31,344 in the Ditch Special Revenue Fund; and
- reclassified \$654,053 from restricted to committed fund balance in the Natural Resource Enhancement Special Revenue Fund.

Cause: Several of the classifications were carried over from designations of fund balance in pre-GASB 54 financial statements. The missing restricted fund balances were an oversight.

**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

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

Recommendation: We recommend the County develop procedures to ensure all fund balance classifications comply with GASB 54 requirements.

View of Responsible Official: Acknowledged

Finding Number 2015-006

Audit Adjustments

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

Condition: Material audit adjustments were identified that resulted in significant changes to the County's financial statements. The adjustments were reviewed and approved by the appropriate County staff and are reflected in the financial statements.

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

Effect: The following material audit adjustments were recorded for December 31, 2016:

- an adjustment was made to the General Fund to increase due from other governments, accounts payable, intergovernmental revenues, and expenditures by \$400,000 to record the receipt of a state grant by the County that was passed through to Baudette Area Arena; and
- an adjustment was made to the Social Services Special Revenue Fund to increase intergovernmental revenues and expenditures by \$79,848 to record the Prevention Coalition Grant received by the County and passed through to the Lake of the Woods Prevention Coalition.

**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

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

Cause: The County has limited staff and lacks procedures for adequate review of information for financial reporting.

Recommendation: We recommend County staff improve their procedures over financial reporting to include adequate review of balances, disclosures, and supporting documentation by a qualified individual to ensure the financial statements are fairly presented in accordance with accounting principles generally accepted in the United States of America (GAAP).

View of Responsible Official: Acknowledged

Finding Number 2015-009

Financial Statement Disclosures

Criteria: Reporting in accordance with GAAP requires certain elements to be included in the financial report.

Condition: The following presentations and disclosures in the originally prepared 2016 financial report were either not reported or were not reported correctly:

- Intergovernmental revenue was not properly reported in the Schedule of Intergovernmental Revenue. State-shared revenues were understated by \$5,211; reimbursement for services was overstated by \$388,318; shared revenue payments were overstated by \$353,965; state grants were understated by \$635,374; and federal grants were understated by \$48,572.
- Complete disclosure related to loans receivable was not included in the notes to the financial statements.
- Disclosure related to the other postemployment benefits unfunded actuarial accrued liability identified a negative amount in error. After consultation with an actuary, this amount is properly disclosed at \$479,097.

Context: The financial report was originally prepared/audited by another auditor.

**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2016

Effect: The indicated presentations and disclosures in the previously issued financial report for the year ended December 31, 2016, are not in accordance with GAAP.

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

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

View of Responsible Official: Acknowledged

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding Number 2015-010

Identification of Federal Awards

Program: U.S. Department of Transportation's Highway Planning and Construction (CFDA No. 20.205), Award No. 00039, 2014

Pass-Through Agency: Minnesota Department of Transportation

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

Condition: The County did not properly identify the amount expended for Highway Planning and Construction.

Questioned Costs: Not applicable.

**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

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

Context: Lake of the Woods County provided a SEFA for the year ended December 31, 2016, which reported total federal expenditures for Highway Planning and Construction of \$2,112,984. After audit adjustments, the program expenditures were \$1,986,439, resulting in a difference of \$126,545.

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

Cause: The County did not identify expenditures in the appropriate year, overstating 2016 Highway Planning and Construction expenditures by \$126,545.

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

View of Responsible Official: Acknowledged

Finding Number 2015-011

Special Tests and Provisions – Davis-Bacon Act

Program: U.S. Department of Transportation’s Highway Planning and Construction (CFDA No. 20.205), Award No. 00039, 2014 and 2016

Pass-Through Agency: Minnesota Department of Transportation

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

**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

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

Condition: Lake of the Woods County received the certified payrolls from the contractors and subcontractors for projects that involved federal payroll-related expenditures in 2016, but there was no evidence that the certified payrolls were reviewed for compliance with the Davis-Bacon Act.

Questioned Costs: None.

Context: Lake of the Woods County entered into contracts with vendors for road construction projects funded by Highway Planning and Construction.

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

Cause: Lake of the Woods County staff do not have controls in place to document the review of the Davis-Bacon Act regarding the payment of prevailing wage rates.

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

View of Responsible Official: Acknowledged

ITEMS ARISING THIS YEAR

Finding Number 2016-001

Uniform Guidance Written Procurement Policies and Procedures

Program: U.S. Department of Transportation's Highway Planning and Construction (CFDA No. 20.205), Award No. 00039, 2016

Pass-Through Agency: Minnesota Department of Transportation

**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

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

Criteria: Title 2 U.S. *Code of Federal Regulations* § 200.318 states that the non-federal entity must use its own documented procurement procedures which reflect applicable state, local, and tribal laws and regulations, provided that the procurements conform with applicable federal law and the standards identified in this regulation. The Uniform Guidance provides for a grace period for implementation of the new procurement standards provided that election is documented with the choice to use previous procurement standards.

Condition: The County did not have written procurement policies, including provisions for suspension and debarment, during 2016 and did not enact the waiver offered by the Uniform Guidance for implementation of the new procurement standards.

Questioned Costs: Not applicable.

Context: This issue was discovered during the audit of the major federal program; however, it impacts federal programs County-wide. Written policies that reflect the specific components of federal regulations improve controls to help ensure compliance with federal award requirements. The County did adopt procurement policies in September 2017; however, additional information related to the Uniform Guidance will need to be added.

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

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

Recommendation: We recommend the County develop and adopt policies that include the specific components of the Uniform Guidance requirements in written procurement policies and procedures.

View of Responsible Official: Acknowledged

**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

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

Finding Number 2016-002

Report Submission

Program: U.S. Department of Transportation's Highway Planning and Construction (CFDA No. 20.205), Award No. 00039, 2014 and 2016

Pass-Through Agency: Minnesota Department of Transportation

Criteria: Title 2 U.S. *Code of Federal Regulations* § 200.512(a)(1) states that the audit must be completed and the data collection form and reporting package submitted to the Federal Audit Clearinghouse within the earlier of 30 calendar days after receipt of the auditor's report(s), or nine months after the end of the audit period.

Condition: Lake of the Woods County's original data collection form and reporting package were not submitted to the Federal Audit Clearinghouse within the required time frame.

Questioned Costs: None.

Context: The County's original audit for 2016, which was due to the Federal Audit Clearinghouse no later than September 30, 2017, was dated in December 2017 and accepted by the Clearinghouse in January 2018.

Effect: The County was not in compliance with the report submission requirements of the Uniform Guidance.

Cause: The original auditors did not complete the audit on a timely basis.

Recommendation: We recommend the County implement procedures to ensure its data collection form and reporting package is submitted to the Federal Audit Clearinghouse in accordance with the Title 2 U.S. *Code of Federal Regulations* § 200.512.

View of Responsible Official: Acknowledged

**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2016

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding Number 2015-012

Contract Compliance

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

Condition: The County was not in compliance with Minn. Stat. § 471.345, subd. 4, which states that contracts estimated to exceed \$25,000 but not to exceed \$100,000 may be made either upon sealed bids or by direct negotiation, by obtaining two or more quotations for purchase or sale when possible, and without advertising for bids or otherwise complying with the requirements of competitive bidding.

- The County purchased a squad car for \$28,241 after obtaining only a single quote for the purchase. The County believed that since there was a state contract available and the vehicle was being purchased at the state contract's price, only obtaining one quote was necessary. However, since it was not purchased from the vendor listed on the state contract, the County should have obtained at least two quotes to comply with Minn. Stat. § 471.345, subd. 4.
- The County contracted for a roof replacement project for \$59,167 after obtaining one quote. However, the County should have obtained at least two quotes to comply with Minn. Stat. § 471.345, subd. 4.

Context: Four contracts were tested for compliance with the applicable contracting and bid laws.

Effect: Noncompliance with Minn. Stat. § 471.345, subd. 4.

**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

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

Cause: The two employees involved in the procurement of these items were unfamiliar with the requirements of Minnesota statutes related to contracting and bidding.

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

View of Responsible Official: Acknowledged

Finding Number 2015-013

Use of Public Funds

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

Condition: In the Social Services Fund, the County maintains a department to track donations received to be used for the purchase of gift cards or other items to be donated to individuals in need. Once received by the County, funds become public funds and, as such, may only be expended as authorized by law. The County had no statutory authority for the distribution of County funds to individuals in need.

Context: Review of the general ledger revealed the County received donations totaling \$3,284 and expended \$1,947 of those donations.

Effect: The County expended public funds without express or implied authority and with questionable public purpose.

**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

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

Cause: The County was not aware it needed statutory authority to expend funds originally donated to help individuals in need.

Recommendation: We recommend the County discontinue the practice of spending public funds for expenditures not authorized by Minnesota statutes.

View of Responsible Official: Acknowledged

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding Number 2015-014

County Ditch Deficit Fund Balance

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

Condition: As of December 31, 2016, the County had individual ditch systems where liabilities and deferred inflows of resources – unavailable revenue – special assessments exceeded assets, resulting in individual deficit fund balance amounts.

Context: Two of the five individual ditch systems had a deficit fund balance as of December 31, 2016, totaling \$31,344.

Effect: A ditch system with a deficit fund balance indicates that measures have not been taken to ensure that the ditch can meet its financial obligations.

Cause: On December 30, 2015, the County Board approved a loan of \$11,389 to the Ditch Fund from the General Fund to cover ditch expenditures. In 2016, there was an additional \$19,955 in ditch expenditures. However, no funds were transferred to the Ditch Fund from the General Fund, which led to the deficit fund balances.

**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2016

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

View of Responsible Official: Acknowledged

C. OTHER MATTER

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding Number 2015-015

Identification of Federal Awards

Programs: U.S. Department of Health and Human Services' Medical Assistance Program, (CFDA No. 93.778), Award No. 05-1605MN5ADM, 2016; and U.S. Department of Health and Human Services' Block Grants for Prevention and Treatment of Substance Abuse (CFDA No. 93.959), Award No. T1010027-15, 2016.

Pass-Through Agency: Minnesota Department of Human Services

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

Condition: The County did not properly identify the amounts expended for the Medical Assistance Program or the Block Grants for Prevention and Treatment of Substance Abuse.

Questioned Costs: None.

**LAKE OF THE WOODS COUNTY
BAUDETTE, MINNESOTA**

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

Context: Lake of the Woods County provided a SEFA for the year ended December 31, 2016, which did not correctly report federal expenditures for the following programs:

- The County's SEFA included federal expenditures for the Medical Assistance Program of \$212,582. After audit adjustments, the program expenditures were \$191,057, resulting in a difference of \$21,525.
- The County's SEFA included federal expenditures for the Block Grants for Prevention and Treatment of Substance Abuse of \$0. After audit adjustments, the program expenditures were \$79,848, resulting in a difference of \$79,848.

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

Cause: The County indicated there was a misunderstanding in how revenues related to payments from the state for the Medical Assistance Program and the Block Grants for Prevention and Treatment of Substance Abuse should be recorded. The revenues are used as a basis for determining the program's expenditures.

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

View of Responsible Official: Acknowledged

V. PREVIOUSLY REPORTED ITEMS RESOLVED

2015-007 Prior Period Adjustments
2015-008 Credit Card Support

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LAKE OF THE WOODS COUNTY

Lake of the Woods County Auditor/Treasurer

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Lake of the Woods County

Corrective Action Plan

For Year Ended

December 31, 2016

Finding Number: 1996-001

Finding Title: Segregation of Duties

Name of Contact Person Responsible for Corrective Action:

Elected and Management Department Heads

Corrective Action Planned:

Lake of the Woods County is aware of the risk of limited staffing in some departments, therefore making the segregation of duties hard to implement. Management continues to monitor to ensure adequate internal controls whenever possible.

Anticipated Completion Date:

This is an on-going task with no completion date, however, Lake of the Woods continues to review and implement internal controls whenever possible.

Finding Number: 2015-001

Finding title: Segregation of Duties – Vendor Setup

Name of Contact Person Responsible for Corrective Action:

County Auditor-Treasurer

Corrective Action Planned:

Lake of the Woods County is aware of the risk of limited staffing in some departments, therefore making the segregation of duties hard to implement. This has been reviewed and adjusted the users' abilities as staffing and duties enable.

Anticipated Completion Date:

Completed

Finding Number: 2015-002

Finding title: Documenting and Monitoring Internal Controls

Name of Contact Person Responsible for Corrective Action:

County Management

Corrective Action Planned:

Lake of the Woods County will continue its efforts to document and monitor internal controls through Department Head meetings and continued review of policies and procedures.

Anticipated Completion Date:

This is an on-going task with no completion date, however, Lake of the Woods continues to review and implement at every opportunity.

Finding Number: 2015-003

Finding title: Journal Entry Approval

Name of Contact Person Responsible for Corrective Action:

County Auditor-Treasurer

Corrective Action Planned:

Journal Entries had previously been reviewed by someone other than the person making the entry. At the time of bringing it to our attention, the acknowledging, recording and dating was initiated.

Anticipated Completion Date:

Completed at the time of notification in 2017.

Finding Number: 2015-004

Finding title: Bank Reconciliations – Sheriff’s Department

Name of Contact Person Responsible for Corrective Action:

County Sheriff

Corrective Action Planned:

The County now has implemented monthly bank reconciliations at the time of bringing it to our attention.

Anticipated Completion Date:

Completed at the time of notification in 2017.

Finding Number: 2015-005

Finding title: Fund Balance Reporting

Name of Contact Person Responsible for Corrective Action:

County Auditor/Treasurer, Highway Office Manager, Social Services Fiscal Officer

Corrective Action Planned:

The County will review its Policy on Fund Balances and establish motions and/or resolutions on fund balances it wishes to commit funds. County staff will continue ongoing review to ensure all fund balance commitments and restrictions comply with GASB 54 requirements.

Anticipated Completion Date:

Ongoing.

Finding Number: 2015-006

Finding title: Audit Adjustments

Name of Contact Person Responsible for Corrective Action:

County Auditor/Treasurer, Highway Office Manager, Social Services Fiscal Officer

Corrective Action Planned:

The County will continue to rely upon the expertise of our independent auditors and will review with greater scrutiny the balances, disclosures and supporting information to report and remain in compliance with GAAP.

Anticipated Completion Date:

Ongoing.

Finding Number: 2015-009

Finding title: Financial Statement Disclosure

Name of Contact Person Responsible for Corrective Action:

County Auditor/Treasurer, Highway Office Manager and Social Service Fiscal Officer

Corrective Action Planned:

Lake of the Woods County will continue to rely upon the expertise of our independent auditors. We will review with greater scrutiny any adjustments to be made and the reporting documentation to be in compliance with GAAP.

Anticipated Completion Date:

Implemented after Audit visit and continued on-going follow through.

Finding Number: 2015-010

Finding title: Identification of Federal Awards

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

Name of Contact Person Responsible for Corrective Action:

Highway Office Manager

Corrective Action Planned:

Lake of the Woods County will review internal controls in place and the identifying expenditures of federal awards for SEFA reporting.

Anticipated Completion Date:

Implemented after Audit visit and continued on-going follow through.

Finding Number: 2015-011

Finding title: Special Tests and Provisions – Davis-Bacon Act

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

Name of Contact Person Responsible for Corrective Action:

Highway Office Manager

Corrective Action Planned:

Lake of the Woods County will review its monitoring process to ensure compliance with the requirements of the Davis-Bacon Act is being achieved and documentation exists.

Anticipated Completion Date:

Implemented after Audit visit and continued on-going follow through.

Finding Number: 2016-001

Finding title: Uniform Guidance Written Procurement Policies and Procedures

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

Name of Contact Person Responsible for Corrective Action:

Highway Office Manager

Corrective Action Planned:

Lake of the Woods County adopted Procurement policies in 2017 and will be reviewing and updating to reflect current changes in the Uniform Guidance requirements.

Anticipated Completion Date:

Ongoing.

Finding Number: 2016-002

Finding title: Report Submission

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

Name of Contact Person Responsible for Corrective Action:

Highway Office Manager

Corrective Action Planned:

Lake of the Woods County was/is aware of this and will continue review implement procedures ensuring data collection and reporting submittal to the Federal Audit Clearinghouse is in accordance with the Title 2 US Code of Federal Regulations MN Statute 200.512.

Anticipated Completion Date:

This information was submitted to our Independent Auditors in a timely manner in July of 2016. This was completed and submitted in December 2017 and accepted by the Clearinghouse in January 2018. The completion and submittal of this was late due to State Auditor Audits on Private/Independent Auditors and the timing of audits affected the ability to report on time.

Finding Number: 2015-012

Finding title: Contract Compliance

Name of Contact Person Responsible for Corrective Action:

Management Staff

Corrective Action Planned:

Lake of the Woods County will review with Management the Minnesota statutes related to contracting and bidding requirements.

Anticipated Completion Date:

Implemented after Audit visit and continued on-going follow through

Finding Number: 2015-013

Finding title: Use of Public Funds

Name of Contact Person Responsible for Corrective Action:

County Board, Social Services Management

Corrective Action Planned:

Lake of the Woods County will review requirements of public funds expenditures authorized by Minnesota statutes.

Anticipated Completion Date:

On-going review and follow through.

Finding Number: 2015-014

Finding title: County Ditch Deficit Fund Balance

Name of Contact Person Responsible for Corrective Action:

County Board, County Auditor/Treasurer

Corrective Action Planned:

Lake of the Woods County will continue its current efforts in eliminating any and all Ditch deficit fund balances.

Anticipated Completion Date:

On-going review and follow through.

Finding Number: 2015-015

Finding title: Identification of Federal Awards

Programs: Medical Assistance Program (CFDA No. 93.778) and

Block Grants for Prevention and Treatment of Substance Abuse (CFDA No. 93.959)

Name of Contact Person Responsible for Corrective Action:

Social Services Fiscal Officer

Corrective Action Planned:

Lake of the Woods County will review the design and implementation procedures to improve controls of federal awards for SEFA reporting.

Anticipated Completion Date:

On-going review and follow through.

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LAKE OF THE WOODS COUNTY

Lake of the Woods County Auditor/Treasurer

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Lake of the Woods County Summary Schedule of Prior Audit Findings For Year Ended December 31, 2016

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

Condition: The limited number of personnel within several Lake of the Woods County offices results in a lack of segregation of accounting duties necessary to ensure adequate internal accounting control. The smaller offices that collect fees, including the Sheriff's Department, generally have one staff person who is responsible for the receipting, disbursing, recording, depositing, and reconciling of funds for the department.

Summary of Corrective Action Previously Reported:

The inability to segregate duties in Lake of the Woods County is due to extremely limited staffing in many departments. Where staffing allows, segregation of duties has been implemented.

Status:

Partially Corrected. Lake of the Woods County is a small County, therefore the departments are small and staffing accordingly. Management is aware of this and continues to monitor and where staffing allows, the segregation of duties has been implemented.

Was corrective action taken significantly different than the action previously reported?

Yes _____ No X

Finding Number: 2015-001
Finding Title: Segregation of Duties – Vendor Setup

Condition: Seven of the active Integrated Financial System (IFS) users had the ability to both add/delete/edit vendors and process disbursements.

Summary of Corrective Action Previously Reported: Lake of the Woods County is aware of the risk of limited staffing in some departments, therefore making the segregation of duties hard to implement. This has been reviewed and adjusted the users' abilities as staffing and duties enable.

Status: Not Corrected. As this audit was not completed until 2019, the County was unable to complete by year end 2016. At the time of the audit review in 2017 this was implemented and completed, however, not by year end 2016.

Was corrective action taken significantly different than the action previously reported?

Yes _____ No X [If yes, an explanation is required.]

Finding Number: 2015-002

Finding Title: Documenting and Monitoring Internal Controls

Condition: The County has some administrative policies, but is lacking documented accounting policies and procedures over significant accounting functions and controls. In addition, there are no formal risk assessment and monitoring procedures in place to determine if the internal controls established by County management are still effective or if changes are needed to maintain a sound internal control structure.

Summary of Corrective Action Previously Reported: Lake of the Woods County will continue its efforts to document and monitor internal controls through Department Head meetings and continued review of policies and procedures.

Status: Not Corrected. As this audit was not completed until 2019, the County was unable to complete by year end 2016. This is an on-going task with no completion date, however, Lake of the Woods Continues to review and implement at every opportunity.

Was corrective action taken significantly different than the action previously reported?

Yes _____ No X [If yes, an explanation is required.]

Finding Number: 2015-003

Finding Title: Journal Entry Approval

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

Summary of Corrective Action Previously Reported: Journal Entries had previously been reviewed by someone other than the person making the entry. At the time of bringing it to our attention, the acknowledging, recording and dating was initiated.

Status: Not Corrected. As this audit was not completed until 2019, the County was unable to complete by year end 2016. At the time of the audit review in 2017 this was implemented and completed, however, not by year end 2016.

Was corrective action taken significantly different than the action previously reported?

Yes _____ No X [If yes, an explanation is required.]

Finding Number: 2015-004

Finding Title: Bank Reconciliations – Sheriff’s Department

Condition: As of October 2017, the County had not been receiving, and therefore not reviewing or reconciling, the bank statements for the Sheriff’s Department bank account since September 2013.

Summary of Corrective Action Previously Reported: The County now has implemented monthly bank reconciliations at the time of bringing it to our attention.

Status: Not Corrected. As this audit was not completed until 2019, the County was unable to complete by year end 2016. At the time of the audit review in 2017 this was implemented and completed, however, not by year end 2016.

Was corrective action taken significantly different than the action previously reported?

Yes _____ No X [If yes, an explanation is required.]

Finding Number: 2015-005

Finding Title: Fund Balance Reporting

Condition: The County did not classify fund balance in the general ledger in accordance with GASB 54. The County reported committed funds for various categories for which a Board resolution could not be located. In addition, funds were assigned for operations, which does not qualify as an appropriate classification in accordance with GASB 54, and not all restricted fund balances were properly identified.

Summary of Corrective Action Previously Reported: The County will review its Policy on Fund Balances and establish motions and/or resolutions on fund balances it wishes to commit funds. County staff will continue ongoing review to ensure all fund balance commitments and restrictions comply with GASB 54 requirements.

Status: Not Corrected. As this audit was not completed until 2019, the County was unable to complete by year end 2016. This is an on-going task with no completion date, however, Lake of the Woods Continues to review and implement at every opportunity.

Was corrective action taken significantly different than the action previously reported?

Yes _____ No [If yes, an explanation is required.]

Finding Number: 2015-006

Finding Title: Audit Adjustments

Condition: Material audit adjustments were identified that resulted in significant changes to the County's financial statements. In addition to the material items identified, numerous additional audit adjustments were made that resulted in changes to the financial statements. The County provided its general ledger as the County's official record, along with other supporting schedules. The adjustments were reviewed and approved by the appropriate County staff and are reflected in the financial statements.

Summary of Corrective Action Previously Reported: The County will continue to rely upon the expertise of our independent auditors and will review with greater scrutiny the balances, disclosures and supporting information to report and remain in compliance with GAAP.

Status: Partially Corrected. Some of the adjustments were made prior to year-end 2016. However, as this audit was not completed until 2019, the County was unable to complete all by year end 2016. This is an on-going task with no completion date, however, Lake of the Woods Continues to review and implement at every opportunity.

Was corrective action taken significantly different than the action previously reported?

Yes _____ No [If yes, an explanation is required.]

Finding Number: 2015-007

Finding Title: Prior Period Adjustments

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

Summary of Corrective Action Previously Reported: The County will continue to rely upon the expertise of our independent auditors and will review with greater scrutiny the reporting balances, disclosures and supporting information to report and remain in compliance with GAAP.

Status: Fully Corrected. Corrective action was taken.

Was corrective action taken significantly different than the action previously reported?

Yes _____ No [If yes, an explanation is required.]

Finding Number: 2015-008

Finding Title: Credit Card Support

Condition: For three monthly credit card statements reviewed, six purchases were found that did not have the proper supporting documentation submitted for payment as required by the County's credit card policy.

Summary of Corrective Action Previously Reported: The County will review the credit card policy with Management Staff and stress the importance of following the policy.

Status: Fully Corrected. Corrective action was taken.

Was corrective action taken significantly different than the action previously reported?

Yes _____ No [If yes, an explanation is required.]

Finding Number: 2015-009

Finding Title: Financial Statement Disclosures

Condition: The following presentations and disclosures in the originally prepared 2015 financial report were either not reported or were not reported correctly:

- Intergovernmental revenue was not properly reported in the Schedule of Intergovernmental Revenue. State-shared revenues were overstated by \$593,281; reimbursement for services was overstated by \$61,997; shared revenue payments were overstated by \$300,898; state grants were understated by \$244,920; and federal grants were overstated by \$6,382.
- Complete disclosure related to loans receivable was not included in the notes to the financial statements.
- Disclosure related to the other postemployment benefits unfunded actuarial accrued liability identified a negative amount in error. After consultation with an actuary, this amount is properly disclosed at \$479,097.

Summary of Corrective Action Previously Reported: Lake of the Woods County will continue to rely upon the expertise of our independent auditors. We will review with greater scrutiny any adjustments to be made and the reporting documentation to be in compliance with GAAP.

Status: Partially Corrected. Some of the revenues were corrected accordingly, along with the loans receivable reported in the financial statements. OPEB liabilities were adjusted accordingly. As this audit was not completed until 2019, the County was unable to complete all by year end 2016. This is an on-going task with no completion date, however, Lake of the Woods continues to review and implement at every opportunity.

Was corrective action taken significantly different than the action previously reported?
 Yes _____ No X [If yes, an explanation is required.]

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

Condition: The County did not properly identify the amount expended for Highway Planning and Construction.

Summary of Corrective Action Previously Reported: Lake of the Woods County will review internal controls in place and the identifying expenditures of federal awards for SEFA reporting.

Status: Not Corrected. At the time of the audit review in 2017 this was implemented and on-going follow through, however, not by year end 2016. As this audit was not completed until 2019, the County was unable to complete by year end 2016. This is an on-going task with no completion date, however, Lake of the Woods continues to review and implement at every opportunity.

Was corrective action taken significantly different than the action previously reported?
 Yes _____ No X [If yes, an explanation is required.]

Finding Number: 2015-011
Finding Title: Special Tests and Provisions – Davis-Bacon Act
Program: Highway Planning and Construction (CFDA No. 20.205)

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

Summary of Corrective Action Previously Reported: Lake of the Woods County will review its monitoring process to ensure compliance with the requirements of the Davis-Bacon Act is being achieved and documentation exists.

Status: Not Corrected. At the time of the audit review in 2017 this was implemented and on-going follow through, however, not by year end 2016. As this audit was not completed until 2019, the County was unable to complete by year end 2016. This is an on-going task with no completion date, however, Lake of the Woods continues to review and implement at every opportunity.

Was corrective action taken significantly different than the action previously reported?
 Yes _____ No X [If yes, an explanation is required.]

Finding Number: 2015-012
Finding Title: Contract Compliance

Condition: The County was not in compliance with the following State of Minnesota contracting and bid laws: Page 146

Sealed Bids by Public Notice: Pursuant to Minn. Stat. § 471.345, subd. 3, contracts estimated to exceed \$100,000, must be made using sealed bids solicited by public notice by advertising for bids in a qualified legal newspaper or through the alternative dissemination of bids and requests as provided by Minn. Stat. § 331A.03. In one instance, the County purchased an Asphalt Zipper for \$168,360 after obtaining only one quote from the manufacturer. In a second instance, the County entered into a contract for the purchase and installation of E-911-related equipment for \$123,136 after obtaining quotes from two state-approved vendors for E-911 equipment. Both items should have been purchased using sealed bids by the County since they were over \$100,000.

Quotes: Pursuant to Minn. Stat. § 471.345, subd. 4, contracts estimated to exceed \$25,000 but not to exceed \$100,000 may be made either upon sealed bids or by direct negotiation, by obtaining two or more quotations for purchase or sale when possible, and without advertising for bids or otherwise complying with the requirements of competitive bidding. In one instance, the County purchased a compact track loader for \$59,109 after obtaining only a single quote for the purchase. The County believed that since this piece of equipment had a state contract available and was being purchased at the state contract's price, only obtaining one quote was necessary. However, since it was not purchased from the vendor listed on the state contract, the County should have obtained at least two quotes to comply with Minn. Stat. § 471.345, subd. 4.

Summary of Corrective Action Previously Reported: Lake of the Woods County will review with Management the Minnesota statutes related to contracting and bidding requirements.

Status: Partially Corrected. Some of the compliance requirements were implemented however, as this audit was not completed until 2019, the County was unable to complete all by year end 2016. This is an on-going task with no completion date, however, Lake of the Woods Continues to review and implement at every opportunity.

Was corrective action taken significantly different than the action previously reported?
Yes _____ No [If yes, an explanation is required.]

Finding Number: 2015-013

Finding Title: Use of Public Funds

Condition: In the Social Services Fund, the County maintains a department to track donations received to be used for the purchase of gift cards or other items to be donated to individuals in need. Once received by the County, funds become public funds and, as such, may only be expended as authorized by law. The County had no statutory authority for the distribution of County funds to individuals in need.

Summary of Corrective Action Previously Reported: Lake of the Woods County will review requirements of public funds expenditures authorized by Minnesota statutes.

Status: Not Corrected. As this audit was not completed until 2019, the County was unable to complete all by year end 2016. This is an on-going task with no completion date, however, Lake of the Woods Continues to review and implement at every opportunity.

Was corrective action taken significantly different than the action previously reported?
Yes _____ No [If yes, an explanation is required.]

Finding Number: 2015-014

Finding Title: County Ditch Deficit Fund Balance

Condition: As of December 31, 2015, the County had an individual ditch system where liabilities and deferred inflows of resources – unavailable revenue – special assessments exceeded assets, resulting in an individual deficit fund balance amount.

Summary of Corrective Action Previously Reported: Lake of the Woods County will continue its current efforts in eliminating any and all Ditch deficit fund balances.

Status: Not Corrected. As this audit was not completed until 2019, the County was unable to complete all by year end 2016. This is an on-going task with no completion date, however, Lake of the Woods continues to review and monitor the status of these ditches and assess accordingly.

Was corrective action taken significantly different than the action previously reported?
Yes _____ No [If yes, an explanation is required.]

Finding Number: 2015-015

Finding Title: Identification of Federal Awards

Programs: Medical Assistance Program (CFDA No. 93.778) and Block Grants for Prevention and Treatment of Substance Abuse (CFDA No. 93.959)

Condition: The County did not properly identify the amounts expended for the Medical Assistance Program or the Block Grants for Prevention and Treatment of Substance Abuse.

Summary of Corrective Action Previously Reported: Lake of the Woods County will review the design and implementation procedures to improve controls of federal awards for SEFA reporting.

Status: Not Corrected. As this audit was not completed until 2019, the County was unable to complete all by year end 2016. This is an on-going task with no completion date, however, Lake of the Woods continues to review and implement at every opportunity.

Was corrective action taken significantly different than the action previously reported?

Yes _____ No X [If yes, an explanation is required.]