

# STATE OF MINNESOTA

## Office of the State Auditor



**Rebecca Otto**  
**State Auditor**

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**POLK COUNTY**  
**CROOKSTON, MINNESOTA**

YEAR ENDED DECEMBER 31, 2015

## **Description of the Office of the State Auditor**

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

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

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

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

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

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

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

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

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

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**POLK COUNTY  
CROOKSTON, MINNESOTA**

**Year Ended December 31, 2015**



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

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**POLK COUNTY  
CROOKSTON, MINNESOTA**

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CROOKSTON, MINNESOTA**

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CROOKSTON, MINNESOTA**

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**POLK COUNTY  
CROOKSTON, MINNESOTA**

ORGANIZATION  
DECEMBER 31, 2015

		Term Expires
<b>Elected</b>		
Commissioners		
District 1	Craig Buness*	January 2017
District 2	Warren Strandell**	January 2019
District 3	Nick Nicholas	January 2017
District 4	Joan Lee	January 2019
District 5	Don Diedrich	January 2017
Attorney	Gregory A. Widseth	January 2019
County Sheriff	Barbara Erdman	January 2019
<b>Appointed</b>		
County Administrator	Charles S. Whiting	Indefinite
County Engineer	Richard Sanders	April 2019
Finance Director	Ron Denison	Indefinite
Director of Assessment Services	Robert Wagner	December 2016
Director of Property Records	Michelle Cote	Indefinite
Veterans Service Officer	Leslie O. Goodwin	July 2019
Environmental Services Administrator	Jon Steiner	Indefinite
Medical Examiner	Michael McGee, M.D.	Indefinite
Surveyor	Garrett Borowicz	Indefinite
<b>Welfare Board</b>		
Commissioner	Nick Nicholas	January 2017
Commissioner	Joan Lee	January 2019
Commissioner	Don Diedrich	January 2017
Commissioner	Craig Buness	January 2017
Lay-Board Member	Paula Waters	July 2017
Lay-Board Member	Cathy Gutterud	July 2016

\*Chair  
\*\*Vice Chair

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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## INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners  
Polk County  
Crookston, Minnesota

### Report on the Financial Statements

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

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditor's Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the County's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness

of the County's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### ***Opinions***

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

### ***Emphasis of Matter - Change in Accounting Principle***

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

### ***Other Matters***

#### ***Required Supplementary Information***

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

#### ***Supplementary Information***

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



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

#### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2016, on our consideration of Polk County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Polk 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 Polk County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (SEFA) as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) is presented for purposes of additional analysis and is not a required part of the basic financial statements. The SEFA is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the SEFA is fairly stated in all material respects in relation to the basic financial statements as a whole.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

September 22, 2016

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**POLK COUNTY  
CROOKSTON, MINNESOTA**

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

**INTRODUCTION**

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

**FINANCIAL HIGHLIGHTS**

- Governmental activities' total net position is \$138,219,711, of which Polk County has a net investment in capital assets of \$129,979,141, and \$11,870,370 is restricted to specific purposes/uses.
- Business-type activities' total net position is \$6,996,569. Net investment in capital assets represents \$5,815,449.
- Polk County's net position (governmental activities and business-type activities) totals \$145,216,280 for the year ended December 31, 2015. Net investment in capital assets represents \$135,794,590 of the total, \$11,870,370 of the total net position is restricted for specific uses, and (\$2,448,680) is unrestricted.
- The net cost of Polk County's governmental activities for the year ended December 31, 2015, was \$31,221,372. General property tax revenues and other revenue sources totaling \$25,697,069 funded the total net cost of \$31,221,372.
- Polk County's governmental funds' fund balances decreased by \$8,873,001. This decrease was the result of a General Fund balance decrease of \$7,984,404, a Road and Bridge Special Revenue Fund balance decrease of \$1,363,491, a Social Services Special Revenue Fund balance decrease of \$91,166, a Public Safety Special Revenue Fund balance increase of \$391,586, a Ditch Debt Service Fund balance increase of \$56,111, and an increase in other governmental funds' fund balances of \$118,363.

- The General Fund balance decreased by \$7,984,404. This decrease was caused by the excess of expenditures over revenues of \$12,804,138 due primarily to the \$11,400,000 refunding of callable general obligation bonds, along with \$67,795 in bond issuance costs, along with \$904,000 in budgeted use of fund balance and approximately \$300,000 of additional use of fund balance approved during the year. The \$12,804,138 decrease was offset by an increase resulting from new bonds issued and bond premium in 2015 of \$4,819,734.
- The Road and Bridge Special Revenue Fund balance decreased by \$1,363,491 due to excess expenditures over revenues of \$1,304,940 and a decrease in inventories of \$58,551.
- The Social Services Special Revenue Fund balance decreased by \$91,166 due to excess expenditures over revenues of \$91,166.
- The Public Safety Special Revenue Fund balance increased by \$391,586 due to excess revenues over expenditures of \$391,586. State Police aid and refunds and reimbursements exceeded budget by a combined \$361,342.
- The Ditch Debt Service Fund balance increased \$56,111 due to the excess of expenditures over revenues being offset by new bond proceeds. Funds received included bonds issued and premium of \$2,691,378 and special assessments and other revenues of \$1,335,675. Expenditures included debt service and bond issuance costs of \$2,400,765, project construction funding of \$1,430,000 and other expenditures of \$140,177.
- The fund balance as of December 31, 2015, for all other governmental funds increased by \$118,363 due to excess revenues over expenditures.

## **OVERVIEW OF THE FINANCIAL STATEMENTS**

Polk County's MD&A serves as an introduction to the basic financial statements. Polk County's basic financial statements consist of three parts: government-wide financial statements, fund financial statements, and notes to the financial statements. The MD&A (this section), certain budgetary comparison schedules, the Schedule of Funding Progress - Other Postemployment Benefits, and schedules of the County's proportionate share of net pension liability and of the County's contributions for the defined benefit pension plans are required to accompany the basic financial statements and, therefore, are included as required supplementary information. The following chart demonstrates how the different pieces are inter-related.

**Management’s Discussion and Analysis**

<b>Government-Wide Financial Statements</b>	<b>Fund Financial Statements</b>
<b>Notes to the Financial Statements</b>	

**Required Supplementary Information**  
(Other than Management’s Discussion and Analysis)

Polk County presents two government-wide financial statements. They are the Statement of Net Position and the Statement of Activities. These two government-wide financial statements provide information about the activities of the County as a whole and present a longer-term view of the County’s finances. The fund financial statements follow these two government-wide financial statements. For governmental activities, these statements tell how the County financed these services in the short term as well as what remains for future spending. Fund financial statements also report the operations in more detail than the government-wide statements by providing information about the most significant/major funds. For proprietary activities, these statements provide detailed financial information relating to the waste management operations and facilities.

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

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

The Statement of Net Position and the Statement of Activities report information about the County as a whole and about its activities in a way that helps the reader determine whether its financial condition has improved or declined as a result of the current year’s activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies.

These two statements consider all of Polk County’s current year revenues and expenses regardless of when the County receives the revenue or pays the expenditure. The statements also report the County’s net position and changes in it.

You can think of net position--the difference between assets and liabilities--as one way to measure the County’s financial health or financial position. Over time, increases or decreases in the County’s net position are an indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the property tax base and the general economic conditions of the state and County, to assess the overall health of Polk County.

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

- **Governmental activities**--Most of the County's basic services are reported here, including general government, public safety, highways and streets, sanitation, social services, health, culture and recreation, conservation of natural resources, and economic development. Property taxes and state and federal grants finance most of these activities.
- **Business-type activities**--The County charges fees to cover the costs of certain services it provides. Included here are the operations of the Landfill and Resource Recovery System.

### **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. Polk 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 three categories: governmental funds, proprietary 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 three governmental fund types: General, Special Revenue, and Debt Service. Information is presented separately in the Governmental Funds Balance Sheet and in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance for the General Fund, the Road and Bridge Special Revenue Fund, the Social Services Special Revenue Fund, the Public Safety Special Revenue Fund, and the Ditch Debt Service Fund, all of which are considered to be major funds. Data from the other four Special Revenue Funds and the other two Debt Service Funds are combined into a single, aggregated presentation.



Individual fund data for each of these nonmajor funds is provided in combining statements after the notes to the financial statements.

Polk County adopts annual budgets for its governmental funds, except the Ditch Special Revenue Fund, Ditch Debt Service Fund, Rhinehart Project Debt Service Fund, and Union Lake Lake Sarah Debt Service Fund. Budgetary comparisons have been provided for these funds to demonstrate compliance with their budgets.

**Proprietary Funds** -- Polk County maintains two proprietary funds. The Landfill Enterprise Fund is used to account for all funds to be used for the maintenance of the sanitary landfill. Funding is derived from user fees and intergovernmental revenue from the State of Minnesota. The Resource Recovery Enterprise Fund is used to account for all funds to be used for the maintenance of the solid waste incinerator and up-front separation. Funding is derived from bond issue proceeds, user fees, and intergovernmental revenue from the State of Minnesota. Proprietary funds provide the same type of information as the government-wide financial statements, and are included in the Statement of Net Position and the Statement of Activities as business-type activities. Both of the enterprise funds are considered to be major funds.

**Fiduciary Funds** -- Fiduciary funds are used to account for assets held by the County as an agent for individuals, private organization, other governments, or other funds. Polk County's fiduciary funds consist of one investment trust fund and three agency funds. Investment trust funds are used to account for the investment activities of the other funds that the County holds in a fiduciary capacity. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. In addition, the Agency 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 37 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.

## THE COUNTY AS A WHOLE

Polk County's combined net position for the year ended December 31, 2015, was \$145,216,280. The analysis focuses on the net position (Table 1) and changes in net position (Table 2) of the County's governmental and business-type activities.

**Table 1  
Net Position**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2015	2014	2015	2014	2015	2014
<b>Assets</b>						
Current and other assets	\$ 38,362,679	\$ 49,248,128	\$ 5,390,916	\$ 3,244,705	\$ 43,753,595	\$ 52,492,833
Capital assets	142,969,028	146,641,919	5,815,449	5,711,964	148,784,477	152,353,883
<b>Total Assets</b>	<b>\$ 181,331,707</b>	<b>\$ 195,890,047</b>	<b>\$ 11,206,365</b>	<b>\$ 8,956,669</b>	<b>\$ 192,538,072</b>	<b>\$ 204,846,716</b>
<b>Deferred Outflows of Resources</b>						
Deferred pension outflows	\$ 2,260,039	\$ -	\$ 166,037	\$ -	\$ 2,426,076	\$ -
<b>Liabilities</b>						
Long-term debt outstanding	\$ 41,567,127	\$ 37,049,562	\$ 4,088,687	\$ 3,860,678	\$ 45,655,814	\$ 40,910,240
Other liabilities	2,469,565	2,450,833	176,909	506,905	2,646,474	2,957,738
<b>Total Liabilities</b>	<b>\$ 44,036,692</b>	<b>\$ 39,500,395</b>	<b>\$ 4,265,596</b>	<b>\$ 4,367,583</b>	<b>\$ 48,302,288</b>	<b>\$ 43,867,978</b>
<b>Deferred Inflows of Resources</b>						
Deferred pension inflows	\$ 1,335,343	\$ -	\$ 110,237	\$ -	\$ 1,445,580	\$ -
<b>Net Position</b>						
Invested in capital assets, net of debt	\$ 129,979,141	\$ 111,671,919	\$ 5,815,449	\$ 5,711,964	\$ 135,794,590	\$ 117,383,883
Restricted	11,870,370	8,383,964	-	1,530,792	11,870,370	9,914,756
Unrestricted	(3,629,800)	36,333,769	1,181,120	(2,653,670)	(2,448,680)	33,680,099
<b>Total Net Position, as Reported</b>	<b>\$ 138,219,711</b>	<b>\$ 156,389,652</b>	<b>\$ 6,996,569</b>	<b>\$ 4,589,086</b>	<b>\$ 145,216,280</b>	<b>\$ 160,978,738</b>
Change in accounting principle*		(11,409,011)		(1,102,578)		(12,511,589)
Prior period adjustments**		(1,236,627)		(19,520)		(1,256,147)
<b>Total Net Position, as restated</b>		<b>\$ 143,744,014</b>		<b>\$ 3,466,988</b>		<b>\$ 147,211,002</b>

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

\*\*Detail of Prior period adjustments can be found in Note 1.E.2.

Polk County's total net position for the year ended December 31, 2015, is \$145,216,680. Unrestricted net position totaling (\$2,448,680) is available to finance day-to-day operations. Of the unrestricted net position, (\$3,629,800) is available for governmental activities, and \$1,181,120 is available for business-type activities. As of December 31, 2014, Polk County's total net position was \$160,978,738. The \$15,762,058 decrease is due primarily to the restatement of net position, especially the net pension liability.

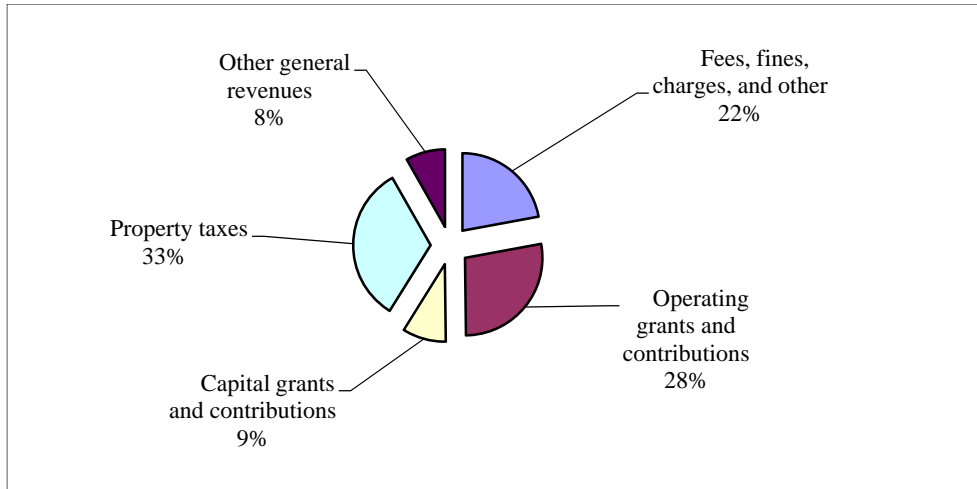
**Table 2  
Changes in Net Position**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2015	2014	2015	2014	2015	2014
<b>Revenues</b>						
Program revenues						
Fees, fines, charges, and other	\$ 6,582,088	\$ 7,284,115	\$ 7,237,667	\$ 5,241,493	\$ 13,819,755	\$ 12,525,608
Operating grants and contributions	17,313,091	15,726,690	-	5,165	17,313,091	15,731,855
Capital grants and contributions	5,684,674	11,084,634	-	-	5,684,674	11,084,634
General revenues						
Property taxes	20,562,897	20,187,826	-	-	20,562,897	20,187,826
Other taxes	2,664,575	-	-	-	2,664,575	-
Grants and contributions	2,361,579	2,831,367	5,165	-	2,366,744	2,831,367
Other general revenues	108,018	752,265	7,814	429	115,832	752,694
<b>Total Revenues</b>	<b>\$ 55,276,922</b>	<b>\$ 57,866,897</b>	<b>\$ 7,250,646</b>	<b>\$ 5,247,087</b>	<b>\$ 62,527,568</b>	<b>\$ 63,113,984</b>
<b>Expenditures</b>						
Program expenses						
General government	\$ 8,702,839	\$ 8,568,352	\$ -	\$ -	\$ 8,702,839	\$ 8,568,352
Public safety	10,269,080	9,927,297	-	-	10,269,080	9,927,297
Highways and streets	17,120,885	16,802,423	-	-	17,120,885	16,802,423
Sanitation	2,617,271	2,258,606	-	-	2,617,271	2,258,606
Human services	15,705,596	15,171,265	-	-	15,705,596	15,171,265
Health	2,734,481	2,409,114	-	-	2,734,481	2,409,114
Culture and recreation	641,049	559,325	-	-	641,049	559,325
Conservation of natural resources	2,453,864	1,426,792	-	-	2,453,864	1,426,792
Economic development	8,100	7,850	-	-	8,100	7,850
Interest	548,060	868,261	-	-	548,060	868,261
Resource recovery	-	-	3,581,867	3,647,199	3,581,867	3,647,199
Landfill	-	-	139,198	1,127,254	139,198	1,127,254
<b>Total Program Expenses</b>	<b>\$ 60,801,225</b>	<b>\$ 57,999,285</b>	<b>\$ 3,721,065</b>	<b>\$ 4,774,453</b>	<b>\$ 64,522,290</b>	<b>\$ 62,773,738</b>
<b>Increase (Decrease) in Net Position</b>	<b>\$ (5,524,303)</b>	<b>\$ (132,388)</b>	<b>\$ 3,529,581</b>	<b>\$ 472,634</b>	<b>\$ (1,994,722)</b>	<b>\$ 340,246</b>

Polk County's total revenues for the year ended December 31, 2015, were \$62,527,568, which is a decrease from the total revenues for 2014 of \$586,416. The total cost of programs and services for the year ended December 31, 2015, were \$64,522,290, which is an increase over the total cost of programs in 2014 of \$1,748,552. In 2014, the net position for governmental activities and business-type activities increased \$340,246 and, in 2015, the net position for governmental and business-type activities decreased \$1,994,722; however, Polk County's total net position decreased between December 31, 2014, and December 31, 2015, due mainly to a change in accounting principles requiring the reporting of pension liabilities. Please see the financial statements and the notes to the financial statements for additional information.

The \$586,416 decrease in revenues from 2014 is due mainly to a \$1,934,254 decrease in fees collected by the Road and Bridge fund for services provided to other governments; this was offset partly by small increases in several other departments.

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



**Governmental Activities**

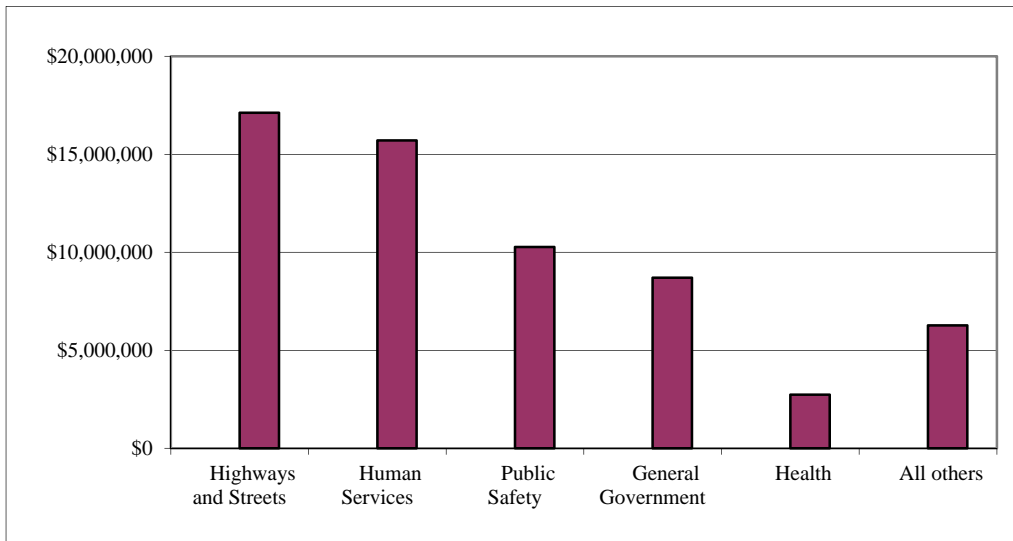
Revenues for Polk County’s governmental activities for the year ended December 31, 2015, were \$55,276,922. Costs for all governmental activities for the year ended December 31, 2015, were \$60,801,225. As shown in the Statement of Activities, the amount that County taxpayers ultimately financed for these governmental activities through local property taxation was \$20,562,897, because \$6,582,088 of the costs were paid by those who directly benefited from the programs, and \$22,997,765 was paid by other governments and organizations that subsidized certain programs with grants and contributions. Polk County paid for the remaining “public benefit” portion of governmental activities with \$5,134,172 in general revenues, primarily grants and contributions not restricted to specific programs or services, and with other revenues such as investment income, mortgage registration tax, and deed tax.

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

**Table 3  
Governmental Activities**

	<u>Total Cost of Services</u>	<u>Net Cost (Revenue) of Services</u>
Program expenses		
Highways and streets	\$ 17,120,885	\$ 5,604,639
Human services	15,705,596	4,310,331
Public safety	10,269,080	8,578,490
General government	8,702,839	7,571,317
Health	2,734,481	901,125
All others	<u>6,268,344</u>	<u>4,255,470</u>
 Total Program Expenses	 <u>\$ 60,801,225</u>	 <u>\$ 31,221,372</u>

**Governmental Activities Expenses  
2015**



**Business-Type Activities**

Revenues of Polk County’s business-type activities (see Table 2) for the year ended December 31, 2015, were \$7,250,646. This compares with total operating revenues of \$5,241,493 and total nonoperating revenues of \$5,594 for the year ended December 31, 2014. Operating revenues increased by \$1,996,174, and nonoperating revenues increased by \$7,385, resulting in an overall increase in revenues of \$2,003,559.

Expenses of business-type activities (see Table 2) for the year ended December 31, 2015, were \$3,721,065. This compares with total expenses of \$4,774,453 for the year ended December 31, 2014. Expenses decreased by \$1,053,388, this was due primarily to a \$1,129,858 difference in closure/postclosure/contingency expense at the Landfill; a negative expense of \$1,110,887 is being recognized in this category for 2015 because of a change in the method of estimation. Further explanation of this is given in the notes.

### **The County's Funds**

As Polk County completed the year, its governmental funds, as presented in the balance sheet, reported a combined fund balance of \$30,106,236, which is less than last year's total of \$38,979,237. The decreased fund balance of \$8,873,001 is due primarily to use of fund balance in the General Revenue Fund to pay off \$ 12,200,000 of callable bonds for which the refunding proceeds had been received in 2014. That decrease was offset somewhat by the receipt of new capital improvement bonds in 2015 which were only partially expended, making the actual decrease in General Revenue \$7,984,404. An excess of expenditures over revenues in the Road and Bridge Fund caused a decrease of \$1,363,491, while other governmental funds increased by \$118,363.

As you will note, there were changes within individual funds. The overall fund balance change represented a 22.8 percent decrease. Included in this year's total fund balance is the General Fund balance of \$15,410,066, a decrease of \$7,984,404 from 2014. The General Fund balance is classified as either nonspendable - \$531,273, restricted for specific purposes - \$3,278,506, committed for specific purposes - \$569,474, assigned to specific uses - \$254,172, or unassigned - \$10,776,641. An excess of expenditures over revenues in the Social Services Fund caused a decrease of \$91,166. An excess of revenues over expenditures in the Public Safety Fund caused an increase of \$391,586. The fund balance in the Ditch Debt Service Fund had an increase due to revenues over expenditures of \$56,111.

### **General Fund Budgetary Highlights**

The Polk County Board of Commissioners, over the course of a budget year, may amend/revise the County's overall operating budget of the General Fund to reflect changes in revenue sources and expenditures that were not anticipated when the budget was established in the prior year. In 2015, the Board of Commissioners did not make any significant budget revisions to the General Fund budget.

If the Board had made significant changes to the budget as originally adopted on Tuesday, December 16, 2014, these budget amendments/revisions would have fallen into one of three categories: new information changing original budget estimations, greater than anticipated revenues or expenditures, or final agreement reached on employee contracts.

In Polk County's General Fund, the actual revenues exceeded the budgeted revenues by \$331,710. Total actual expenditures in the General Fund exceeded the budgeted expenditures by \$12,293,714. The actual other financing sources were \$4,819,734 and exceeded the budgeted amount because of an unplanned bond issue.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At the end of 2015, Polk County had \$148,784,477 invested in a broad range of capital assets, including land, buildings, highways and streets, and equipment (see Table 4). This amount represents a net decrease (including additions and deductions) of \$3,569,406, or a 2.34 percent decrease, from last year.

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2015	2014	2015	2014	2015	2014
Land	\$ 9,217,723	\$ 9,084,840	\$ 11,085	\$ 11,085	\$ 9,228,808	\$ 9,095,925
Construction in progress	1,088,054	3,730,868	-	-	1,088,054	3,730,868
Land improvements	1,247,419	1,376,872	102,075	113,144	1,349,494	1,490,016
Buildings and improvements	30,101,655	27,799,754	1,744,553	1,857,183	31,846,208	29,656,937
Machinery, furniture, and equipment	4,368,009	4,729,415	3,451,972	3,141,336	7,819,981	7,870,751
Infrastructure	96,946,168	99,920,170	-	-	96,946,168	99,920,170
Landfill	-	-	505,764	589,216	505,764	589,216
Totals	<u>\$ 142,969,028</u>	<u>\$ 146,641,919</u>	<u>\$ 5,815,449</u>	<u>\$ 5,711,964</u>	<u>\$ 148,784,477</u>	<u>\$ 152,353,883</u>

During calendar year 2015, Polk County's governmental activities' capital assets, net of depreciation, decreased a total of \$3,672,891. Depreciation expenses for the year in County in the categories of infrastructure and machinery, furniture and equipment exceeded the new additions. Road and Bridge work in the year was mostly repairs and maintenance with limited new construction. More new construction that does reach the capitalization threshold is scheduled for the coming years.

More detailed information about Polk County's capital assets can be found in Note 3.A.4. to the financial statements.

### Bonded Debt

As of December 31, 2015, Polk County had \$27,037,176 in bonds and notes outstanding, compared with \$35,263,959 as of December 31, 2014, a decrease of 23.4 percent--as shown in Table 5.

**Table 5  
Outstanding Debt at Year-End**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2015	2014	2015	2014	2015	2014
Bonds payable						
General obligation bonds	\$ 26,645,000	\$ 34,970,000	\$ -	\$ -	\$ 26,645,000	\$ 34,970,000
Add: Unamortized premium	392,176	293,959	-	-	392,176	293,959
Totals	<u>\$ 27,037,176</u>	<u>\$ 35,263,959</u>	<u>\$ -</u>	<u>\$ -</u>	<u>27,037,176</u>	<u>\$ 35,263,959</u>

The state limits the amount of net debt that the County can issue to three percent of the market value of all taxable property. Polk County’s outstanding net debt is significantly below this \$154,938,111 state-imposed limit. The County’s financial advisor annually reviews the outstanding debt issues to determine which, if any, issues should be considered for refinancing.

Other obligations include compensated absences, other postemployment benefits liability, and landfill closure and postclosure care costs. The notes to the financial statements (Notes 3.C.2-5) provide detailed information about the County’s long-term liabilities.

**ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS AND RATES**

The County’s elected and appointed officials consider many factors when setting the budget, tax rates, and fees that will be charged for the governmental and business-type activities.

- 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 unemployment rate for Polk County was 4.5 percent as of August 31, 2015. This is consistent with the 2014 rate of 4.6, higher than the statewide rate of 3.3 percent and lower than the national average rate of 5.2 percent.
- Polk County’s population at December 2015 was 31,529, a decrease of 71 since the 2010 census. This ranks Polk County 34th of 87 in the State of Minnesota.
- Reviewing revenue sources and considering cost-effective and efficient means for the delivery of Polk County programs and services will influence the development of future budgets.
- On December 15, 2015, Polk County set its 2016 revenue and expenditure budgets.



## **REQUESTS FOR INFORMATION**

This annual financial report is designed to provide a general overview of Polk 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 Chuck Whiting, Polk County Administrator, 612 North Broadway, Room 211, Crookston, Minnesota 56716, or call Ron Denison, Finance Director, at 218-281-0332.

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## **BASIC FINANCIAL STATEMENTS**

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**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

**POLK COUNTY  
CROOKSTON, MINNESOTA**

*EXHIBIT 1*

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

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b><u>Assets</u></b>			
Cash and pooled investments	\$ 26,859,128	\$ 3,183,312	\$ 30,042,440
Investments	1,636,409	-	1,636,409
Taxes receivable prior	551,746	-	551,746
Special assessments receivable			
Prior	248,817	-	248,817
Noncurrent	3,951,319	-	3,951,319
Accounts receivable	329,356	144,304	473,660
Accrued interest receivable	19,113	7,474	26,587
Internal balances	(259,447)	259,447	-
Due from other governments	3,877,122	213,514	4,090,636
Inventories	620,270	-	620,270
Prepaid item	528,846	-	528,846
Restricted assets			
Permanently restricted			
Cash and pooled investments	-	1,582,865	1,582,865
Capital assets			
Non-depreciable	10,305,777	11,085	10,316,862
Depreciable - net of accumulated depreciation	132,663,251	5,804,364	138,467,615
	<b>\$ 181,331,707</b>	<b>\$ 11,206,365</b>	<b>\$ 192,538,072</b>
<b><u>Deferred Outflows of Resources</u></b>			
Deferred pension outflows	<b>\$ 2,260,039</b>	<b>\$ 166,037</b>	<b>\$ 2,426,076</b>

**POLK COUNTY  
CROOKSTON, MINNESOTA**

**EXHIBIT 1  
(Continued)**

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

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b><u>Liabilities</u></b>			
Accounts payable	\$ 1,088,843	\$ 154,725	\$ 1,243,568
Salaries payable	391,034	21,546	412,580
Contracts payable	474,251	-	474,251
Due to other governments	283,608	638	284,246
Accrued interest payable	231,829	-	231,829
Long-term liabilities			
Due within one year	3,599,213	69,955	3,669,168
Due in more than one year	24,670,375	2,790,467	27,460,842
Other postemployment benefits	520,668	32,533	553,201
Net pension liability	12,776,871	1,195,732	13,972,603
<b>Total Liabilities</b>	<b>\$ 44,036,692</b>	<b>\$ 4,265,596</b>	<b>\$ 48,302,288</b>
<b><u>Deferred Inflows of Resources</u></b>			
Deferred pension inflows	<b>\$ 1,335,343</b>	<b>\$ 110,237</b>	<b>\$ 1,445,580</b>
<b><u>Net Position</u></b>			
Net investment in capital assets	\$ 129,979,141	\$ 5,815,449	\$ 135,794,590
Restricted for			
General government	295,933	-	295,933
Public safety	320,156	-	320,156
Highways and streets	2,923,654	-	2,923,654
Conservation of natural resources	3,371,128	-	3,371,128
Debt service	4,959,499	-	4,959,499
Unrestricted	(3,629,800)	1,181,120	(2,448,680)
<b>Total Net Position</b>	<b>\$ 138,219,711</b>	<b>\$ 6,996,569</b>	<b>\$ 145,216,280</b>

**POLK COUNTY  
CROOKSTON, MINNESOTA**

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

	Expenses	Fees Charges, Fines, and Other
<b><u>Functions/Programs</u></b>		
<b>Primary Government</b>		
<b>Governmental activities</b>		
General government	\$ 8,702,839	\$ 696,949
Public safety	10,269,080	1,526,391
Highways and streets	17,120,885	773,146
Sanitation	2,617,271	717,242
Human services	15,705,596	1,223,927
Health	2,734,481	508,613
Culture and recreation	641,049	133,878
Conservation of natural resources	2,453,864	1,001,942
Economic development	8,100	-
Interest	548,060	-
	<b>\$ 60,801,225</b>	<b>\$ 6,582,088</b>
<b>Business-type activities</b>		
Resource Recovery	\$ 3,581,867	\$ 2,801,000
Landfill	139,198	4,436,667
	<b>\$ 3,721,065</b>	<b>\$ 7,237,667</b>
<b>Total Primary Government</b>	<b>\$ 64,522,290</b>	<b>\$ 13,819,755</b>

**General Revenues**

Property taxes  
Taxes - other  
Wheelage tax  
Grants and contributions not restricted to  
specific programs  
Payments in lieu of tax  
Investment earnings

**Total general revenues**

**Change in net position**

**Net Position - Beginning, as restated  
(Note 1.E.3.)**

**Net Position - Ending**



**EXHIBIT 2**

<b>Program Revenues</b>		<b>Net (Expense) Revenue and Change in Net Position</b>		
<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
\$ 434,573	\$ -	\$ (7,571,317)	\$ -	\$ (7,571,317)
164,199	-	(8,578,490)	-	(8,578,490)
5,058,426	5,684,674	(5,604,639)	-	(5,604,639)
159,812	-	(1,740,217)	-	(1,740,217)
10,171,338	-	(4,310,331)	-	(4,310,331)
1,324,743	-	(901,125)	-	(901,125)
-	-	(507,171)	-	(507,171)
-	-	(1,451,922)	-	(1,451,922)
-	-	(8,100)	-	(8,100)
-	-	(548,060)	-	(548,060)
<b>\$ 17,313,091</b>	<b>\$ 5,684,674</b>	<b>\$ (31,221,372)</b>	<b>\$ -</b>	<b>\$ (31,221,372)</b>
\$ -	\$ -	\$ -	\$ (780,867)	\$ (780,867)
-	-	-	4,297,469	4,297,469
<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 3,516,602</b>	<b>\$ 3,516,602</b>
<b>\$ 17,313,091</b>	<b>\$ 5,684,674</b>	<b>\$ (31,221,372)</b>	<b>\$ 3,516,602</b>	<b>\$ (27,704,770)</b>
		\$ 20,562,897	\$ -	\$ 20,562,897
		2,332,850	-	2,332,850
		331,725	-	331,725
		2,361,579	5,165	2,366,744
		57,212	-	57,212
		50,806	7,814	58,620
		<b>\$ 25,697,069</b>	<b>\$ 12,979</b>	<b>\$ 25,710,048</b>
		<b>\$ (5,524,303)</b>	<b>\$ 3,529,581</b>	<b>\$ (1,994,722)</b>
		<b>143,744,014</b>	<b>3,466,988</b>	<b>147,211,002</b>
		<b>\$ 138,219,711</b>	<b>\$ 6,996,569</b>	<b>\$ 145,216,280</b>

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**FUND FINANCIAL STATEMENTS**

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**GOVERNMENTAL FUNDS**

**POLK COUNTY  
CROOKSTON, MINNESOTA**

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

	<b>General</b>	<b>Road and Bridge</b>
<b><u>Assets</u></b>		
Cash and pooled investments	\$ 14,540,518	\$ 279,878
Petty cash and change funds	3,700	-
Undistributed cash in agency funds	253,485	42,399
Investments	155,909	-
Taxes receivable prior	350,006	65,462
Special assessments		
Prior	-	-
Noncurrent	-	-
Accounts receivable	111,507	125
Accrued interest receivable	19,113	-
Due from other funds	28,160	15,383
Due from other governments	39,101	1,690,788
Advance to other funds	374,535	-
Prepaid items	528,846	-
Inventories	-	620,270
	<b>\$ 16,404,880</b>	<b>\$ 2,714,305</b>
<b><u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u></b>		
<b>Liabilities</b>		
Accounts payable	\$ 548,039	\$ 75,452
Salaries payable	98,654	26,905
Contracts payable	-	474,251
Due to other funds	45,902	3,052
Due to other governments	17,981	2,675
Advance from other funds	-	-
	<b>\$ 710,576</b>	<b>\$ 582,335</b>
<b>Deferred Inflows of Resources</b>		
Unavailable revenues	<b>\$ 284,238</b>	<b>\$ 954,055</b>

**EXHIBIT 3**

<u>Social Services</u>	<u>Public Safety</u>	<u>Ditch Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 4,278,459	\$ 2,677,176	\$ 624,099	\$ 4,003,538	\$ 26,403,668
-	500	-	770	4,970
80,208	-	21,559	52,839	450,490
-	93,427	960,391	426,682	1,636,409
130,612	-	-	5,666	551,746
-	-	12,389	236,428	248,817
-	-	3,808,320	142,999	3,951,319
128,789	12,481	-	76,454	329,356
-	-	-	-	19,113
-	-	-	71,409	114,952
1,792,628	43,497	-	311,108	3,877,122
-	-	-	-	374,535
-	-	-	-	528,846
-	-	-	-	620,270
<b><u>\$ 6,410,696</u></b>	<b><u>\$ 2,827,081</u></b>	<b><u>\$ 5,426,758</u></b>	<b><u>\$ 5,327,893</u></b>	<b><u>\$ 39,111,613</u></b>
\$ 319,975	\$ 28,062	\$ -	\$ 117,315	\$ 1,088,843
93,087	130,506	-	41,882	391,034
-	-	-	-	474,251
24,487	8,453	-	292,505	374,399
249,175	3,113	-	10,664	283,608
-	-	7,855	366,680	374,535
<b><u>\$ 686,724</u></b>	<b><u>\$ 170,134</u></b>	<b><u>\$ 7,855</u></b>	<b><u>\$ 829,046</u></b>	<b><u>\$ 2,986,670</u></b>
<b><u>\$ 550,344</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 3,817,588</u></b>	<b><u>\$ 412,482</u></b>	<b><u>\$ 6,018,707</u></b>

**POLK COUNTY  
CROOKSTON, MINNESOTA**

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

	<b>General</b>	<b>Road and Bridge</b>
<b><u>Liabilities, Deferred Inflows of Resources, and Fund Balances (Continued)</u></b>		
<b>Fund Balances</b>		
Nonspendable		
Inventories	\$ -	\$ 620,270
Prepaid items	528,846	-
Missing heirs	2,427	-
Restricted		
County state-aid highway system	-	135,632
Construction bonds	-	2,418,721
Debt service	2,985,000	-
DARE	-	-
Ditch maintenance and construction	-	-
Dive rescue team	-	-
Drug task force	-	-
DWI forfeitures	-	-
E-911	-	-
Environmental services	-	-
Gravel pit restoration	-	186,677
Handgun permits	-	-
Law library	32,691	-
Recorder's compliance	74,157	-
Recorder's technology equipment	186,658	-
Committed		
Insurance	564,991	-
Maple Lake Park reforestation	4,483	-
Assigned		
Forfeited tax sales	254,172	-
Public safety	-	-
Human services	-	-
Health	-	-
Culture and recreation	-	-
Unassigned	10,776,641	(2,183,385)
<b>Total Fund Balances</b>	<b>\$ 15,410,066</b>	<b>\$ 1,177,915</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<b>\$ 16,404,880</b>	<b>\$ 2,714,305</b>



**EXHIBIT 3**  
**(Continued)**

<u>Social Services</u>	<u>Public Safety</u>	<u>Ditch Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ -	\$ -	\$ -	\$ -	\$ 620,270
-	-	-	-	528,846
-	-	-	-	2,427
-	-	-	-	135,632
-	-	-	-	2,418,721
-	-	1,609,170	365,329	4,959,499
-	7,164	-	-	7,164
-	-	-	1,445,345	1,445,345
-	1,538	-	-	1,538
-	961	-	-	961
-	6,089	-	-	6,089
-	174,851	-	-	174,851
-	-	-	1,925,783	1,925,783
-	-	-	-	186,677
-	131,091	-	-	131,091
-	-	-	-	32,691
-	-	-	-	74,157
-	-	-	-	186,658
-	-	-	-	564,991
-	-	-	-	4,483
-	-	-	-	254,172
-	2,335,253	-	-	2,335,253
5,173,628	-	-	-	5,173,628
-	-	-	664,965	664,965
-	-	-	51,850	51,850
-	-	(7,855)	(366,907)	8,218,494
<u>\$ 5,173,628</u>	<u>\$ 2,656,947</u>	<u>\$ 1,601,315</u>	<u>\$ 4,086,365</u>	<u>\$ 30,106,236</u>
<u>\$ 6,410,696</u>	<u>\$ 2,827,081</u>	<u>\$ 5,426,758</u>	<u>\$ 5,327,893</u>	<u>\$ 39,111,613</u>

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**POLK COUNTY  
CROOKSTON, MINNESOTA**

**EXHIBIT 4**

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

<b>Fund balances - total governmental funds (Exhibit 3)</b>		<b>\$ 30,106,236</b>
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.		142,969,028
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		6,018,707
Deferred outflows of resources resulting from pension obligations are not available resources and, therefore, are not reported in the governmental funds.		2,260,039
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
General obligation bonds	\$ (26,645,000)	
Other postemployment benefits	(520,668)	
Bond premiums	(392,176)	
Accrued interest payable	(231,829)	
Compensated absences	(1,232,412)	
Net pension liability	<u>(12,776,871)</u>	(41,798,956)
Deferred inflows resulting from pension obligations are not due and payable in the current period and, therefore, are not reported in the governmental funds.		<u>(1,335,343)</u>
<b>Net Position of Governmental Activities (Exhibit 1)</b>		<b><u>\$ 138,219,711</u></b>

**POLK COUNTY  
CROOKSTON, MINNESOTA**

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

	<b>General</b>	<b>Road and Bridge</b>
<b>Revenues</b>		
Taxes	\$ 5,533,775	\$ 2,721,328
Special assessments	-	-
Licenses and permits	7,930	36,010
Intergovernmental	2,194,742	11,151,853
Charges for services	877,152	343,906
Fines and forfeits	10,985	-
Investment earnings	49,118	-
Gifts and contributions	-	-
Miscellaneous	601,130	176,740
<b>Total Revenues</b>	<b>\$ 9,274,832</b>	<b>\$ 14,429,837</b>
<b>Expenditures</b>		
<b>Current</b>		
General government	\$ 8,339,795	\$ -
Public safety	246,427	-
Highways and streets	-	13,288,736
Sanitation	-	-
Human services	-	-
Health	9,900	-
Culture and recreation	313,268	-
Conservation of natural resources	448,904	-
Economic development	8,100	-
<b>Intergovernmental</b>		
Highways and streets	-	1,145,991
<b>Debt service</b>		
Principal	12,200,000	1,215,000
Interest	444,781	85,050
Bond issuance costs	67,795	-
<b>Total Expenditures</b>	<b>\$ 22,078,970</b>	<b>\$ 15,734,777</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (12,804,138)</b>	<b>\$ (1,304,940)</b>
<b>Other Financing Sources (Uses)</b>		
Bonds issued	\$ 4,690,000	\$ -
Premium on bonds issued	129,734	-
<b>Total Other Financing Sources (Uses)</b>	<b>\$ 4,819,734</b>	<b>\$ -</b>
<b>Net Change in Fund Balance</b>	<b>\$ (7,984,404)</b>	<b>\$ (1,304,940)</b>
<b>Fund Balance - January 1</b>	<b>23,394,470</b>	<b>2,541,406</b>
<b>Increase (decrease) in inventories</b>	<b>-</b>	<b>(58,551)</b>
<b>Fund Balance - December 31</b>	<b>\$ 15,410,066</b>	<b>\$ 1,177,915</b>

**EXHIBIT 5**

<b>Special Revenue Funds</b>			<b>Other</b>	
<b>Social Services</b>	<b>Public Safety</b>	<b>Ditch Debt Service</b>	<b>Governmental Funds</b>	<b>Total</b>
\$ 4,202,756	\$ 7,396,050	\$ -	\$ 1,458,604	\$ 21,312,513
-	-	925,144	1,866,779	2,791,923
-	-	-	49,975	93,915
10,009,037	370,130	-	1,603,178	25,328,940
713,666	266,019	-	595,212	2,795,955
-	1,027	-	-	12,012
49	137	599	903	50,806
18,850	-	-	-	18,850
484,453	1,247,233	409,932	840,705	3,760,193
<b>\$ 15,428,811</b>	<b>\$ 9,280,596</b>	<b>\$ 1,335,675</b>	<b>\$ 6,415,356</b>	<b>\$ 56,165,107</b>
\$ -	\$ -	\$ -	\$ 288,684	\$ 8,628,479
-	8,889,010	-	-	9,135,437
-	-	-	-	13,288,736
-	-	-	2,635,823	2,635,823
15,519,977	-	-	-	15,519,977
-	-	-	2,681,135	2,691,035
-	-	-	246,050	559,318
-	-	1,601,177	319,926	2,370,007
-	-	-	-	8,100
-	-	-	-	1,145,991
-	-	2,132,273	112,727	15,660,000
-	-	194,928	12,648	737,407
-	-	42,564	-	110,359
<b>\$ 15,519,977</b>	<b>\$ 8,889,010</b>	<b>\$ 3,970,942</b>	<b>\$ 6,296,993</b>	<b>\$ 72,490,669</b>
<b>\$ (91,166)</b>	<b>\$ 391,586</b>	<b>\$ (2,635,267)</b>	<b>\$ 118,363</b>	<b>\$ (16,325,562)</b>
\$ -	\$ -	\$ 2,645,000	\$ -	\$ 7,335,000
-	-	46,378	-	176,112
<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,691,378</b>	<b>\$ -</b>	<b>\$ 7,511,112</b>
<b>\$ (91,166)</b>	<b>\$ 391,586</b>	<b>\$ 56,111</b>	<b>\$ 118,363</b>	<b>\$ (8,814,450)</b>
5,264,794	2,265,361	1,545,204	3,968,002	38,979,237
-	-	-	-	(58,551)
<b>\$ 5,173,628</b>	<b>\$ 2,656,947</b>	<b>\$ 1,601,315</b>	<b>\$ 4,086,365</b>	<b>\$ 30,106,236</b>

**POLK COUNTY  
CROOKSTON, MINNESOTA**

**EXHIBIT 6**

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

**Net change in fund balances - total governmental funds (Exhibit 5) \$ (8,814,450)**

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

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

Deferred inflows of resources - December 31	\$ 6,018,707	
Deferred inflows of resources - January 1	<u>(8,161,339)</u>	(2,142,632)

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Expenditures for general capital assets and infrastructure	\$ 1,715,368	
Current year depreciation	<u>(5,388,259)</u>	(3,672,891)

Restatement of revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.		1,236,627
--	--	-----------

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

Proceeds of new debt		
General obligation bonds issued		(7,335,000)

Principal repayments		
General obligation bonds		15,660,000

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

Change in accrued interest payable	\$ 111,452	
Change in compensated absences	90,539	
Change in other postemployment benefits	(58,016)	
Change in net pension liability, as restated	(812,533)	
Change in deferred outflows of resources, as restated	1,704,712	
Change in deferred inflows of resources	(1,335,343)	
Change in unamortized premiums on general obligation bonds	(98,217)	
Change in inventories	<u>(58,551)</u>	<u>(455,957)</u>

**Change in Net Position of Governmental Activities (Exhibit 2) \$ (5,524,303)**

**PROPRIETARY FUNDS**

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**POLK COUNTY  
CROOKSTON, MINNESOTA**

**EXHIBIT 7**

**STATEMENT OF FUND NET POSITION  
ENTERPRISE FUNDS  
DECEMBER 31, 2015**

	<b>Resource Recovery</b>	<b>Landfill</b>	<b>Totals</b>
<b><u>Assets</u></b>			
Current assets			
Cash and pooled investments	\$ -	\$ 3,183,212	\$ 3,183,212
Petty cash and change funds	-	100	100
Accounts receivable	93,099	51,205	144,304
Accrued interest receivable	56	7,418	7,474
Due from other funds	266,558	117,286	383,844
Due from other governments	157,983	55,531	213,514
Advance to other funds	-	175,402	175,402
	<b>\$ 517,696</b>	<b>\$ 3,590,154</b>	<b>\$ 4,107,850</b>
Restricted assets			
Cash and pooled investments	\$ -	\$ 1,582,865	\$ 1,582,865
Noncurrent assets			
Capital assets			
Nondepreciable	\$ 11,085	\$ -	\$ 11,085
Depreciable - net	4,454,216	1,350,148	5,804,364
	<b>\$ 4,465,301</b>	<b>\$ 1,350,148</b>	<b>\$ 5,815,449</b>
<b>Total noncurrent assets</b>	<b>\$ 4,465,301</b>	<b>\$ 1,350,148</b>	<b>\$ 5,815,449</b>
<b>Total Assets</b>	<b>\$ 4,982,997</b>	<b>\$ 6,523,167</b>	<b>\$ 11,506,164</b>
<b><u>Deferred Outflows of Resources</u></b>			
Deferred pension outflows	\$ 144,550	\$ 21,487	\$ 166,037

**POLK COUNTY  
CROOKSTON, MINNESOTA**

**EXHIBIT 7  
(Continued)**

**STATEMENT OF FUND NET POSITION  
ENTERPRISE FUNDS  
DECEMBER 31, 2015**

	<b>Resource Recovery</b>	<b>Landfill</b>	<b>Totals</b>
<b><u>Liabilities</u></b>			
Current liabilities			
Accounts payable	\$ 125,533	\$ 29,192	\$ 154,725
Salaries payable	19,246	2,300	21,546
Compensated absences payable	58,996	10,959	69,955
Due to other funds	104,486	19,911	124,397
Due to other governments	404	234	638
	<b>\$ 308,665</b>	<b>\$ 62,596</b>	<b>\$ 371,261</b>
Noncurrent liabilities			
Compensated absences payable	\$ 160,427	\$ 27,588	\$ 188,015
Advance from other funds	175,402	-	175,402
Closure costs payable	-	607,182	607,182
Postclosure care costs payable	-	1,507,168	1,507,168
Contingency costs payable	-	488,102	488,102
Other postemployment benefits liability	29,833	2,700	32,533
Net pension liability	1,040,990	154,742	1,195,732
	<b>\$ 1,406,652</b>	<b>\$ 2,787,482</b>	<b>\$ 4,194,134</b>
	<b>\$ 1,715,317</b>	<b>\$ 2,850,078</b>	<b>\$ 4,565,395</b>
<b><u>Deferred Inflows of Resources</u></b>			
Deferred pension inflows	<b>\$ 95,971</b>	<b>\$ 14,266</b>	<b>\$ 110,237</b>
<b><u>Net Position</u></b>			
Investment in capital assets	\$ 4,465,301	\$ 1,350,148	\$ 5,815,449
Unrestricted	(1,149,042)	2,330,162	1,181,120
	<b>\$ 3,316,259</b>	<b>\$ 3,680,310</b>	<b>\$ 6,996,569</b>

**POLK COUNTY  
CROOKSTON, MINNESOTA**

**EXHIBIT 8**

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

	<u>Resource Recovery</u>	<u>Landfill</u>	<u>Totals</u>
<b>Operating Revenues</b>			
Charges for services	\$ 2,655,417	\$ 4,407,523	\$ 7,062,940
Miscellaneous	145,583	29,144	174,727
<b>Total Operating Revenues</b>	<b>\$ 2,801,000</b>	<b>\$ 4,436,667</b>	<b>\$ 7,237,667</b>
<b>Operating Expenses</b>			
Personnel services	\$ 1,670,414	\$ 281,348	\$ 1,951,762
Other services and charges	199,608	687,657	887,265
Supplies	310,014	6,981	316,995
Utilities	508,144	9,238	517,382
Repairs and maintenance	147,338	-	147,338
Transportation and disposal	187,669	37,398	225,067
Asset purchases	-	2,251	2,251
Closure/postclosure/contingency	-	(1,110,887)	(1,110,887)
Depreciation	558,680	225,212	783,892
<b>Total Operating Expenses</b>	<b>\$ 3,581,867</b>	<b>\$ 139,198</b>	<b>\$ 3,721,065</b>
<b>Operating Income (Loss)</b>	<b>\$ (780,867)</b>	<b>\$ 4,297,469</b>	<b>\$ 3,516,602</b>
<b>Nonoperating Revenues (Expenses)</b>			
Intergovernmental	\$ 4,752	\$ 413	\$ 5,165
Interest income restricted for sanitation	396	7,418	7,814
<b>Total Nonoperating Revenues (Expenses)</b>	<b>\$ 5,148</b>	<b>\$ 7,831</b>	<b>\$ 12,979</b>
<b>Change in Net Position</b>	<b>\$ (775,719)</b>	<b>\$ 4,305,300</b>	<b>\$ 3,529,581</b>
<b>Net Position - January 1, as restated (Note 1.E.3.)</b>	<b>4,091,978</b>	<b>(624,990)</b>	<b>3,466,988</b>
<b>Net Position - December 31</b>	<b>\$ 3,316,259</b>	<b>\$ 3,680,310</b>	<b>\$ 6,996,569</b>

**POLK COUNTY  
CROOKSTON, MINNESOTA**

**EXHIBIT 9**

**STATEMENT OF CASH FLOWS  
ENTERPRISE FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2015  
Increase (Decrease) in Cash and Cash Equivalents**

	<b>Resource Recovery</b>	<b>Landfill</b>	<b>Totals</b>
<b>Cash Flows from Operating Activities</b>			
Receipts from customers and users	\$ 2,850,528	\$ 4,096,267	\$ 6,946,795
Payments to suppliers	(1,285,626)	(877,548)	(2,163,174)
Payments to employees	(1,526,062)	(269,296)	(1,795,358)
	<b>\$ 38,840</b>	<b>\$ 2,949,423</b>	<b>\$ 2,988,263</b>
<b>Cash Flows from Noncapital Financing Activities</b>			
Advance to other funds	\$ -	\$ (175,402)	\$ (175,402)
Intergovernmental	4,752	413	5,165
	<b>\$ 4,752</b>	<b>\$ (174,989)</b>	<b>\$ (170,237)</b>
<b>Cash Flows from Capital and Related Financing Activities</b>			
Purchases of capital assets	\$ (508,805)	\$ (203,168)	\$ (711,973)
Payment on advance from other funds	-	(400,000)	(400,000)
	<b>\$ (508,805)</b>	<b>\$ (603,168)</b>	<b>\$ (1,111,973)</b>
<b>Cash Flows from Investing Activities</b>			
Investment earnings received	\$ 364	\$ -	\$ 364
	<b>\$ (464,849)</b>	<b>\$ 2,171,266</b>	<b>\$ 1,706,417</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>			
	<b>\$ 464,849</b>	<b>\$ 2,594,911</b>	<b>\$ 3,059,760</b>
<b>Cash and Cash Equivalents at January 1</b>			
	<b>\$ -</b>	<b>\$ 4,766,177</b>	<b>\$ 4,766,177</b>
<b>Cash and Cash Equivalents at December 31</b>			
	<b>\$ -</b>	<b>\$ 4,766,177</b>	<b>\$ 4,766,177</b>
<b>Cash and Cash Equivalents - Exhibit 7</b>			
Cash and pooled investments	\$ -	\$ 3,183,212	\$ 3,183,212
Petty cash and change funds	-	100	100
Restricted cash and pooled investments	-	1,582,865	1,582,865
	<b>\$ -</b>	<b>\$ 4,766,177</b>	<b>\$ 4,766,177</b>
<b>Total Cash and Cash Equivalents</b>	<b>\$ -</b>	<b>\$ 4,766,177</b>	<b>\$ 4,766,177</b>

**POLK COUNTY  
CROOKSTON, MINNESOTA**

**EXHIBIT 9  
(Continued)**

**STATEMENT OF CASH FLOWS  
ENTERPRISE FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2015  
Increase (Decrease) in Cash and Cash Equivalents**

	<b>Resource Recovery</b>	<b>Landfill</b>	<b>Totals</b>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities</b>			
<b>Operating income (loss)</b>	<b>\$ (780,867)</b>	<b>\$ 4,297,469</b>	<b>\$ 3,516,602</b>
<b>Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities</b>			
Depreciation expense	\$ 558,680	\$ 225,212	\$ 783,892
Adjustment for prior audit adjustment	-	(247,960)	(247,960)
(Increase) decrease in accounts receivable	67,746	(25,263)	42,483
(Increase) decrease in due from other governments	(15,394)	4,469	(10,925)
(Increase) decrease in due from other funds	(2,824)	(94,574)	(97,398)
(Increase) decrease in deferred pension outflows	(144,550)	(21,487)	(166,037)
Increase (decrease) in accounts payable	59,490	(97,379)	(37,889)
Increase (decrease) in salaries payable	(20,025)	(4,089)	(24,114)
Increase (decrease) in compensated absences - current	3,483	1,435	4,918
Increase (decrease) in due to other funds	87,699	(13,950)	73,749
Increase (decrease) in due to other governments	(80,042)	234	(79,808)
Increase (decrease) in compensated absences - long-term	98,541	7,172	105,713
Increase (decrease) in other postemployment benefits liability	29,833	2,700	32,533
Increase (decrease) in net pension liability (inclusive of prior period adjustment)	81,099	12,055	93,154
Increase (decrease) in deferred pension inflows	95,971	14,266	110,237
Increase (decrease) in landfill closure/postclosure care costs	-	(1,110,887)	(1,110,887)
<b>Total adjustments</b>	<b>\$ 819,707</b>	<b>\$ (1,348,046)</b>	<b>\$ (528,339)</b>
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b>\$ 38,840</b>	<b>\$ 2,949,423</b>	<b>\$ 2,988,263</b>

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**FIDUCIARY FUNDS**

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**POLK COUNTY  
CROOKSTON, MINNESOTA**

*EXHIBIT 10*

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

	<b>Tri-County Community Corrections Investment Trust</b>	<b>Agency Funds</b>
<b><u>Assets</u></b>		
Cash and pooled investments	\$ 1,665,768	\$ 1,426,573
Accounts receivable	-	56,230
Due from other governments	-	315,502
<b>Total Assets</b>	<b>\$ 1,665,768</b>	<b>\$ 1,798,305</b>
<b><u>Liabilities</u></b>		
Accounts payable	\$ -	\$ 256,671
Due to other governments	-	1,541,634
<b>Total Liabilities</b>	<b>\$ -</b>	<b>\$ 1,798,305</b>
<b><u>Net Position</u></b>		
Net position, held in trust for pool participants	<b>\$ 1,665,768</b>	

**POLK COUNTY  
CROOKSTON, MINNESOTA**

*EXHIBIT 11*

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
TRI-COUNTY COMMUNITY CORRECTIONS INVESTMENT TRUST FIDUCIARY FUND  
FOR THE YEAR ENDED DECEMBER 31, 2015**

<u>Additions</u>	
Contributions from participants	\$ 9,771,804
Investment earnings	<u>68</u>
<b>Total Additions</b>	<b>\$ 9,771,872</b>
<u>Deductions</u>	
Pool participant withdrawals	<u>9,103,170</u>
<b>Change in Net Position</b>	<b>\$ 668,702</b>
<b>Net Position - Beginning of the Year</b>	<u>997,066</u>
<b>Net Position - End of the Year</b>	<b><u><u>\$ 1,665,768</u></u></b>

**POLK COUNTY  
CROOKSTON, MINNESOTA**

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

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1. Summary of Significant Accounting Policies

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

A. Financial Reporting Entity

Polk County was established January 20, 1858, 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 Administrator, appointed by the Board, serves as the clerk of the Board of Commissioners but has no vote.

Joint Ventures, Jointly-Governed Organizations, and Related Organizations

The County participates in several joint ventures described in Note 8.B. The County also participates in the jointly-governed organizations and related organizations described in Note 8.C. and 8.D., respectively.

B. Basic Financial Statements

1. Government-Wide Statements

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

**POLK COUNTY  
CROOKSTON, MINNESOTA**

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1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statement (Continued)

In the government-wide statement of net position, both the governmental and business-type activities columns: (a) are presented on a consolidated basis by column; and (b) are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The County's net position is reported in three parts: (1) 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 and different business-type activities are offset by program revenues. Direct expenses are those clearly identifiable with a specific function or activity. Program revenues include: (1) fees, fines, and charges paid by the recipients of goods, services, or privileges provided by a given function or activity; and (2) grants and contributions restricted to meeting the operational or capital requirements of a particular function or activity. Revenues not classified as program revenues, including all taxes, are presented as general revenues.

2. Fund Financial Statements

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

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

**POLK COUNTY  
CROOKSTON, MINNESOTA**

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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. Revenues include property taxes, intergovernmental assistance, and charges for services.

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

The Public Safety Special Revenue Fund is used to account for and report all funds to be used for public safety. Some of the activities covered under this fund include County Sheriff, community corrections, County Coroner, civil defense, and boat and water safety. Financing is provided by an annual property tax levy and special appropriations from the State of Minnesota assigned to public safety.

The Ditch Debt Service Fund is used to account for the accumulations of resources and the payment of principal and interest of ditch bond issues.

The County reports the following major enterprise funds:

The Resource Recovery Enterprise Fund is used to account for all funds to be used for the maintenance of the solid waste incinerator and up-front separation. Funding is provided from user fees and intergovernmental revenue from the State of Minnesota.

The Landfill Enterprise Fund is used for all funds to be used for the maintenance of the sanitary landfill. Funding is provided from user fees and intergovernmental revenue from the State of Minnesota.

**POLK COUNTY  
CROOKSTON, MINNESOTA**

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1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

Additionally, the County reports the following fund types:

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Polk 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 general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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.

**POLK COUNTY  
CROOKSTON, MINNESOTA**

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1. Summary of Significant Accounting Policies (Continued)

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

1. Cash and Cash Equivalents

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

2. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at fair value at December 31, 2015, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments of governmental and fiduciary funds are credited to the General Fund. Investment earnings on business-type activities are credited to the Landfill Fund and the Resource Recovery Fund. Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2015 were \$49,118.

Polk 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 Minnesota Statute, § 471.59. The investment in the pool is measured at the net asset value per share provided by the pool.

3. Receivables and Payables

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

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

**POLK COUNTY  
CROOKSTON, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

3. Receivables and Payables (Continued)

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

No allowance has been made for uncollectible receivables.

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 prior taxes receivable.

4. Special Assessments Receivable

Special assessments receivable consist of prior special assessments, payable in the years 2009 through 2015, and noncurrent special assessments. No allowances for special assessments are shown because such amounts are not expected to be material.

5. 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 in proprietary funds and at the government-wide level are recorded as expenses when consumed. Inventories, as reported in the fund financial statements, are offset by a fund balance reserve to indicate that they do not constitute available resources.

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.



**POLK COUNTY  
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1. Summary of Significant Accounting Policies

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

6. Restricted Assets

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

7. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide and proprietary fund financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current period, the County did not have any capitalized interest.

Infrastructures, buildings and improvements, land improvements, and machinery and equipment are depreciated using the straight-line method over the following estimated useful lives.

<u>Assets</u>	<u>Years</u>
Infrastructure	50 - 75
Buildings and improvements	10 - 50
Land improvements	10 - 30
Machinery and equipment	3 - 15

**POLK COUNTY  
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1. Summary of Significant Accounting Policies

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

7. Capital Assets (Continued)

The County landfill is depreciated on a straight-line basis.

8. Unearned Revenue

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

9. Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated annual 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 and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds for up to the annual accrual of vacation and vested sick leave if matured, for example, as a result of employee resignations and retirements. The government-wide statement of net position reports both the current and noncurrent portion of compensated absences. The current portion consists of an amount based on the vacation each employee accrues in one year.

10. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are immediately expensed.

**POLK COUNTY  
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1. Summary of Significant Accounting Policies

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

10. Long-Term Obligations (Continued)

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

11. Pension Plan

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

12. Deferred Outflows/Inflows of Resources and Unearned Revenue

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. The County has one item, deferred pension outflows that qualifies for reporting in this category. These outflows arise only under the full accrual basis of accounting and consist of pension plan contributions paid subsequent to the measurement date, pension plan changes in proportionate share, and also the differences between projected and actual earnings on pension plan investments and, accordingly reported only in the statement of net position.

**POLK COUNTY  
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1. Summary of Significant Accounting Policies

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

12. Deferred Outflows/Inflows of Resources and Unearned Revenue (Continued)

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

The governmental funds report unavailable revenue from prior taxes receivable, prior and noncurrent special assessments receivable and for amounts that are not considered to be available to liquidate liabilities of the current period. Unavailable revenue arises only under the modified accrual basis of accounting and, accordingly, is reported only in the governmental funds balance sheet. The unavailable revenue amount is deferred and recognized as an inflow of resources in the period that the amounts become available. The County also has deferred pension inflows. These inflows arise only under the full accrual basis of accounting and consist of differences between expected and actual pension plan economic experience and also pension plan changes in proportionate share and, accordingly, are reported only in the statement of net position.

13. Classification of Net Position

Net position in the government-wide and proprietary fund financial statements 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 - 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 - the amount of net position that does not meet the definition of restricted or net investment in capital assets.

**POLK COUNTY  
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1. Summary of Significant Accounting Policies

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

14. 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 not expected to be converted to cash.

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

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

Assigned - amounts the County intends to use for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the County Administrator and/or County Finance Director, as delegated by the County Board.

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

**POLK COUNTY  
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1. Summary of Significant Accounting Policies

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

14. Classification of Fund Balances (Continued)

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

15. Minimum Fund Balance

Polk County is committed to maintaining a prudent level of financial resources to protect against the need to reduce service levels because of temporary revenue shortfalls or unpredicted expenditures. Polk County has adopted a minimum fund balance policy to address cash flow or working capital needs. The County is heavily reliant on property tax revenues to fund current operations. However, current property tax revenues are not available for distribution until June. Therefore, the County will maintain an unrestricted fund balance level of no less than six months of the General Fund operating expenditures.

16. Use of Estimates

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

E. Restatement of Fund Balance and Net Position

1. Change in Accounting Principles

During the year ended December 31, 2015, the County adopted new accounting guidance by implementing the provisions of GASB Statements 68, 71, and 82. GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB No. 27*, requires governments providing defined benefit

**POLK COUNTY  
CROOKSTON, MINNESOTA**

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1. Summary of Significant Accounting Policies

E. Restatement of Fund Balance and Net Position

1. Change in Accounting Principles (Continued)

pensions to employees through pension plans administered through trusts to record their proportionate share of the net pension obligation as a liability on their financial statements along with related deferred outflows of resources, deferred inflows of resources, and pension expense. This statement also requires additional note disclosures and schedules in the required supplementary information.

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

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

GASB Statements 68 and 71 require the County to report its proportionate share of the PERA total employers' unfunded pension liability. As a result, beginning net position has been restated to record the County's net pension liability and related deferred outflows of resources, as disclosed in Note 1.E.3.

2. Prior Period Adjustments

Restatement of Special Assessments Receivable and Net Position

The January 1, 2015, governmental activities special assessments receivable and net position decreased by \$1,236,627 to correct a prior year overstatement of receivables. The effect of the restatement on net position is disclosed in Note 1.E.3.

Restatement of Liabilities and Net Position

The January 1, 2015, Resource Recovery Enterprise Fund and business-type activities liabilities decreased by \$228,438 and the fund balance and net position increased by \$228,438 to correct a prior year overstatement of liabilities. The effect on net position is the same for the business-type activities and the Resource Recovery Enterprise Fund, and is disclosed in Note 1.E.3.

**POLK COUNTY  
CROOKSTON, MINNESOTA**

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1. Summary of Significant Accounting Policies

E. Restatement of Fund Balance and Net Position

2. Prior Period Adjustments (Continued)

The January 1, 2015, Landfill Enterprise Fund and Business-Type Activities investments and net position decreased by \$247,958 to correct a prior year overstatement of investments. The effect on net position is the same for the business-type activities and the Landfill Enterprise Fund, and is disclosed in Note.1.E.3.

3. Restatement of Net Position

Restatements of net position are as follows:

	Governmental Activities	Business-Type Activities
Net Position, January 1, 2015, as previously reported	\$ 156,389,652	\$ 4,589,086
Change in accounting principles		
Net pension liability	(11,964,338)	(1,150,427)
Deferred outflows of resources	555,327	47,849
Correction of an error		
Adjust for special assessment receivables	(1,236,627)	-
Adjust for investments	-	(247,958)
Adjust for payables	-	228,438
Net Position, January 1, 2015, as restated	\$ 143,744,014	\$ 3,466,988

2. Stewardship, Compliance, and Accountability

A. Individual Fund Deficits of Equity Account

Ditch Fund Deficits

Of 181 drainage systems (Special Revenue and Debt Service), 25 have incurred expenditures in excess of revenues and available resources. These deficits will be eliminated with future special assessment levies against benefited properties. The following summary shows the fund balances of the County Ditch Special Revenue Fund and the Ditch Debt Service Fund as of December 31, 2015.



**POLK COUNTY  
CROOKSTON, MINNESOTA**

2. Stewardship, Compliance, and Accountability

A. Individual Fund Deficits of Equity Account

Ditch Fund Deficits (Continued)

	Ditch Special Revenue	Ditch Debt Service
Account balances	\$ 1,445,345	\$ 1,609,170
Account deficits	(366,907)	(7,855)
Fund Balance	\$ 1,078,438	\$ 1,601,315

B. Excess of Expenditures Over Budget

	Expenditures	Final Budget	Excess
Public Health Special Revenue Fund	\$ 2,681,135	\$ 2,574,923	\$ 106,212

3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments

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

Primary government	
Cash and pooled investments	\$ 30,042,440
Investments	1,636,409
Restricted assets	
Cash and pooled investments	1,582,865
Fiduciary assets	
Cash and pooled investments	
Investment Trust Fund	1,665,768
Agency Funds	1,426,573
Total Cash and Investments	\$ 36,354,055

**POLK COUNTY  
CROOKSTON, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

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 for Deposits

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

b. Investments

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

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

**POLK COUNTY  
CROOKSTON, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments

b. Investments (Continued)

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

The County does not have additional policies for the investment risks described below beyond complying with the requirements of Minnesota statutes.

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. At December 31, 2015, the County had three Minnesota Association of Governments Investing for Counties (MAGIC) Cash Management Funds with a total fair value of \$18,117,709 and a maturity of less than one year.

**POLK COUNTY  
CROOKSTON, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments

b. Investments (Continued)

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The County invests 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, 2015, none of the County's investments were exposed to custodial credit risk.

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the County's investment in a single issuer, excluding U.S. guaranteed investments, external investment pools, and mutual funds. At December 31, 2015, the County's investments were in an external investment pool and, therefore, not subject to concentration of credit risk.

**POLK COUNTY  
CROOKSTON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources (Continued)

2. Receivables

Receivables as of December 31, 2015, for the County's governmental activities and business-type activities are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	\$ 551,746	\$ -
Special assessments	4,200,136	3,330,437
Accounts	328,521	-
Interest	19,113	-
Due from other governments	3,877,957	-
Total Governmental Activities	\$ 8,977,473	\$ 3,330,437
Business-Type Activities		
Accounts	\$ 144,304	\$ -
Interest	7,474	-
Due from other governments	213,514	-
Total Business-Type Activities	\$ 365,292	\$ -

3. Prepaid Items

The County has \$528,846 reported as prepaid items for insurance premiums for 2016 paid on December 30, 2015.

**POLK COUNTY  
CROOKSTON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources (Continued)

4. Capital Assets

Capital asset activity for the governmental and business-type activities for the year ended December 31, 2015, was as follows:

Governmental Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 9,084,840	\$ 132,883	\$ -	\$ 9,217,723
Construction in progress	3,730,868	484,599	3,127,413	1,088,054
Total capital assets not depreciated	\$ 12,815,708	\$ 617,482	\$ 3,127,413	\$ 10,305,777
Capital assets depreciated				
Land improvements	\$ 2,113,388	\$ 13,978	\$ -	\$ 2,127,366
Buildings and improvements	40,810,400	3,340,514	365,090	43,785,824
Machinery, furniture, and equipment	13,366,750	870,807	575,386	13,662,171
Infrastructure	148,069,766	-	-	148,069,766
Total capital assets depreciated	\$ 204,360,304	\$ 4,225,299	\$ 940,476	\$ 207,645,127
Less: accumulated depreciation for				
Land improvements	\$ 736,516	\$ 143,431	\$ -	\$ 879,947
Buildings and improvements	13,010,646	1,038,613	365,090	13,684,169
Machinery, furniture, and equipment	8,637,335	1,232,213	575,386	9,294,162
Infrastructure	48,149,596	2,974,002	-	51,123,598
Total accumulated depreciation	\$ 70,534,093	\$ 5,388,259	\$ 940,476	\$ 74,981,876
Total capital assets depreciated, net	\$ 133,826,211	\$ (1,162,960)	\$ -	\$ 132,663,251
Governmental Activities Capital Assets, Net	\$ 146,641,919	\$ (545,478)	\$ 3,127,413	\$ 142,969,028

**POLK COUNTY  
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3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

4. Capital Assets (Continued)

Business-Type Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 11,085	\$ -	\$ -	\$ 11,085
Capital assets depreciated				
Buildings and improvements	\$ 4,381,424	\$ -	\$ -	\$ 4,381,424
Landfill	4,477,124	46,795	-	4,523,919
Machinery, furniture, and equipment	12,084,197	840,582	-	12,924,779
Improvements other than buildings	318,274	-	-	318,274
Total capital assets depreciated	\$ 21,261,019	\$ 887,377	\$ -	\$ 22,148,396
Less: accumulated depreciation for				
Buildings and improvements	\$ 2,524,241	\$ 112,630	\$ -	\$ 2,636,871
Landfill	3,887,908	130,247	-	4,018,155
Machinery, furniture, and equipment	8,942,861	529,946	-	9,472,807
Improvements other than buildings	205,130	11,069	-	216,199
Total accumulated depreciation	\$ 15,560,140	\$ 783,892	\$ -	\$ 16,344,032
Total capital assets depreciated, net	\$ 5,700,879	\$ 103,485	\$ -	\$ 5,804,364
Business-Type Activities Capital Assets, Net	\$ 5,711,964	\$ 103,485	\$ -	\$ 5,815,449

**POLK COUNTY  
CROOKSTON, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

4. Capital Assets (Continued)

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

Governmental Activities	
General government	\$ 595,737
Public safety	1,099,291
Highways and streets, including depreciation of infrastructure assets	3,464,708
Health	4,842
Culture and recreation	98,528
Human Services	30,561
Environmental Services	85,339
Solid Waste	9,253
	<hr/>
Total Depreciation Expense - Governmental Activities	\$ 5,388,259
	<hr/>
Business-Type Activities	
Resource Recovery	\$ 558,680
Landfill	225,212
	<hr/>
Total Depreciation Expense - Business-Type Activities	\$ 783,892
	<hr/>

5. Deferred Outflows of Resources

Deferred outflows of resources - deferred pension outflows arise only under the full accrual basis of accounting and consist of pension plan contributions paid subsequent to the measurement date, pension plan changes in proportionate share, and also the differences between projected and actual earnings on pension plan investments and, accordingly, are reported only in the statement of net position. Deferred pension outflows for the year ended December 31, 2015, were \$2,426,076.



**POLK COUNTY  
CROOKSTON, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables and Payables

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

1. Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
General Fund	Road and Bridge Special Revenue Fund	\$ 3,050
	Social Services Special Revenue Fund	24,487
	Environmental Services Special Revenue Fund	623
	Total due to General Fund	\$ 28,160
Road and Bridge Special Revenue Fund	General Fund	\$ 4,773
	Public Safety Special Revenue Fund	8,391
	Ditch Special Revenue Fund	145
	Environmental Services Special Revenue Fund	1,222
	Landfill Enterprise Fund	852
Total due to Road and Bridge Special Revenue Fund	\$ 15,383	
Environmental Services Special Revenue Fund	General Fund	\$ 1,473
	Road and Bridge Special Revenue Fund	2
	Resource Recovery Enterprise Fund	50,875
	Landfill Enterprise Fund	19,059
Total due to Environmental Services Special Revenue Fund	\$ 71,409	
Resource Recovery Enterprise Fund	Public Safety Special Revenue Fund	\$ 62
	Environmental Service Special Revenue Fund	266,496
Total due to Resource Recovery Enterprise Fund	\$ 266,558	
Landfill Enterprise Fund	General Fund	\$ 39,656
	Environmental Services Special Revenue Fund	24,019
	Resource Recovery Enterprise Fund	53,611
Total due to Landfill Enterprise Fund	\$ 117,286	
Total Due To/From Other Funds	\$ 498,796	

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

**POLK COUNTY  
CROOKSTON, MINNESOTA**

3. Detailed Notes on All Funds

B. Interfund Receivables and Payables (Continued)

2. Advances From/To Other Funds

Receivable Fund	Payable Fund	Amount
General Fund	Ditch Debt Service Fund	\$ 7,855
	Ditch Special Revenue Fund	366,680
Total General Fund		\$ 374,535
Landfill Enterprise Fund	Resource Recovery Enterprise Fund	175,402
Total Advances From/To Other Funds		\$ 549,937

The Ditch Debt Service Fund advance and the Ditch Special Revenue Fund advance are to provide working capital to ditch systems with low reserves and operating costs in excess of revenues.

In 2015, the Resource Recovery Fund bought new recycling equipment. They had a lack of funds so the Landfill Enterprise Fund paid for a portion of it until the CAP grant legislation is passed and distributed to the County.

C. Liabilities and Deferred Inflows of Resources

1. Payables

Payables at December 31, 2015, were as follows:

	Governmental Activities	Business-Type Activities
Accounts	\$ 1,088,843	\$ 154,725
Salaries	391,034	21,546
Contracts	474,251	-
Due to other governments	283,608	638
Interest	231,829	-
Total Payables	\$ 2,469,565	\$ 176,909

**POLK COUNTY  
CROOKSTON, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources (Continued)

2. Long-Term Debt

Governmental Activities

Bond payments are made from the General Fund and three debt service funds.  
Information on individual bonds payable was as follows:

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Interest Rates (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2015</u>
General obligation bonds					
2015A G.O. Refunding Bonds	2020	\$120,000 - \$1,165,000	3.00	\$ 2,855,000	\$ 2,855,000
2015B G.O. Watershed Bonds	2036	\$110,000 - \$300,000	1.00 - 3.40	1,495,000	1,495,000
2015C G.O. Capital Improvement Plan	2026	\$315,000 - 360,000	2.00	2,985,000	2,985,000
2014 G.O. Jail Refunding Bonds	2026	\$990,000 - \$1,165,000	2.00 - 2.25	9,675,000	9,675,000
2013 G.O. State Aid Highway Bonds	2018	\$1,215,000	1.0017	6,075,000	3,645,000
2012 G.O. Watershed District Bonds	2033	\$135,000 - \$140,000	2.5303	2,710,000	2,430,000
2012B G.O. Refunding Bonds	2025	\$140,000 - \$160,000	1.7573	1,805,000	1,495,000
2012C G.O. Refunding Bonds	2018	\$105,000 - \$280,000	0.07687	1,035,000	480,000
2009 G.O. Drainage Bonds	2030	\$45,000 - \$50,000	3.98	925,000	690,000
2009B G.O. Lake Improvement District Bonds	2020	\$40,000	1.25 - 3.40	400,000	200,000
2008A Refunding Bonds	2020	\$30,000 - \$60,000	3.4 - 3.9	595,000	190,000

**POLK COUNTY  
CROOKSTON, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources

2. Long-Term Debt

Governmental Activities (Continued)

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rates (%)	Original Issue Amount	Outstanding Balance December 31, 2015
2006 G.O. Watershed District Bonds	2027	\$40,000 - \$45,000	3.6 - 4.3	865,000	505,000
Total general obligation bonds				<u>\$ 31,420,000</u>	\$ 26,645,000
Add: unamortized premium					<u>392,176</u>
Total General Obligation Bonds, Net					<u>\$ 27,037,176</u>

3. Debt Service Requirements

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

Governmental Activities

Year Ending December 31	General Obligation Bonds	
	Principal	Interest
2016	\$ 3,135,000	\$ 558,850
2017	3,355,000	494,130
2018	3,385,000	420,263
2019	1,920,000	364,630
2020	1,935,000	323,105
2021 - 2025	9,105,000	1,040,292
2026 - 2030	2,840,000	280,113
2031 - 2035	865,000	76,203
2036	105,000	1,785
Total	<u>\$ 26,645,000</u>	<u>\$ 3,559,371</u>

**POLK COUNTY  
CROOKSTON, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources (Continued)

4. Changes in Long-Term Liabilities

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

Governmental Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
General obligation bonds	\$ 34,970,000	\$ 7,335,000	\$ 15,660,000	\$ 26,645,000	\$ 3,135,000
Add: unamortized premium	293,959	176,112	77,895	392,176	-
Total bonds payable	\$ 35,263,959	\$ 7,511,112	\$ 15,737,895	\$ 27,037,176	\$ 3,135,000
Compensated absences	1,322,951	1,509,169	1,599,708	1,232,412	464,213
Governmental Activities Long-Term Liabilities	<u>\$ 36,586,910</u>	<u>\$ 9,020,281</u>	<u>\$ 17,337,603</u>	<u>\$ 28,269,588</u>	<u>\$ 3,599,213</u>

Business-Type Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Estimated liability for landfill closure/postclosure care costs	\$ 3,713,339	\$ -	\$ 1,110,887	\$ 2,602,452	\$ -
Compensated absences	147,339	110,631	-	257,970	69,955
Business-Type Activities Long-Term Liabilities	<u>\$ 3,860,678</u>	<u>\$ 110,631</u>	<u>\$ 1,110,887</u>	<u>\$ 2,860,422</u>	<u>\$ 69,955</u>

For the governmental activities, compensated absences are liquidated by the General Fund, the Road and Bridge Special Revenue Fund, the Social Services Special Revenue Fund, the Public Safety Special Revenue Fund, the Environmental Services Special Revenue Fund and the Public Health Special Revenue Fund. For the business-type activities, compensated absences are liquidated by the Resource Recovery Enterprise Fund and the Landfill Enterprise Fund.

**POLK COUNTY  
CROOKSTON, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources (Continued)

5. Refunding Debt

On April 28, 2015, the County Board Authorized issuance of \$2,855,000 General Obligation Refunding Bonds, Series 2015A. The Refunding Bonds financed the cost of refunding the 2016 and 2017 maturities of the County's \$17,500,000 obligation Jail Bonds, Series 2005, dated October 1, 2005, which were outstanding in the amount of \$1,725,000; the cost of refunding the 2016 through 2020 maturities of the County's \$1,950,000 General Obligation Watershed District Refunding Bonds, Series 2006, dated January 1, 2006, which were outstanding in the amount of \$685,000; and the cost of refunding the 2016 through 2018 maturities of the County's \$1,645,000 General Obligation Watershed and Road Improvement Bonds, Series 2007, dated September 12, 2007, which were outstanding in the amount of \$490,000.

As a result of the refunding, the County reduced its total debt service requirements by \$86,467, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt service) of \$84,807.

6. Deferred Inflows of Resources

Deferred inflows of resources - unavailable revenue consists of taxes, special assessments, state and/or federal grants and state highway users tax allotments, and other receivables not collected soon enough after year-end to pay liabilities of the current period.

	<u>Taxes</u>	<u>Special Assessments</u>	<u>Grants and Allotments</u>	<u>Other</u>	<u>Total</u>
Major governmental funds					
General	\$ 284,238	\$ -	\$ -	\$ -	\$ 284,238
Road and Bridge	54,269	-	709,657	190,129	954,055
Social Services	109,336	-	441,008	-	550,344
Ditch Debt Service	-	3,817,588	-	-	3,817,588
Nonmajor governmental funds					
Agassiz Regional Library	4,500	-	-	-	4,500
Ditch Special Revenue	19,247	142,999	-	-	162,246
Environmental Services	209,107	-	-	-	209,107
Public Health	-	-	13,063	21,604	34,667
Union Lake/Lake Sarah Debt Service	1,962	-	-	-	1,962
Total Unavailable Revenue	<u>\$ 682,659</u>	<u>\$ 3,960,587</u>	<u>\$ 1,163,728</u>	<u>\$ 211,733</u>	<u>\$ 6,018,707</u>

**POLK COUNTY  
CROOKSTON, MINNESOTA**

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4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

1. Plan Description

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

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

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

2. Benefits Provided

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

**POLK COUNTY  
CROOKSTON, MINNESOTA**

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4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

2. Benefits Provided (Continued)

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

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

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



**POLK COUNTY  
CROOKSTON, MINNESOTA**

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4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans (Continued)

3. Contributions

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

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

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

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

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

General Employees Retirement Fund	\$1,029,642
Public Employees Police and Fire Fund	305,142

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

**POLK COUNTY  
CROOKSTON, MINNESOTA**

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4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans (Continued)

4. Pension Costs

General Employees Retirement Fund

At December 31, 2015, the County reported a liability of \$11,722,858 for its proportionate share of the General Employees Retirement Fund's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the County's proportion was 0.2262 percent. It was 0.2401 percent measured as of June 30, 2014. The County recognized pension expense of \$1,395,854 for its proportionate share of the General Employees Retirement Fund's pension expense.

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ -	\$ 591,031
Difference between projected and actual investment earnings	1,109,749	-
Changes in proportion	-	489,714
Contributions paid to PERA subsequent to the measurement date	<u>518,059</u>	<u>-</u>
Total	<u>\$ 1,627,808</u>	<u>\$ 1,080,745</u>

**POLK COUNTY  
CROOKSTON, MINNESOTA**

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4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

4. Pension Costs

General Employees Retirement Fund (Continued)

The \$518,059 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended December 31</u>	<u>Pension Expense Amount</u>
2016	\$ (82,812)
2017	(82,812)
2018	(82,812)
2019	277,437

Public Employees Police and Fire Fund

At December 31, 2015, the County reported a liability of \$2,249,743 for its proportionate share of the Public Employees Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the County's proportion was 0.1980 percent. It was 0.1700 percent measured as of June 30, 2014. The County recognized pension expense of \$437,268 for its proportionate share of the Public Employees Police and Fire Fund's pension expense.

The County also recognized \$17,820 as revenue, which results in a reduction of the net pension liability, for its proportionate share of the State of Minnesota's on-behalf contribution to the Public Employees Police and Fire Fund. Legislation

**POLK COUNTY  
CROOKSTON, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

4. Pension Costs

Public Employees Police and Fire Fund (Continued)

requires the State of Minnesota to contribute \$9 million to the Public Employees Police and Fire Fund each year, starting in fiscal year 2014, until the plan is 90 percent funded.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 364,835
Difference between projected and actual investment earnings	391,981	-
Changes in proportion	252,010	-
Contributions paid to PERA subsequent to the measurement date	154,277	-
Total	\$ 798,268	\$ 364,835

The \$154,277 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	Pension Expense Amount
2016	\$ 75,430
2017	75,430
2018	75,430
2019	75,430
2020	(22,565)

**POLK COUNTY  
CROOKSTON, MINNESOTA**

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4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

4. Pension Costs (Continued)

Total Pension Expense

The total pension expense for all plans recognized by the County for the year ended December 31, 2015, was \$1,833,122.

5. Actuarial Assumptions

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

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

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

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

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

**POLK COUNTY  
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4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

5. Actuarial Assumptions (Continued)

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

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

6. Discount Rate

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

**POLK COUNTY  
CROOKSTON, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans (Continued)

7. Pension Liability Sensitivity

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

	1% Decrease in Discount Rate (6.9%)	Discount Rate (7.9%)	1% Increase in Discount Rate (8.9%)
Proportionate share of the General Employees Retirement Fund net pension liability	\$ 18,432,500	\$ 11,722,858	\$ 6,181,725
Public Employees Police and Fire Fund net pension liability	4,384,773	2,249,743	485,837

8. Pension Plan Fiduciary Net Position

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

B. Defined Contribution Plan

All Commissioners of Polk 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

**POLK COUNTY  
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4. Pension Plans and Other Postemployment Benefits

B. Defined Contribution Plan (Continued)

and employer contribution rates. An eligible elected official who decides to participate contributes 5.00 percent of salary, which is matched by the employer. Employee and employer contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2.00 percent of employer contributions and 0.25 percent of the assets in each member account annually.

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

	Employee	Employer
Contribution amount	\$ 8,131	\$ 8,131
Percentage of covered payroll	5%	5%

C. Other Postemployment Benefits (OPEB)

Plan Description

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

Funding Policy

The contribution requirements of the plan members and the County are established and may be amended by the Polk County Board of Commissioners. The required contribution is based on projected pay-as-you-go financing requirements. Retirees and their spouses contribute to the health care plan at the same rate as County employees.

This results in the retirees receiving an implicit rate subsidy. For 2014, there were approximately 308 participants in the plan, including 7 retirees and surviving spouses.

For the governmental activities, contributions for the implicit rate subsidy are made by the General Fund, the Road and Bridge Special Revenue Fund, the Social Services Special Revenue Fund, and the Public Safety Special Revenue Fund. For the business-type activities, there were no contributions made for the implicit rate subsidy in 2015.



**POLK COUNTY  
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4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB) (Continued)

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	\$	205,104
Interest on net OPEB obligation		18,506
Adjustment to ARC		<u>(26,236)</u>
Annual OPEB cost (expense)	\$	197,374
Contributions made during the year		<u>(106,825)</u>
Increase in net OPEB obligation	\$	90,549
Net OPEB Obligation - Beginning of Year		<u>462,652</u>
Net OPEB Obligation - End of Year	\$	<u><u>553,201</u></u>

Of the \$553,201, \$520,668 is reported as governmental activities and \$32,533 is reported as business-type activities.

The County's annual OPEB cost; the percentage of annual OPEB cost contributed to the plan; and the net OPEB obligation for the years ended December 31, 2013, 2014, and 2015, were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Annual Employer Contribution</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
December 31, 2013	\$ 129,739	\$ 73,569	56.7%	\$ 351,512
December 31, 2014	198,298	87,158	44.0%	462,652
December 31, 2015	197,374	106,825	54.1%	553,201

**POLK COUNTY  
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4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB) (Continued)

Funded Status and Funding Progress

As of January 1, 2014, the most recent actuarial valuation date, the plan was zero percent funded. The actuarial liability for benefits was \$1,702,154, and the actuarial value of assets was zero, resulting in an unfunded actuarial liability (UAAL) of \$1,702,154. The covered payroll (annual payroll of active employees covered by the plan) was \$14,124,242, and the ratio of the UAAL to the covered payroll was 12.1 percent.

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

Actuarial Methods and Assumptions

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

In the January 1, 2014, actuarial valuation, the Projected Unit Credit Actuarial Cost Method was used. The actuarial assumptions include a 4.0 percent investment rate of return (net of investment expenses), which is Polk County's implicit rate of return on the General Fund. The annual healthcare cost trend is 7.5 percent initially reduced to an ultimate rate of 5.0 percent over 10 years. The UAAL is being amortized over 30 years on a closed basis. The remaining amortization period at December 31, 2015, was 22 years.

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5. Landfill Closure and Postclosure Care Costs

State and federal laws and regulations require the County to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the Board reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date.

The County is reporting a negative expense of \$1,110,887 in 2015 because of a change in the method of estimation. The \$2,602,452 landfill closure, postclosure care and contingency costs payable at December 31, 2015, represent the cumulative amount reported to date based on the use of 84.36 percent of the estimated capacity of the landfill. The County will recognize the remaining estimated cost of closure care, postclosure care, and contingency costs of \$589,256 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2015. Based on current capacity, the landfill expects to stop accepting municipal solid waste in 2037 and ash in 2224. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

The County is required by state and federal laws and regulations to make annual contributions to a trust to finance closure and postclosure care. The Board is in compliance with these requirements. At December 31, 2015, investments of \$1,582,865 are held for these purposes. Accumulated annual contributions and any payments of landfill postclosure care costs are reported in the Landfill Enterprise Fund. These are reported as restricted assets on the statement of net position. Polk County expects that future inflation costs will be paid from investment earnings on these annual contributions. However, if investment earnings are inadequate or additional postclosure care requirements are determined (due to changes in technology or applicable laws and regulations, for example), these costs may need to be covered by charges to future landfill users or from future tax revenue.

6. 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. 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.

**POLK COUNTY  
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6. 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 \$490,000 per claim in 2015 and \$500,000 per claim in 2016. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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.

7. Conduit Debt

In 2002, the Villa St. Vincent, a Minnesota non-profit corporation, issued Nursing Home and Multi-Family Housing Revenue Bonds, Series 2002A, in an amount not to exceed \$4,990,000, and its Taxable Nursing Home and Multi-Family Housing Revenue Bonds, Series 2002B, in an amount not to exceed \$110,000, pursuant to the Finance Act to finance the renovations, equipping, and construction of an addition to the existing nursing care facility. The project is deemed to be in the public interest. The note is secured by the property financed through a series of loan agreements and is payable solely from revenues of the entity. The County, state, or any political subdivision thereof is not obligated in any manner for repayment of the note. Accordingly, the note is not reported as a liability in the accompanying financial statements. As of December 31, 2015, the outstanding principal amount payable was \$3,290,000.

8. 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.

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8. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities (Continued)

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

B. Joint Ventures

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

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

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

The HSEM Region 3 Emergency Managers Joint Powers Board has no long-term debt. Financing will be provided by a Homeland Security Grant Program and other grant programs and awards. Member counties do not receive a financial benefit or burden as a result of membership. In 2015, Polk County did not make a contribution to the Board.

Complete financial information can be obtained from:

Clay County Sheriff's Office  
915 - 9th Avenue North  
Moorhead, Minnesota 56560

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8. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

Marshall and Polk Rural Water System

The Marshall and Polk Rural Water System was organized as a municipal water system under Minn. Stat. ch. 116A in 1976, and covers a portion of Marshall and Polk Counties. The system is responsible for storing, treating and distributing water for participating rural water users and cities within the water district.

General obligation debt issued by Marshall and Polk Counties to be retired from special assessments is reported both by Marshall and Polk Counties and in the financial statements of the joint ventures. Long-term debt of the Water System at December 31, 2015, is \$1,855,000, of which Polk County's share is \$1,335,000. Polk County contributed \$146,960 in 2015.

The Marshall and Polk Rural Water System is governed by a seven-member Board, four of whom are appointed by Polk County. The County has no responsibility beyond appointing the Board members and guaranteeing the debt of the Water System.

Complete financial information can be obtained from:

Marshall and Polk Rural Water System  
401 North Main Street  
Warren, Minnesota 56762

Northwest Minnesota Household Hazardous Waste Management Group

The Northwest Minnesota Household Hazardous Waste Management Group was formed in 1992 under the authority of the Joint Powers Act, pursuant to Minnesota Statutes, § 471.59, and includes Beltrami, Clearwater, Kittson, Lake of the Woods, Marshall, Pennington, Polk, Red Lake, and Roseau Counties. The purpose of the Waste Management Group is to cooperatively manage, handle, and transport household hazardous waste, provide public education on safe waste management, and provide for the disposition of non-recyclable household hazardous waste materials.

Control of the Waste Management Group is vested in the Northwest Minnesota Household Hazardous Waste Management Group Joint Powers Board, which is composed of one county commissioner from each of the member counties as provided in the Waste Management Group's bylaws.

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8. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Northwest Minnesota Household Hazardous Waste Management Group (Continued)

Responsibility for budgeted expenditures is shared with the first 50 percent divided equally among the member counties, and the remaining 50 percent divided on a population-ration basis. Polk County contributed \$13,213 in 2015.

In the event of dissolution, the net assets shall 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 so that no additional financial benefit or burden is realized by the members. Clearwater County, in an agent capacity, reports the cash transactions as an agency fund on its financial statements.

Complete financial information can be obtained from:

Waste Management Group  
P. O. Box 186  
Bagley, Minnesota 56621

Northwest Minnesota Regional Radio Board

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

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

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

**POLK COUNTY  
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8. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Northwest Minnesota Regional Radio Board (Continued)

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

The Northwest Minnesota Regional Radio Board has no long-term debt. Financing is provided by appropriations from member parties and by state and federal grants. Members do not experience an additional financial benefit or burden. Polk County did not make a contribution to the Northwest Minnesota Regional Radio Board in 2015.

Complete financial information can be obtained from:

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

Northwest Minnesota Six County Joint Powers Board

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

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



**POLK COUNTY  
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8. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Northwest Minnesota Six County Joint Powers Board (Continued)

Financing is provided by grants from the State of Minnesota or contributions and no member realizes an additional financial benefit or burden. In 2015, Polk County did not make a contribution to the Board.

Complete financial information can be obtained from:

Red Lake Watershed District  
P. O. Box 803  
Thief River Falls, Minnesota 56701

Northwest Service Cooperative

The Northwest Service Cooperative (NWSC) was established in February 1977, pursuant to Minn. Stat. §§ 471.59 and 123.582 (now Minn. Stat. § 123A.21). The NWSC is located in State Development Regions One and Two, which includes 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 provided 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 member counties do not experience an additional financial benefit or burden. Polk County contributed \$1,500 in 2015.

Complete financial information can be obtained from:

Northwest Service Cooperative  
114 First Street West  
Thief River Falls, Minnesota 56701

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8. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

Northwestern Counties Data Processing Security Association

The Northwestern Counties Data Processing Security Association (NCDPSA) was formed in 1994 under the authority of the Joint Powers Act, pursuant to Minn. Stat. § 471.59, and includes Becker, Beltrami, Clay, Clearwater, Hubbard, Kittson, Lake of the Woods, Mahnomens, Marshall, Pennington, Polk, Roseau, and Wadena Counties.

The purpose of the NCDPSA is to provide a mechanism whereby the counties may cooperatively provide for a data processing disaster recovery plan and backup system.

Control of the NCDPSA is vested in the NCDPSA Joint Powers Board, which is composed of one County Commissioner from each member county. In the event of dissolution, the net position of the NCDPSA at that time shall be distributed to the respective member counties in proportion to their contributions. In 2015, Polk County did not make a contribution to the Association.

The NCDPSA has no long-term debt. Financing is provided by grants from the State of Minnesota and appropriations from member counties. Polk County did not contribute to the Association for the year ended December 31, 2015. Lake of the Woods 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:

Lake of the Woods County Auditor/Treasurer's Office  
206 - 8th Avenue S.E., Suite 260  
Baudette, Minnesota 56623

Polk County Collaborative

The Polk County Collaborative was formed in 2001 and operates under the authority of Minnesota Statute, §124D.23, subdivision 1(a), and includes Polk County, Tri-County Community Corrections, and other community representation, including school districts and local service providers. The purpose of the Collaborative is to build communities in Polk County where children thrive by coordinating the integrated, seamless, effective, and efficient delivery of a range of social and human services to children and families.

**POLK COUNTY  
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8. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Polk County Collaborative (Continued)

Control of the Polk County Collaborative is vested in the Collaborative governing board, which is comprised of elected officials representing mental health, community action, Polk County, corrections, and a small school district and a larger school district.

Financing is provided by state and local grants and appropriations from the participating agencies. Adequate rates are charged so that members do not experience an additional benefit or burden. Polk County acts as fiscal agent for the Polk County Collaborative and reports the cash transactions of the Collaborative as an agency fund in its financial statements. During 2015, Polk County did not make a contribution to the Collaborative.

Complete financial information can be obtained from:

Polk County Social Services  
612 North Broadway  
Crookston, Minnesota 56716

Tri-County Community Corrections

Tri-County Community Corrections was formed in 1975 under the authority of the Joint Powers Acts, pursuant to Minnesota Statute, § 471.59, and includes Norman, Polk and Red Lake Counties. The purpose of Tri-County Community Corrections is to house, supervise, treat, counsel, and provide other correctional services to prisoners throughout the territorial area of the member counties.

Control of Tri-County Community Corrections is vested in the Tri-County community Joint Powers Board, which is composed of two County Commissioners from each member county, as provided in the Tri-County Community Corrections' bylaws.

In the event of dissolution of the Tri-County Community Corrections Joint Powers Board, the net assets of Tri-County Community Corrections at that time shall be divided among the member counties in the agreed-upon proportions of Norman County (9 percent), Polk County (87 percent), and Red Lake County (4 percent).

**POLK COUNTY  
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8. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Tri-County Community Corrections (Continued)

Tri-County Community Corrections has no long-term debt. Financing is provided by state, federal, and local grants; charges for services; appropriations from member counties; and adequate rates charged so that no member County receives an additional financial benefit or burden.

Receipts and disbursements are recorded in the Tri-County Community Corrections' operating fund by the Polk County Auditor-Treasurer. Polk County's participation for 2015 was \$6,209,787.

Separate financial information can be obtained from:

Tri-County Community Corrections  
600 Bruce Street  
Crookston, Minnesota 56716

C. Jointly-Governed Organizations

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

Job Training Partnership Act Joint Powers Agreement

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

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

**POLK COUNTY  
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8. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations

Job Training Partnership Act Joint Powers Agreement (Continued)

Separate financial information can be obtained from:

Northwest Regional Development Commission  
Warren, Minnesota 56762

Lake Agassiz Regional Library

The Lake Agassiz Regional Library was formed pursuant to Minn. Stat. §§ 134.20 and 471.59, effective January 1, 1961, and includes Becker, Clay, Clearwater, Mahnomen, Norman, Polk, and Wilkin Counties. Control of the Library is vested in the Agassiz Regional Library Board, with 23 members with staggered terms made up of the following: one member appointed by each Board of County Commissioners who may be a member of the Board of Commissioners; one member appointed by each participating city; and one additional member appointed by each county and city for each 6,000 of population or major percentage (85 percent) thereof. In 2015, Polk County provided \$246,050 in the form of an appropriation.

Middle River-Snake River-Tamarac Watershed District

The Middle River-Snake River-Tamarac Watershed District was formed pursuant to Minnesota Statute, § 103D.201, effective August 28, 1970, and included land within Kittson, Marshall, Pennington, Polk, and Roseau Counties. Control of the district is vested in the Middle River-Snake River-Tamarac Watershed District Board of managers, which is composed of seven members having staggered terms of three years each, with one appointed by the Polk County Board and six appointed by the Marshall County Board. Polk County's responsibility does not extend beyond making the appointments.

Minnesota Rural Counties Caucus

The Minnesota Rural Counties Caucus was established in 1997 and includes Aitkin, Beltrami, Clay, Clearwater, Cook, Douglas, Grant, Itasca, Kittson, Koochiching, Lake of the Woods, Mahnomen, Marshall, McLeod, Mille Lacs, Norman, Otter Tail, Pennington, Polk, Pope, Red Lake, Roseau, Stevens, Todd, Traverse, and Wadena

**POLK COUNTY  
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8. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations

Minnesota Rural Counties Caucus (Continued)

Counties. Control of the Caucus is vested in the Minnesota Rural Counties Caucus Executive Committee, which is composed of ten directors, each with an alternate, who are appointed annually by each respective County Board. Polk County's responsibility does not extend beyond making this appointment.

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

Northwest Minnesota Multi-County Housing and Redevelopment Authority

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

Northwest Workforce Service Area

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

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

**POLK COUNTY  
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8. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations

Northwest Workforce Service Area (Continued)

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

Complete financial information can be obtained from:

Northwest Regional Development Commission  
115 South Main  
Warren, Minnesota 56762

Red Lake River Corridor

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

The Red Lake River Corridor Joint Powers Board is composed of one member from each participating entity. Each participant may also have an alternate who, in the absence of the appointed member, may attend meetings and have all the duties and rights of the member. In the event of dissolution, the net assets shall be distributed to the respective members in proportion to the contribution of each. Financing is provided by contributions from members. The County did not contribute to the Board in 2015.

Complete financial information can be obtained from:

Pembina Trail RC&D  
2605 Wheat Drive  
Red Lake Falls, Minnesota 56750

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8. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations (Continued)

Wild Rice Watershed District

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

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

Complete financial information can be obtained from:

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

Minnesota Red River Basin of the North Joint Powers Agreement

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

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

In the event of termination of the agreement, any unexpended funds and surplus property shall be disposed of equally among the member counties. During 2015, the County contributed \$784 to the Joint Powers Board.



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8. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations

Minnesota Red River Basin of the North Joint Powers Agreement (Continued)

Complete financial statements can be obtained from:

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

Polk-Norman-Mahnomen-Community Health Board

The Polk-Norman-Mahnomen Community Health Board was established in 2012 under the authority of Minn. Stat. ch. 145A and Minn. Stat. § 471.59. The Community Health Board includes the Polk County Board of Health and the Norman-Mahnomen Board of Health. The purpose of the Community Health Board is to engage in activities designed to protect and promote the health of the general population within a community health service area by emphasizing the prevention of disease, injury, disability, and preventable death through the promotion of effective coordination and use of community resources, and by extending health services into the community.

Control of the Community Health Board is vested in a seven-member board with Polk, Norman, and Mahnomen Counties each appointing one member and the Polk County Board of Health and the Norman-Mahnomen Board of Health each appointing two members.

In the event of withdrawal from the Community Health Board, the withdrawing party shall give one-year notice. Should the Community Health Board cease to exist, all property, real and personal, held by the Community Health Board at the time of termination shall be distributed to each joint participant in proportion to its relative financial contributions.

Financing is provided by state and federal grants. Polk County is the fiscal agent for the Community Health Board. During 2015, Polk County did not contribute to the Community Health Board.

**POLK COUNTY  
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8. Summary of Significant Contingencies and Other Items (Continued)

D. Related Organizations

Sand Hill River Watershed District

The Sand Hill River Watershed District was formed pursuant to Minn. Stat. § 103D.201, effective August 29, 1974, and includes land within Mahnomon, Norman, and Polk Counties. The purpose of the District is to conserve the natural resources of the state by land-use planning, flood control, the use of sound scientific principles for the protection of the public health and welfare, and the provident uses of natural resources. Control of the District is vested in the Sand Hill River Watershed District Board of Managers that is composed of five members appointed by the Polk County board for staggered terms of three years each. Polk County's responsibility does not extend beyond making the appointments.

Red Lake Watershed District

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

**REQUIRED SUPPLEMENTARY INFORMATION**

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**POLK COUNTY  
CROOKSTON, MINNESOTA**

*EXHIBIT A-1*

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 5,792,691	\$ 5,792,691	\$ 5,533,775	\$ (258,916)
Licenses and permits	5,000	5,000	7,930	2,930
Intergovernmental	1,603,667	1,603,667	2,194,742	591,075
Charges for services	869,823	869,823	877,152	7,329
Fines and forfeits	3,000	3,000	10,985	7,985
Investment earnings	50,000	50,000	49,118	(882)
Miscellaneous	618,941	618,941	601,130	(17,811)
<b>Total Revenues</b>	<b>\$ 8,943,122</b>	<b>\$ 8,943,122</b>	<b>\$ 9,274,832</b>	<b>\$ 331,710</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>General government</b>				
Commissioners	\$ 284,010	\$ 284,010	\$ 254,066	\$ 29,944
Courts services	118,000	118,000	213,916	(95,916)
Law library	-	-	40,826	(40,826)
County administration	218,540	218,540	219,997	(1,457)
Taxpayer service center	800,659	800,659	787,448	13,211
Motor vehicle	107,618	107,618	107,633	(15)
County assessor	555,165	555,165	479,335	75,830
Elections	13,775	13,775	22,368	(8,593)
Finance	363,088	363,088	378,083	(14,995)
Accounting and auditing	41,480	41,480	44,296	(2,816)
Data processing	911,362	911,362	690,635	220,727
Central services	295,250	295,250	282,075	13,175
Personnel	234,787	234,787	246,834	(12,047)
Attorney	953,873	953,873	936,656	17,217
Recorder	144,980	144,980	142,473	2,507
Surveyor	209,837	209,837	342,158	(132,321)
Buildings and grounds	2,052,669	2,052,669	2,333,393	(280,724)
Veterans service officer	144,637	144,637	153,176	(8,539)
Insurance	-	-	26,775	(26,775)
Other general government	327,254	327,254	637,652	(310,398)
<b>Total general government</b>	<b>\$ 7,776,984</b>	<b>\$ 7,776,984</b>	<b>\$ 8,339,795</b>	<b>\$ (562,811)</b>

**POLK COUNTY  
CROOKSTON, MINNESOTA**

**EXHIBIT A-1  
(Continued)**

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Expenditures</b>				
<b>Current (Continued)</b>				
<b>Public safety</b>				
Ambulance	\$ 58,775	\$ 58,775	\$ 58,775	\$ -
Coroner	65,200	65,200	64,258	942
Victim assistance	122,952	122,952	123,394	(442)
<b>Total public safety</b>	<b>\$ 246,927</b>	<b>\$ 246,927</b>	<b>\$ 246,427</b>	<b>\$ 500</b>
<b>Health</b>				
Occupational Development Center	\$ 7,500	\$ 7,500	\$ 7,500	\$ -
Committee on Aging	2,400	2,400	2,400	-
<b>Total health</b>	<b>\$ 9,900</b>	<b>\$ 9,900</b>	<b>\$ 9,900</b>	<b>\$ -</b>
<b>Culture and recreation</b>				
Historical society	\$ 25,000	\$ 25,000	\$ 25,000	\$ -
County fairs	20,000	20,000	20,000	-
Heritage Center	10,000	10,000	10,000	-
Parks	75,297	75,297	173,068	(97,771)
Celebrations	680	680	680	-
Snowmobile and ski trails	6,340	6,340	84,520	(78,180)
<b>Total culture and recreation</b>	<b>\$ 137,317</b>	<b>\$ 137,317</b>	<b>\$ 313,268</b>	<b>\$ (175,951)</b>
<b>Conservation of natural resources</b>				
Agricultural inspection	\$ 18,573	\$ 18,573	\$ 4,080	\$ 14,493
Cooperative extension	161,820	161,820	165,787	(3,967)
Soil and water conservation	110,560	110,560	160,713	(50,153)
Forfeited tax sale	-	-	116,124	(116,124)
Other conservation of natural resources	2,200	2,200	2,200	-
<b>Total conservation of natural resources</b>	<b>\$ 293,153</b>	<b>\$ 293,153</b>	<b>\$ 448,904</b>	<b>\$ (155,751)</b>
<b>Economic development</b>				
Red River Valley Development Assn. Association	\$ 1,600	\$ 1,600	\$ 1,600	\$ -
Tri-Valley Opportunity Council	6,500	6,500	6,500	-
<b>Total economic development</b>	<b>\$ 8,100</b>	<b>\$ 8,100</b>	<b>\$ 8,100</b>	<b>\$ -</b>

**POLK COUNTY  
CROOKSTON, MINNESOTA**

**EXHIBIT A-1  
(Continued)**

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Expenditures (Continued)</b>				
<b>Debt service</b>				
Principal	\$ 800,000	\$ 800,000	\$ 12,200,000	\$ (11,400,000)
Interest	509,875	509,875	444,781	65,094
Bond issuance costs	3,000	3,000	67,795	(64,795)
	<u>3,000</u>	<u>3,000</u>	<u>67,795</u>	<u>(64,795)</u>
<b>Total debt service</b>	<b><u>\$ 1,312,875</u></b>	<b><u>\$ 1,312,875</u></b>	<b><u>\$ 12,712,576</u></b>	<b><u>\$ (11,399,701)</u></b>
<b>Total Expenditures</b>	<b><u>\$ 9,785,256</u></b>	<b><u>\$ 9,785,256</u></b>	<b><u>\$ 22,078,970</u></b>	<b><u>\$ (12,293,714)</u></b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b><u>\$ (842,134)</u></b>	<b><u>\$ (842,134)</u></b>	<b><u>\$ (12,804,138)</u></b>	<b><u>\$ (11,962,004)</u></b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	\$ 7,500	\$ 7,500	\$ -	\$ (7,500)
Transfers out	(7,500)	(7,500)	-	7,500
Bonds issued	-	-	4,690,000	4,690,000
Premium on bonds issued	-	-	129,734	129,734
	<u>-</u>	<u>-</u>	<u>129,734</u>	<u>129,734</u>
<b>Total Other Financing Sources (Uses)</b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 4,819,734</u></b>	<b><u>\$ 4,819,734</u></b>
<b>Net Change in Fund Balance</b>	<b><u>\$ (842,134)</u></b>	<b><u>\$ (842,134)</u></b>	<b><u>\$ (7,984,404)</u></b>	<b><u>\$ (7,142,270)</u></b>
<b>Fund Balance - January 1</b>	<b><u>23,394,470</u></b>	<b><u>23,394,470</u></b>	<b><u>23,394,470</u></b>	<b><u>-</u></b>
<b>Fund Balance - December 31</b>	<b><u>\$ 22,552,336</u></b>	<b><u>\$ 22,552,336</u></b>	<b><u>\$ 15,410,066</u></b>	<b><u>\$ (7,142,270)</u></b>

**POLK COUNTY  
CROOKSTON, MINNESOTA**

*EXHIBIT A-2*

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 2,700,000	\$ 2,700,000	\$ 2,721,328	\$ 21,328
Licenses and permits	40,000	40,000	36,010	(3,990)
Intergovernmental	10,947,000	10,947,000	11,151,853	204,853
Charges for services	250,000	250,000	343,906	93,906
Miscellaneous	80,000	80,000	176,740	96,740
<b>Total Revenues</b>	<b>\$ 14,017,000</b>	<b>\$ 14,017,000</b>	<b>\$ 14,429,837</b>	<b>\$ 412,837</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Highways and streets</b>				
Administration	\$ 302,300	\$ 302,300	\$ 492,971	\$ (190,671)
Maintenance	3,065,525	3,065,525	2,844,221	221,304
Construction	6,918,300	6,918,300	8,833,250	(1,914,950)
Equipment maintenance and shop	1,394,955	1,394,955	1,110,285	284,670
Other highways and streets	-	-	8,009	(8,009)
<b>Total highways and streets</b>	<b>\$ 11,681,080</b>	<b>\$ 11,681,080</b>	<b>\$ 13,288,736</b>	<b>\$ (1,607,656)</b>
<b>Intergovernmental</b>				
Highways and streets	<b>\$ 1,047,000</b>	<b>\$ 1,047,000</b>	<b>\$ 1,145,991</b>	<b>\$ (98,991)</b>
<b>Debt service</b>				
Principal retirement	\$ 1,215,000	\$ 1,215,000	\$ 1,215,000	\$ -
Interest	73,920	73,920	85,050	(11,130)
<b>Total debt service</b>	<b>\$ 1,288,920</b>	<b>\$ 1,288,920</b>	<b>\$ 1,300,050</b>	<b>\$ (11,130)</b>
<b>Total Expenditures</b>	<b>\$ 14,017,000</b>	<b>\$ 14,017,000</b>	<b>\$ 15,734,777</b>	<b>\$ (1,717,777)</b>
<b>Net Change in Fund Balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (1,304,940)</b>	<b>\$ (1,304,940)</b>
<b>Fund Balance - January 1</b>	<b>2,541,406</b>	<b>2,541,406</b>	<b>2,541,406</b>	<b>-</b>
<b>Increase (decrease) for inventories</b>	<b>-</b>	<b>-</b>	<b>(58,551)</b>	<b>(58,551)</b>
<b>Fund Balance - December 31</b>	<b>\$ 2,541,406</b>	<b>\$ 2,541,406</b>	<b>\$ 1,177,915</b>	<b>\$ (1,363,491)</b>



**POLK COUNTY  
CROOKSTON, MINNESOTA**

*EXHIBIT A-3*

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 4,346,349	\$ 4,346,349	\$ 4,202,756	\$ (143,593)
Intergovernmental	9,322,152	9,322,152	10,009,037	686,885
Charges for services	948,775	948,775	713,666	(235,109)
Gifts and contributions	18,000	18,000	18,850	850
Investment earnings	-	-	49	49
Miscellaneous	470,000	470,000	484,453	14,453
<b>Total Revenues</b>	<b>\$ 15,105,276</b>	<b>\$ 15,105,276</b>	<b>\$ 15,428,811</b>	<b>\$ 323,535</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Human services</b>				
Income maintenance	\$ 4,218,214	\$ 4,218,214	\$ 3,963,837	\$ 254,377
Social services	11,134,934	11,134,934	11,556,140	(421,206)
<b>Total Expenditures</b>	<b>\$ 15,353,148</b>	<b>\$ 15,353,148</b>	<b>\$ 15,519,977</b>	<b>\$ (166,829)</b>
<b>Net Change in Fund Balance</b>	<b>\$ (247,872)</b>	<b>\$ (247,872)</b>	<b>\$ (91,166)</b>	<b>\$ 156,706</b>
<b>Fund Balance - January 1</b>	<b>5,264,794</b>	<b>5,264,794</b>	<b>5,264,794</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 5,016,922</b>	<b>\$ 5,016,922</b>	<b>\$ 5,173,628</b>	<b>\$ 156,706</b>

**POLK COUNTY  
CROOKSTON, MINNESOTA**

*EXHIBIT A-4*

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 7,396,050	\$ 7,396,050	\$ 7,396,050	\$ -
Intergovernmental	184,000	184,000	370,130	186,130
Charges for services	50,000	50,000	266,019	216,019
Fines and forfeitures	-	-	1,027	1,027
Investment earnings	-	-	137	137
Miscellaneous	1,238,779	1,238,779	1,247,233	8,454
<b>Total Revenues</b>	<b>\$ 8,868,829</b>	<b>\$ 8,868,829</b>	<b>\$ 9,280,596</b>	<b>\$ 411,767</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Public safety</b>				
Sheriff	\$ 3,765,140	\$ 3,765,140	\$ 3,704,253	\$ 60,887
Narcotics task force	79,854	79,854	73,792	6,062
Safe schools	-	-	324	(324)
Body armor	-	-	568	(568)
Safe and sober	5,883	5,883	5,204	679
DWI assessments	-	-	235	(235)
Boat and water safety	24,160	24,160	24,383	(223)
Snowmobile safety	-	-	1,957	(1,957)
Emergency services	114,487	114,487	80,480	34,007
Municipal police contract	166,050	166,050	161,946	4,104
Enhanced 911 system	109,000	109,000	90,963	18,037
Community corrections	4,719,905	4,719,905	4,719,905	-
800 grant project	-	-	25,000	(25,000)
<b>Total Expenditures</b>	<b>\$ 8,984,479</b>	<b>\$ 8,984,479</b>	<b>\$ 8,889,010</b>	<b>\$ 95,469</b>
<b>Net Change in Fund Balance</b>	<b>\$ (115,650)</b>	<b>\$ (115,650)</b>	<b>\$ 391,586</b>	<b>\$ 507,236</b>
<b>Fund Balance - January 1</b>	<b>-</b>	<b>-</b>	<b>2,265,361</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ (115,650)</b>	<b>\$ (115,650)</b>	<b>\$ 2,656,947</b>	<b>\$ 507,236</b>

**POLK COUNTY  
CROOKSTON, MINNESOTA**

**EXHIBIT A-5**

**SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS  
FOR THE YEAR ENDED DECEMBER 31, 2015**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
January 1, 2010	\$ -	\$1,101,001	\$1,101,001	0.0	\$12,386,896	8.9%
January 1, 2012	-	\$1,184,754	\$1,184,754	0.0	\$12,155,673	9.7%
January 1, 2014	-	\$1,702,154	\$1,702,154	0.0	\$14,124,242	12.1%

See Note 4.C., Other Postemployment Benefits, for more information.

**POLK COUNTY  
CROOKSTON, MINNESOTA**

*EXHIBIT A-6*

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

<b>Measurement Date</b>	<b>Employer's Proportion of the Net Pension Liability (Asset)</b>	<b>Employer's Proportionate Share of the Net Pension Liability (Asset) (a)</b>	<b>Covered Payroll (b)</b>	<b>Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b)</b>	<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>
2015	0.2262%	\$ 11,722,858	\$ 13,291,603	88.20%	78.19%

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

**POLK COUNTY  
CROOKSTON, MINNESOTA**

*EXHIBIT A-7*

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

<b>Year Ending</b>	<b>Statutorily Required Contributions (a)</b>	<b>Actual Contributions in Relation to Statutorily Required Contributions (b)</b>	<b>Contribution (Deficiency) Excess (b-a)</b>	<b>Covered Payroll (c)</b>	<b>Actual Contributions as a Percentage of Covered Payroll (b/c)</b>
2015	\$ 1,029,642	\$ 1,029,642	-	\$ 13,728,560	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.

**POLK COUNTY  
CROOKSTON, MINNESOTA**

*EXHIBIT A-8*

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

<b>Measurement Date</b>	<b>Employer's Proportion of the Net Pension Liability (Asset)</b>	<b>Employer's Proportionate Share of the Net Pension Liability (Asset) (a)</b>	<b>Covered Payroll (b)</b>	<b>Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b)</b>	<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>
2015	0.198%	\$ 2,249,743	\$ 1,807,508	124.47%	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.

**POLK COUNTY  
CROOKSTON, MINNESOTA**

*EXHIBIT A-9*

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

<b>Year Ending</b>	<b>Statutorily Required Contributions (a)</b>	<b>Actual Contributions in Relation to Statutorily Required Contributions (b)</b>	<b>Contribution (Deficiency) Excess (b-a)</b>	<b>Covered Payroll (c)</b>	<b>Actual Contributions as a Percentage of Covered Payroll (b/c)</b>
2015	\$ 305,142	\$ 305,142	-	\$ 1,883,593	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.

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**POLK COUNTY  
CROOKSTON, MINNESOTA**

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

1. Budgetary Information

A. Budget Policy

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds, except the Ditch Special Revenue Fund, Ditch Debt Service Fund, Rhinehart Project Debt Service Fund, and Union Lake/Lake Sarah Debt Service Fund. 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 so that a budget can be prepared. Before October 31, the proposed budget is presented to the County Board for review. The Board holds public hearings, and a final budget must be prepared and adopted no later than December 31.

The appropriated budget is prepared by fund, function, and department. The County's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require approval of the County Board. The legal level of budgetary control (the level at which expenditures may not legally exceed appropriations) is the fund level.

B. Excess of Expenditures Over Budget

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

	Expenditures	Final Budget	Excess
General Fund	\$ 22,078,970	\$ 9,785,256	\$ 12,293,714
Road and Bridge	15,734,777	14,017,000	1,717,777
Social Services	15,519,977	15,353,148	166,829

**POLK COUNTY  
CROOKSTON, MINNESOTA**

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2. Other Postemployment Benefits Funded Status

Polk County implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for the fiscal year ended December 31, 2008. See Note 4.C. to the financial statements for more information.

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



**SUPPLEMENTARY INFORMATION**

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**POLK COUNTY  
CROOKSTON, MINNESOTA**

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

Agassiz Regional Library - to account for the County's share of the operating costs of the Lake Agassiz Regional Library. Financing is provided by an annual property tax levy assigned to the library.

Ditch Fund - to account for and report the operation and maintenance of County and joint county drainage systems. Financing is provided by special assessments levied against benefited properties restricted for conservation of natural resources.

Environmental Services - to account for all funds to be used for environmental services. Activities covered under this fund include solid waste planning, recycling, household hazardous waste, transfer station, and hazard mitigation. Financing is provided by an annual property tax levy, special assessments, intergovernmental revenue, and charges for services.

Public Health - to account for the provision of health care to the elderly and other residents of the County. Financing is provided by health service grants and user service charges.

DEBT SERVICE FUNDS

Rhinehart Project - to account for the retirement of bonds issued for the Rhinehart road project.

Union Lake/Lake Sarah - to account for the retirement of bonds issued for the Union Lake/Lake Sarah project.

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**POLK COUNTY  
CROOKSTON, MINNESOTA**

**EXHIBIT B-1**

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

	<u>Special Revenue (Exhibit B-3)</u>	<u>Debt Service (Exhibit B-5)</u>	<u>Total (Exhibit 3)</u>
<b><u>Assets</u></b>			
Cash and pooled investments	\$ 3,867,723	\$ 135,815	\$ 4,003,538
Petty cash and change funds	770	-	770
Undistributed cash in agency funds	50,471	2,368	52,839
Investments	200,000	226,682	426,682
Taxes receivable prior	5,666	-	5,666
Special assessments receivable			
Prior	234,002	2,426	236,428
Noncurrent	142,999	-	142,999
Accounts receivable	76,454	-	76,454
Due from other funds	71,409	-	71,409
Due from other governments	311,108	-	311,108
	<u>311,108</u>	<u>-</u>	<u>311,108</u>
<b>Total Assets</b>	<b><u>\$ 4,960,602</u></b>	<b><u>\$ 367,291</u></b>	<b><u>\$ 5,327,893</u></b>
 <b><u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u></b>			
<b>Liabilities</b>			
Accounts payable	\$ 117,315	\$ -	\$ 117,315
Salaries payable	41,882	-	41,882
Due to other funds	292,505	-	292,505
Due to other governments	10,664	-	10,664
Advance from other funds	366,680	-	366,680
	<u>366,680</u>	<u>-</u>	<u>366,680</u>
<b>Total Liabilities</b>	<b><u>\$ 829,046</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 829,046</u></b>
 <b>Deferred Inflows of Resources</b>			
Unavailable revenues	<b><u>\$ 410,520</u></b>	<b><u>\$ 1,962</u></b>	<b><u>\$ 412,482</u></b>
 <b>Fund Balances</b>			
<b>Restricted</b>			
Debt service	\$ -	\$ 365,329	\$ 365,329
Ditch maintenance and construction	1,445,345	-	1,445,345
Environmental services	1,925,783	-	1,925,783
<b>Assigned</b>			
Public health	664,965	-	664,965
Culture and recreation	51,850	-	51,850
Unassigned	(366,907)	-	(366,907)
	<u>(366,907)</u>	<u>-</u>	<u>(366,907)</u>
<b>Total Fund Balances</b>	<b><u>\$ 3,721,036</u></b>	<b><u>\$ 365,329</u></b>	<b><u>\$ 4,086,365</u></b>
 <b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	 <b><u>\$ 4,960,602</u></b>	 <b><u>\$ 367,291</u></b>	 <b><u>\$ 5,327,893</u></b>

**POLK COUNTY  
CROOKSTON, MINNESOTA**

**EXHIBIT B-2**

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

	<u>Special Revenue (Exhibit B-4)</u>	<u>Debt Service (Exhibit B-6)</u>	<u>Total (Exhibit 5)</u>
<b>Revenues</b>			
Taxes	\$ 1,342,838	\$ 115,766	\$ 1,458,604
Special assessments	1,866,779	-	1,866,779
Licenses and permits	49,975	-	49,975
Intergovernmental	1,603,178	-	1,603,178
Charges for services	595,212	-	595,212
Investment earnings	824	79	903
Miscellaneous	840,705	-	840,705
<b>Total Revenues</b>	<b>\$ 6,299,511</b>	<b>\$ 115,845</b>	<b>\$ 6,415,356</b>
<b>Expenditures</b>			
<b>Current</b>			
General government	\$ 288,684	\$ -	\$ 288,684
Sanitation	2,635,823	-	2,635,823
Health	2,681,135	-	2,681,135
Culture and recreation	246,050	-	246,050
Conservation of natural resources	319,926	-	319,926
<b>Debt service</b>			
Principal	-	112,727	112,727
Interest	-	12,648	12,648
<b>Total Expenditures</b>	<b>\$ 6,171,618</b>	<b>\$ 125,375</b>	<b>\$ 6,296,993</b>
<b>Net Change in Fund Balance</b>	<b>\$ 127,893</b>	<b>\$ (9,530)</b>	<b>\$ 118,363</b>
<b>Fund Balance - January 1</b>	<b>3,593,143</b>	<b>374,859</b>	<b>3,968,002</b>
<b>Fund Balance - December 31</b>	<b>\$ 3,721,036</b>	<b>\$ 365,329</b>	<b>\$ 4,086,365</b>

**POLK COUNTY  
CROOKSTON, MINNESOTA**

**EXHIBIT B-3**

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

	<u>Agassiz Regional Library</u>	<u>Ditch</u>	<u>Environmental Services</u>	<u>Public Health</u>	<u>Total</u>
<b><u>Assets</u></b>					
Cash and pooled investments	\$ 46,198	\$ 1,240,360	\$ 2,162,794	\$ 418,371	\$ 3,867,723
Petty cash and change funds	-	-	620	150	770
Undistributed cash in agency funds	4,486	6,859	39,126	-	50,471
Investments	-	200,000	-	-	200,000
Taxes receivable prior	5,666	-	-	-	5,666
Special assessments receivable					
Prior	-	19,640	214,362	-	234,002
Noncurrent	-	142,999	-	-	142,999
Accounts receivable	-	-	11,449	65,005	76,454
Due from other funds	-	-	71,409	-	71,409
Due from other governments	-	-	18,197	292,911	311,108
<b>Total Assets</b>	<b>\$ 56,350</b>	<b>\$ 1,609,858</b>	<b>\$ 2,517,957</b>	<b>\$ 776,437</b>	<b>\$ 4,960,602</b>
<b><u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u></b>					
<b>Liabilities</b>					
Accounts payable	\$ -	\$ 2,349	\$ 69,839	\$ 45,127	\$ 117,315
Salaries payable	-	-	10,204	31,678	41,882
Due to other funds	-	145	292,360	-	292,505
Due to other governments	-	-	10,664	-	10,664
Advance from other funds	-	366,680	-	-	366,680
<b>Total Liabilities</b>	<b>\$ -</b>	<b>\$ 369,174</b>	<b>\$ 383,067</b>	<b>\$ 76,805</b>	<b>\$ 829,046</b>
<b>Deferred Inflows of Resources</b>					
Unavailable revenues	<b>\$ 4,500</b>	<b>\$ 162,246</b>	<b>\$ 209,107</b>	<b>\$ 34,667</b>	<b>\$ 410,520</b>
<b>Fund Balances</b>					
<b>Restricted</b>					
Ditch maintenance and construction	\$ -	\$ 1,445,345	\$ -	\$ -	\$ 1,445,345
Environmental services	-	-	1,925,783	-	1,925,783
<b>Assigned</b>					
Public health	-	-	-	664,965	664,965
Culture and recreation	51,850	-	-	-	51,850
Unassigned	-	(366,907)	-	-	(366,907)
<b>Total Fund Balances</b>	<b>\$ 51,850</b>	<b>\$ 1,078,438</b>	<b>\$ 1,925,783</b>	<b>\$ 664,965</b>	<b>\$ 3,721,036</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<b>\$ 56,350</b>	<b>\$ 1,609,858</b>	<b>\$ 2,517,957</b>	<b>\$ 776,437</b>	<b>\$ 4,960,602</b>

**POLK COUNTY  
CROOKSTON, MINNESOTA**

**EXHIBIT B-4**

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

	<u>Agassiz Regional Library</u>	<u>Ditch</u>	<u>Environmental Services</u>	<u>Public Health</u>	<u>Total</u>
<b>Revenues</b>					
Taxes	\$ 224,635	\$ -	\$ 323,777	\$ 794,426	\$ 1,342,838
Special assessments	-	322,525	1,544,254	-	1,866,779
Licenses and permits	-	-	49,975	-	49,975
Intergovernmental	4,687	-	215,217	1,383,274	1,603,178
Charges for services	-	46,453	192,317	356,442	595,212
Investment earnings	-	824	-	-	824
Miscellaneous	1,429	-	779,762	59,514	840,705
<b>Total Revenues</b>	<b>\$ 230,751</b>	<b>\$ 369,802</b>	<b>\$ 3,105,302</b>	<b>\$ 2,593,656</b>	<b>\$ 6,299,511</b>
<b>Expenditures</b>					
<b>Current</b>					
General government	\$ -	\$ -	\$ 288,684	\$ -	\$ 288,684
Sanitation	-	-	2,635,823	-	2,635,823
Health	-	-	-	2,681,135	2,681,135
Culture and recreation	246,050	-	-	-	246,050
Conservation of natural resources	-	306,330	13,596	-	319,926
<b>Total Expenditures</b>	<b>\$ 246,050</b>	<b>\$ 306,330</b>	<b>\$ 2,938,103</b>	<b>\$ 2,681,135</b>	<b>\$ 6,171,618</b>
<b>Net Change in Fund Balance</b>	<b>\$ (15,299)</b>	<b>\$ 63,472</b>	<b>\$ 167,199</b>	<b>\$ (87,479)</b>	<b>\$ 127,893</b>
<b>Fund Balance - January 1</b>	<b>67,149</b>	<b>1,014,966</b>	<b>1,758,584</b>	<b>752,444</b>	<b>3,593,143</b>
<b>Fund Balance - December 31</b>	<b>\$ 51,850</b>	<b>\$ 1,078,438</b>	<b>\$ 1,925,783</b>	<b>\$ 664,965</b>	<b>\$ 3,721,036</b>



**POLK COUNTY  
CROOKSTON, MINNESOTA**

*EXHIBIT B-5*

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

	<b>Rhinehart Project</b>	<b>Union Lake/ Lake Sarah</b>	<b>Total</b>
 <b><u>Assets</u></b>			
Cash and pooled investments	\$ 106,062	\$ 29,753	\$ 135,815
Undistributed cash in agency funds	1,145	1,223	2,368
Investments	-	226,682	226,682
Special assessments - prior	-	2,426	2,426
	<b>\$ 107,207</b>	<b>\$ 260,084</b>	<b>\$ 367,291</b>
 <b><u>Deferred Inflows of Resources and Fund Balances</u></b>			
<b>Deferred Inflows of Resources</b>			
Unavailable revenues	\$ -	\$ 1,962	\$ 1,962
 <b>Fund Balance</b>			
Restricted for Debt service	107,207	258,122	365,329
	<b>\$ 107,207</b>	<b>\$ 260,084</b>	<b>\$ 367,291</b>

**POLK COUNTY  
CROOKSTON, MINNESOTA**

*EXHIBIT B-6*

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

	<b>Rhinehart Project</b>	<b>Union Lake/ Lake Sarah</b>	<b>Total</b>
<b>Revenues</b>			
Taxes	\$ 43,436	\$ 72,330	\$ 115,766
Investment earnings	-	79	79
<b>Total Revenues</b>	<b>\$ 43,436</b>	<b>\$ 72,409</b>	<b>\$ 115,845</b>
<b>Expenditures</b>			
<b>Debt service</b>			
Principal	\$ 40,000	\$ 72,727	\$ 112,727
Interest	930	11,718	12,648
<b>Total Expenditures</b>	<b>\$ 40,930</b>	<b>\$ 84,445</b>	<b>\$ 125,375</b>
<b>Net Change in Fund Balance</b>	<b>\$ 2,506</b>	<b>\$ (12,036)</b>	<b>\$ (9,530)</b>
<b>Fund Balance - January 1</b>	<b>104,701</b>	<b>270,158</b>	<b>374,859</b>
<b>Fund Balance - December 31</b>	<b>\$ 107,207</b>	<b>\$ 258,122</b>	<b>\$ 365,329</b>

**POLK COUNTY  
CROOKSTON, MINNESOTA**

*EXHIBIT B-7*

**BUDGETARY COMPARISON SCHEDULE  
AGASSIZ REGIONAL LIBRARY SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 226,050	\$ 226,050	\$ 224,635	\$ (1,415)
Intergovernmental	-	-	4,687	4,687
Miscellaneous	-	-	1,429	1,429
<b>Total Revenues</b>	<b>\$ 226,050</b>	<b>\$ 226,050</b>	<b>\$ 230,751</b>	<b>\$ 4,701</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Culture and recreation</b>				
Regional library	246,050	246,050	246,050	-
<b>Net Change in Fund Balance</b>	<b>\$ (20,000)</b>	<b>\$ (20,000)</b>	<b>\$ (15,299)</b>	<b>\$ 4,701</b>
<b>Fund Balance - January 1</b>	<b>67,149</b>	<b>67,149</b>	<b>67,149</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 47,149</b>	<b>\$ 47,149</b>	<b>\$ 51,850</b>	<b>\$ 4,701</b>

**POLK COUNTY  
CROOKSTON, MINNESOTA**

*EXHIBIT B-8*

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 281,463	\$ 281,463	\$ 323,777	\$ 42,314
Special assessments	1,590,000	1,590,000	1,544,254	(45,746)
License and permits	47,100	47,100	49,975	2,875
Intergovernmental	149,896	149,896	215,217	65,321
Charges for services	219,500	219,500	192,317	(27,183)
Miscellaneous	891,274	891,274	779,762	(111,512)
<b>Total Revenues</b>	<b>\$ 3,179,233</b>	<b>\$ 3,179,233</b>	<b>\$ 3,105,302</b>	<b>\$ (73,931)</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>General government</b>				
Planning and zoning	\$ 405,859	\$ 405,859	\$ 288,684	\$ 117,175
<b>Sanitation</b>				
Solid waste	1,618,390	1,618,390	1,774,634	(156,244)
Recycling	524,299	524,299	474,991	49,308
Hazardous waste	84,886	84,886	52,991	31,895
Transfer station	469,267	469,267	317,705	151,562
Asset replacement	112,000	112,000	15,502	96,498
<b>Conservation of natural resources</b>				
Aquatic invasive species program	-	-	13,596	(13,596)
<b>Total Expenditures</b>	<b>\$ 3,214,701</b>	<b>\$ 3,214,701</b>	<b>\$ 2,938,103</b>	<b>\$ 276,598</b>
<b>Net Change in Fund Balance</b>	<b>\$ (35,468)</b>	<b>\$ (35,468)</b>	<b>\$ 167,199</b>	<b>\$ 202,667</b>
<b>Fund Balance - January 1</b>	<b>1,758,584</b>	<b>1,758,584</b>	<b>1,758,584</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 1,723,116</b>	<b>\$ 1,723,116</b>	<b>\$ 1,925,783</b>	<b>\$ 202,667</b>

**POLK COUNTY  
CROOKSTON, MINNESOTA**

*EXHIBIT B-9*

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 794,426	\$ 794,426	\$ 794,426	\$ -
Intergovernmental	1,236,429	1,236,429	1,383,274	146,845
Charges for services	537,968	537,968	356,442	(181,526)
Gifts and contributions	1,000	1,000	-	(1,000)
Miscellaneous	5,100	5,100	59,514	54,414
<b>Total Revenues</b>	<b>\$ 2,574,923</b>	<b>\$ 2,574,923</b>	<b>\$ 2,593,656</b>	<b>\$ 18,733</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Health</b>				
Nursing service	2,574,923	2,574,923	2,681,135	(106,212)
<b>Net Change in Fund Balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (87,479)</b>	<b>\$ (87,479)</b>
<b>Fund Balance - January 1</b>	<b>752,444</b>	<b>752,444</b>	<b>752,444</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 752,444</b>	<b>\$ 752,444</b>	<b>\$ 664,965</b>	<b>\$ (87,479)</b>

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**FIDUCIARY FUNDS**

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**POLK COUNTY  
CROOKSTON, MINNESOTA**

**EXHIBIT C-1**

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

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<b><u>AGENCY FUND</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 1,208,991	\$ 535,842	\$ 450,490	\$ 1,294,343
Accounts receivable	99,768	56,230	99,768	56,230
Due from other governments	-	25,700	-	25,700
<b>Total Assets</b>	<b>\$ 1,308,759</b>	<b>\$ 617,772</b>	<b>\$ 550,258</b>	<b>\$ 1,376,273</b>
<b><u>Liabilities</u></b>				
Accounts payable	\$ -	\$ 1,109	\$ -	\$ 1,109
Due to other governments	1,308,759	616,663	550,258	1,375,164
<b>Total Liabilities</b>	<b>\$ 1,308,759</b>	<b>\$ 617,772</b>	<b>\$ 550,258</b>	<b>\$ 1,376,273</b>
<b><u>POLK COUNTY COLLABORATIVE</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	<b>\$ 173,751</b>	<b>\$ 143,222</b>	<b>\$ 200,528</b>	<b>\$ 116,445</b>
<b><u>Liabilities</u></b>				
Due to other governments	<b>\$ 173,751</b>	<b>\$ 143,222</b>	<b>\$ 200,528</b>	<b>\$ 116,445</b>
<b><u>POLK-NORMAN-MAHNOMEN COMMUNITY HEALTH SERVICE</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 2	\$ 1,320,014	\$ 1,304,231	\$ 15,785
Accounts receivable	261,965	-	261,965	-
Due from other governments	-	289,802	-	289,802
<b>Total Assets</b>	<b>\$ 261,967</b>	<b>\$ 1,609,816</b>	<b>\$ 1,566,196</b>	<b>\$ 305,587</b>
<b><u>Liabilities</u></b>				
Accounts payable	\$ 243,530	\$ 1,559,791	\$ 1,547,759	\$ 255,562
Due to other governments	18,437	50,025	18,437	50,025
<b>Total Liabilities</b>	<b>\$ 261,967</b>	<b>\$ 1,609,816</b>	<b>\$ 1,566,196</b>	<b>\$ 305,587</b>

**POLK COUNTY  
CROOKSTON, MINNESOTA**

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

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

	<b>Balance January 1</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance December 31</b>
<b><u>TOTAL ALL AGENCY FUNDS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 1,382,744	\$ 1,999,078	\$ 1,955,249	\$ 1,426,573
Accounts receivable	361,733	56,230	361,733	56,230
Due from other governments	-	315,502	-	315,502
	<b>\$ 1,744,477</b>	<b>\$ 2,370,810</b>	<b>\$ 2,316,982</b>	<b>\$ 1,798,305</b>
<b><u>Liabilities</u></b>				
Accounts payable	\$ 243,530	\$ 1,560,900	\$ 1,547,759	\$ 256,671
Due to other governments	1,500,947	809,910	769,223	1,541,634
	<b>\$ 1,744,477</b>	<b>\$ 2,370,810</b>	<b>\$ 2,316,982</b>	<b>\$ 1,798,305</b>

## **OTHER SCHEDULES**

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**POLK COUNTY  
CROOKSTON, MINNESOTA**

*EXHIBIT D-1*

**SCHEDULE OF DEPOSITS AND INVESTMENTS  
DECEMBER 31, 2015**

	<u>Number</u>	<u>Interest Rate (%)</u>	<u>Maturity Dates</u>	<u>Fair Value</u>
<b>Cash and Pooled Investments</b>				
Cash on hand	N/A	N/A	N/A	\$ 5,070
Noninterest-bearing checking	Four	N/A	Continuous	52,881
Interest-bearing checking	Sixteen	0.01 to 0.16	Continuous	3,516,132
Certificates of deposit	Eight	Varies	February 7, 2016 to July 19, 2017	1,575,000
Money market savings	Five	0.03	Continuous	2,427
Brokerage certificates of deposit	Eighteen	Varies	April 6, 2016 to June 8, 2020	4,396,000
Minnesota Association of Governments Investing for Counties Fund	N/A	Variable	Continuous	18,117,709
Repurchase agreements - checking	Two	Variable	Continuous	<u>8,688,836</u>
<b>Total Cash and Pooled Investments</b>				<b><u>\$ 36,354,055</u></b>

**POLK COUNTY  
CROOKSTON, MINNESOTA**

**EXHIBIT D-2**

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

	<u>Governmental Funds</u>	<u>Enterprise Funds</u>	<u>Total</u>
<b>Shared Revenue</b>			
<b>State</b>			
Highway users tax	\$ 9,266,033	\$ -	\$ 9,266,033
County program aid	1,106,263	-	1,106,263
PERA rate reimbursement	43,810	5,165	48,975
Police aid	195,402	-	195,402
Market value credit	427,310	-	427,310
Disparity reduction aid	78,561	-	78,561
Disparity reduction credit	437,008	-	437,008
Aquatic invasive species aid	55,405	-	55,405
<b>Total shared revenue</b>	<b>\$ 11,609,792</b>	<b>\$ 5,165</b>	<b>\$ 11,614,957</b>
<b>Reimbursement for Services</b>			
<b>State</b>			
Minnesota Department of Human Services	\$ 2,174,989	\$ -	\$ 2,174,989
<b>Payments</b>			
<b>Local</b>			
Payments in lieu of taxes	\$ 57,212	\$ -	\$ 57,212
<b>Grants</b>			
<b>State</b>			
Minnesota Department/Board of			
Public Safety	\$ 223,154	\$ -	\$ 223,154
Transportation	161,439	-	161,439
Health	436,965	-	436,965
Veterans Affairs	10,000	-	10,000
Natural Resources	85,156	-	85,156
Human Services	4,130,247	-	4,130,247
Water and Soil Resources	100,708	-	100,708
Peace Officer Standards and Training Board	10,529	-	10,529
Minnesota Pollution Control Agency	102,281	-	102,281
<b>Total state</b>	<b>\$ 5,260,479</b>	<b>\$ -</b>	<b>\$ 5,260,479</b>
<b>Federal</b>			
Department of			
Agriculture	\$ 591,764	\$ -	\$ 591,764
Transportation	1,525,693	-	1,525,693
Education	2,492	-	2,492
Health and Human Services	3,954,379	-	3,954,379
Homeland Security	152,140	-	152,140
<b>Total federal</b>	<b>\$ 6,226,468</b>	<b>\$ -</b>	<b>\$ 6,226,468</b>
<b>Total state and federal grants</b>	<b>\$ 11,486,947</b>	<b>\$ -</b>	<b>\$ 11,486,947</b>
<b>Total Intergovernmental Revenue</b>	<b>\$ 25,328,940</b>	<b>\$ 5,165</b>	<b>\$ 25,334,105</b>

**POLK COUNTY  
CROOKSTON, MINNESOTA**

**EXHIBIT D-3**

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

<b>Federal Grantor Pass-Through Agency Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Grant Numbers</b>	<b>Expenditures</b>
<b>U.S. Department of Agriculture</b>			
Passed Through Polk-Norman-Mahnomen Community Health Services Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	Not Provided	\$ 197,347
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	16162MN101S2514	358,332
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	16162MN127Q7503	44,625
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	16162MN101S2520	1,156
(Total State Administrative Matching Grants for the Supplemental Nutrition Assistance Program 10.561 \$404,113)			<u>1,156</u>
<b>Total U.S. Department of Agriculture</b>			<b>\$ 601,460</b>
<b>U.S. Department of Transportation</b>			
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	00060	\$ 1,079,009
Passed Through Minnesota Department of Public Safety			
State and Community Highway Safety	20.600	F-SAFE15-2015- POLKCOTZD-1055	2,791
State and Community Highway Safety	20.600	F-SAFE15-2015- POLKCOTZD-1193	2,970
State and Community Highway Safety	20.600	F-SAFE15-2015- POLKCOTZD-1305	3,387
(Total State and Community Highway Safety 20.600 \$9,148)			
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	Not Provided	48,173
<b>Total U.S. Department of Transportation</b>			<b>\$ 1,136,330</b>
<b>U.S. Department of Education</b>			
Passed Through Polk-Norman-Mahnomen Community Health Services Special Education - Grants for Infants and Families	84.181	Not Provided	<b>\$ 2,492</b>
<b>U.S. Department of Health and Human Services</b>			
Passed Through Polk-Norman-Mahnomen Community Health Services Public Health Emergency Preparedness	93.069	Not Provided	\$ 29,889
Universal Newborn Hearing Screening	93.251	Not Provided	2,800
Drug-Free Communities Support Program Grants	93.276	1H79SP020911-01	13,063
Early Hearing Detection and Intervention Information System (EDHI-IS) Surveillance Program	93.314	Not Provided	750
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	93.505	Not Provided	39,192
Temporary Assistance for Needy Families	93.558	Not Provided	86,927
(Total Temporary Assistance for Needy Families 93.558 \$648,983)			
Maternal and Child Health Services Block Grant to the States	93.994	Not Provided	47,913

**POLK COUNTY  
CROOKSTON, MINNESOTA**

**EXHIBIT D-3  
(Continued)**

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

<b>Federal Grantor Pass-Through Agency Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Grant Numbers</b>	<b>Expenditures</b>
<b>U.S. Department of Health and Human Services (Continued)</b>			
Passed Through Minnesota Department of Human Services			
Projects for Assistance in Transition from Homelessness (PATH)	93.150	SM016024-15	15,617
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243	39806	191,085
Promoting Safe and Stable Families	93.556	G-1601MNFPS	14,133
Temporary Assistance for Needy Families	93.558	1601MNTANF	103,637
Temporary Assistance for Needy Families	93.558	1601MFTANF	458,419
(Total Temporary Assistance for Needy Families 93.558 \$648,983)			
Child Support Enforcement	93.563	1604MNCSES	34,845
Child Support Enforcement	93.563	1604MNCES	701,628
(Total Child Support Enforcement 93.563 \$736,473)			
Refugee and Entrant Assistance - State-Administered Programs	93.566	1601MNRCA	649
Child Care and Development Block Grant	93.575	G1601MNCCDF	8,153
Community-Based Child Abuse Prevention Grants	93.590	G-1502MNFPRG	101,920
Stephanie Tubbs Jones Child Welfare Services Program	93.645	G-1601MNCWSS	6,460
Foster Care Title IV-E	93.658	1601MNFOS	242,756
Social Services Block Grant	93.667	16-01MNSOSR	291,369
Chafee Foster Care Independence Program	93.674	G-1601MNCILP	14,369
Children's Health Insurance Program	93.767	1605MN5021	84
Medical Assistance Program	93.778	05-1605MN5ADM	1,466,447
Medical Assistance Program	93.778	05-1605MN5MAP	12,916
(Total Medical Assistance Program 93.778 \$1,479,363)			
Block Grants for Prevention and Treatment of Substance Abuse	93.959	TI010027-15	108,821
<b>Total U.S. Department of Health and Human Services</b>			<b>\$ 3,993,842</b>
<b>U.S. Department of Homeland Security</b>			
Passed Through Minnesota Department of Public Safety			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	Not Provided	\$ 102,292
Hazard Mitigation Grant	97.039	Not Provided	807
		F-EMPG-2015-	
Emergency Management Performance Grants	97.042	POLKCO-0755	25,242
		F-EMPG-2015-	
Emergency Management Performance Grants	97.042	POLKCO-1129	23,799
(Total Emergency Management Performance Grants 97.042 \$49,041)			
<b>Total U.S. Department of Homeland Security</b>			<b>\$ 152,140</b>
<b>Total Federal Awards</b>			<b>\$ 5,886,264</b>

Polk County did not pass any federal awards to subrecipients in 2015.



**POLK COUNTY  
CROOKSTON, MINNESOTA**

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

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1. Reporting Entity

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

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Polk County under programs of the federal government for the year ended December 31, 2015. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of Polk County, it is not intended to and does not present the financial position, changes in net position, or cash flows of Polk 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. Polk County has elected to not use the 10 percent de minimis indirect cost rate allowed under uniform guidance.

**POLK COUNTY  
CROOKSTON, MINNESOTA**

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4. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 6,226,468
Grants received more than 60 days after year-end, deferred in 2015	
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	9,696
Highway Planning and Construction	21,098
Drug-Free Communities Support Program Grants	13,063
Child Support Enforcement	26,400
Grants deferred in 2014, recognized as revenue in 2015	
Highway Planning and Construction	<u>(410,461)</u>
Expenditures Per Schedule of Expenditures of Federal Awards	<u>\$ 5,886,264</u>



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**POLK COUNTY  
CROOKSTON, MINNESOTA**

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

**I. SUMMARY OF AUDITOR'S RESULTS**

**Financial Statements**

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with generally accepted accounting principles: **Unmodified**

Internal control over financial reporting:

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

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

**Federal Awards**

Internal control over major programs:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **Yes**

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

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

The major federal programs are:

Highway Planning and Construction	CFDA No. 20.205
Medical Assistance Program	CFDA No. 93.778

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

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

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

### INTERNAL CONTROL

#### PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding 1996-006

#### Segregation of Duties

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

**Condition:** Due to the limited number of personnel within several Polk County offices, segregation of accounting duties necessary to ensure adequate internal accounting control is not possible.

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

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

**Cause:** The County informed us that collecting fees for services at a department level provides a convenience for its customers. Fee services are provided in several locations, so having customers paying at a single point of collection would be very inconvenient. The staffing available in several of these smaller offices limits the potential for complete segregation of duties.

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

Client's Response:

*Polk County Finance will monitor transactions and structure the duties of office personnel to help ensure as much segregation of duties as possible within the County's staffing limitations and funding constraints. The County Board of Commissioners also recognizes the weakness in segregation of duties and has continually provided oversight to partially compensate for this deficiency. The County will continue to monitor fee collection centers to the extent that is efficient to do so. Additionally, the County has recently implemented a policy that change funds are balanced and signed off by the department heads.*

ITEMS ARISING THIS YEAR

Finding 2015-001

Prior Period 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 identify one indication of a material weakness in internal control is the restatement of previously issued financial statements to reflect the correction of a material misstatement due to error.

**Condition:** During our audit, we identified a prior period adjustment that was material to the Resource Recovery Enterprise Fund. Accounts payable was decreased by \$124,120, due to other funds was decreased by \$40,253, and due to other governments was decreased by \$64,065, to account for the December 31, 2013, balances of payables included in error with the balances reported for December 31, 2014. A second prior period adjustment was necessary in the Landfill Enterprise Fund to reduce investments by \$247,958 to account for an incorrect adjustment to the December 31, 2014 balance. A third prior period adjustment was necessary in the governmental activities to decrease revenues by \$1,236,627 for ditch assessments levied. The receivables reported for December 31, 2014, were based on a report containing the amounts levied at December 31, 2013, and collectible in 2014 and beyond. We also identified an error in the calculation of the amount of net investment in capital assets for the governmental activities. This calculation included debt that was not related to capital assets, resulting in an understatement of net investments in capital assets and an overstatement in the unrestricted net position in the amount of \$8,235,000. This error resulted in a misclassification of the 2014 net position, but did not result in a prior period adjustment.

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

**Effect:** The January 1, 2015, net position of the Resource Recovery Enterprise Fund was increased by \$228,438 as a result of the error. The January 1, 2015, net position of the Landfill Enterprise Fund was decreased by \$247,958 as a result of an error. The January 1, 2015, net position of the governmental activities was decreased by \$1,236,627 to reflect the correct amounts that were levied collectible 2014 and beyond.

**Cause:** Lack of oversight and error in recording payables for the Resource Recovery Enterprise Fund. Error in adjusting the investments balance for the Landfill Enterprise Fund. The amount of receivables for ditch levies was determined using the wrong report.

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

Client's Response:

*The County will review financial statement closing procedures to ensure accuracy and completeness according to generally accepted accounting principles.*

Finding 2015-002

Audit Adjustments

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

**Condition:** During our audit, we identified material adjustments that resulted in significant changes to the County's financial statements. The County provides a general ledger and supporting schedules necessary to adjust to the modified accrual basis for fund level financial statements and to the full accrual basis for the government-wide 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.



**Effect:** The following audit adjustments were necessary to be recorded for December 31, 2015:

- An audit adjustment was necessary to reduce current year revenue in the Landfill Enterprise Fund in the amount of \$225,032 to reflect the correct net position.
- An audit adjustment was necessary to reclassify \$1,775,824 of net position in the Landfill Enterprise fund from restricted for financial assurance to unrestricted net position. The Landfill Enterprise Fund had related liabilities in excess of the restricted assets.
- An audit adjustment was necessary in the Social Services Special Revenue Fund to increase accounts receivable by \$936,356, reduce due from other governments by \$718,026, and adjust for MMIS and other receivable amounts included as accruals in the general ledger for 2014 not reflected in the 2014 financial statements. Reclassifications and other audit adjustments from 2014 were posted to the general ledger, but the system automatically reversed the accruals against accounts payable, the account the accruals were originally posted to in the general ledger.

**Cause:** Audit adjustments that were provided to County staff to adjust the County general ledger to ensure ending balances in the general ledger agreed to the amounts reported for December 31, 2014, were incorrect or did not consider accrual codes.

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

Client's Response:

*The County will establish internal controls necessary to ensure the annual financial statements are reported in accordance with GAAP.*

Finding 2015-003

Documenting and Monitoring Internal Controls

**Criteria:** County management is responsible for the County's internal control over financial reporting. This responsibility requires performing an assessment of existing controls over significant functions used to produce financial information for the Board, management, and for external financial reporting. The risk assessment is intended to determine if the internal controls that have been established by County management are still effective or if changes are needed to maintain a sound internal control structure. Changes may be necessary due to such things as organizational restructuring, updates to information systems, or changes to services being provided.

**Condition:** Polk County does not maintain formal documentation of the controls in place over its significant transaction cycles; and there is no formal risk assessment process in place to determine if the internal controls that have been established by County management are still effective or if changes are needed to maintain a sound internal control structure.

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

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

**Cause:** The County has just not considered establishing a formal process for assessing risks, documenting the internal controls established to reduce those risks, and monitoring those controls.

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

Client's Response:

*The County has begun the process of documenting significant internal controls and accounting processes. It is the County's intention to create all the controls and documentation necessary to resolve the issue within the next year.*

PREVIOUSLY REPORTED ITEMS RESOLVED

**Internal Controls (2007-001)**

The financial statements are the responsibility of the County's management. Internal control over financial reporting is a process designed to provide reasonable assurance about the achievement of the County's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with laws and regulations. Management must implement internal controls over financial reporting and safeguarding of assets, and continue to be aware of their responsibility and to maintain suitable skills, knowledge, and expertise to sufficiently review, understand, and approve the County's financial statements, including notes.

### **Resolution**

Polk County's Finance Director is responsible for oversight of the financial reporting process. The Finance Director, with assistance from other financial staff, provide the general ledger and supporting schedules used in the preparation of the financial statements. The Finance Director and other staff all have many years of experience and do understand the financial statements. The Finance Director will review the financial statements and notes and approve any audit adjustments.

### **Preparation of Financial Statements (2008-001)**

The County needed to broaden its participation in the preparation of its financial statements and not rely so extensively on its external auditors for financial reporting.

### **Resolution**

The County provides a GL Total download report and detailed downloads of its cash and modified accrual general ledgers as well as other supporting schedules necessary for preparing fund level and government-wide financial statements.

## **III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS**

### ITEM ARISING THIS YEAR

Finding 2015-004

#### Davis-Bacon Act

**Program:** U.S. Department of Transportation's Highway Planning and Construction (CFDA No. 20.205); Award No. 00060, 2015

**Pass-Through Agency:** Minnesota Department of Transportation

**Criteria:** The Davis-Bacon Act (23 U.S.C. 113) requires 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 recordkeeping for the preceding weekly payroll period for the County to review.

**Condition:** Polk County received the certified payrolls from contractors and subcontractors for the one 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.

**Questioned Costs:** None.

**Context:** Polk County entered into contracts for a federally-funded project requiring compliance with the Davis Bacon Act.

**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 on this project.

**Cause:** Personnel assigned to monitor compliance for the road construction projects funded by the Highway Planning and Construction Grant were unaware that there should be evidence supporting compliance.

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

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

*Rich Sanders, Polk County Highway Engineer*

Corrective Action Planned:

1. *Michelle Brekken, Clerk Typist has set up a payroll spread sheet for each project. As payrolls arrive in the mail she will document their arrival date.*
2. *Darin will review the payrolls and fill out a Payroll review sheet showing the payroll he reviewed and what date he reviewed it on.*
3. *All payrolls are placed in a Project payroll file and filed in a non-public/secure file cabinet.*

Anticipated Completion Date:

*All these corrections are in place and being followed for all projects as of May 1, 2016.*

PREVIOUSLY REPORTED ITEM RESOLVED

**Inaccurate Reporting: State Administrative Matching Grants for the Supplemental Nutrition Assistance Program - CFDA No. 10.561, Foster Care Title IV-E - CFDA No. 93.658, and Medical Assistance Program – CFDA No. 93.778 (2014-001)**

The Income Maintenance Quarterly Expense Report (DHS 2550) for the quarter ending December 2014 contained an error that caused expenditures to be overstated by \$10,304.

**Resolution**

The County Fiscal Supervisor made the adjustments and resubmitted the report. Expenditures reported in the Income Maintenance DHS 2550 quarterly reports tested, during our tests of the Medical Assistance Program CFDA No. 93.778 for the year ended December 31, 2015, were properly reported.

**IV. OTHER FINDINGS AND RECOMMENDATIONS**

A. MINNESOTA LEGAL COMPLIANCE

ITEM ARISING THIS YEAR

Finding 2015-005

Forfeited Land Sale Distribution

**Criteria:** Under Minn. Stat. § 282.09, the County Auditor shall make an annual settlement of the net proceeds received in the Forfeited Tax Sale Fund on the settlement day determined in Minn. Stat. § 276.09 for the preceding calendar year. The settlement date is May 20.

**Condition:** Polk County has not made a forfeited tax settlement for a number of years.

**Context:** The County had some large cleanup projects in the past resulting in a deficit fund balance in the Forfeited Tax Sale Fund. In 2014, the County Board made a transfer to the Forfeited Tax Sale Fund in the amount of \$539,972 to cover the deficit. On December 31, 2014, the Forfeited Tax Sale Fund had a fund balance of \$151,857 and by December 31, 2015 the fund balance had grown to \$254,173. No settlement had been made on or before May 20, 2016.

**Effect:** The County has not complied with Minn. Stat. §§ 282.09 and 276.09. Other taxing districts that may be entitled to a portion of the forfeited tax settlement have not received their money.

**Cause:** The County has not determined how it should settle the balance in the Forfeited Tax Sale Fund.

**Recommendation:** We recommend the County determine whether expenditures for the clean up projects qualify as administrative expenses under Minnesota Statutes. Then, funds should be either repaid to the County or distributed to the taxing districts by the settlement date. In addition, we recommend Polk County comply with provisions of Minn. Stat. §§ 282.09 and 276.09 on all future forfeited land sales.

Client's Response:

*Polk County is reviewing the statutes and requirements of Forfeited Sale Funds for the purpose of recovering any forfeited property expenses incurred by the County prior to undertaking a settlement payout.*

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding 2001-005

Capital Assets Accounting System

**Criteria:** To ensure consistent and accurate reporting of the County's capital assets and depreciation of those assets the County should maintain a centralized accounting systems that includes all of the County's capital assets.

**Condition:** The County currently maintains capital asset records in several departments including: Road and Bridge, Social Services, Resource Recovery, Landfill, Environmental Services, Public Health, and the Finance Office.

**Context:** Capital assets, including infrastructure assets, are reported on the statement of net position and depreciation expenses for those assets are on the statement of activities. The County established accounting policies for capital assets including capitalization thresholds, useful lives, and the designation of specific general ledger account codes to record the purchases and construction costs of capital assets. County personnel analyze capital outlay and maintenance expenditure accounts for additions and remove items known to be sold or discarded during the year.

**Effect:** Accounting for capital assets is decentralized and in turn results in a variety of methods for tracking of additions and removal of capital assets. The Finance Department has access to some, but not all of the detailed capital asset records.

**Cause:** No set policy on how capital assets should be tracked. Accounting for each department's capital assets is up to each individual department.

**Recommendation:** The County Board should take steps to centralize the accounting of capital assets from all County departments into one centralized capital asset system.

Client's Response:

*Polk County Finance is exploring purchase options for a centralized capital asset accounting software program and expects to make a purchase and begin implementation with the next year.*

Finding 2007-002

Ditch Fund Balance Deficits

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

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

**Context:** Twenty-three of the 181 individual Ditch Special Revenue Fund ditch systems had deficit fund balances at December 31, 2015. The deficit fund balances ranged from \$10 to \$109,193. Two of the 19 Ditch Debt Service Fund ditch systems had deficit fund balances at December 31, 2015. The deficit fund balances ranged from \$2,240 to \$5,615.

**Effect:** Ditch systems with deficit fund balances indicates that measures have not been taken to ensure that the ditch can meet financial obligations.

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

**Recommendation:** The County should levy assessments in sufficient amounts to maintain current expenditures and to cover expenditures already made in advance from other funds.

Client's Response:

*The County is working to establish zero to modest fund balances in all ditches, but deficit spending will likely continue, and the County will raise special assessments to restore positive balances as quickly as possible without being an undue hardship to the land owner.*





REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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

### Independent Auditor's Report

Board of County Commissioners  
Polk County  
Crookston, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Polk County, Minnesota, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 22, 2016.

### **Internal Control Over Financial Reporting**

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

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

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

A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 1996-006 and 2015-003 to be significant deficiencies.

### **Compliance and Other Matters**

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

### **Minnesota Legal Compliance**

The *Minnesota Legal Compliance Audit Guide for Counties*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven categories of compliance to be tested in connection with the audit of the County's financial statements: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for tax increment financing because Polk County does not have any tax increment financing districts.

In connection with our audit, nothing came to our attention that caused us to believe that Polk 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 item 2015-005. 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**

Also included in the Schedule of Findings and Questioned Costs are management practices comments. We believe these recommendations to be of benefit to the County, and they are reported for that purpose.

## **Polk County's Response to Findings**

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

## **Purpose of This Report**

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

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

September 22, 2016

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

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REBECCA OTTO  
STATE AUDITOR

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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  
Polk County  
Crookston, Minnesota

### **Report on Compliance for Each Major Federal Program**

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

#### ***Management's Responsibility***

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

#### ***Auditor's Responsibility***

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

An audit includes examining, on a test basis, evidence about Polk County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

### ***Opinion on Each Major Federal Program***

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

### **Report on Internal Control Over Compliance**

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

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

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

identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as item 2015-004, that we consider to be a significant deficiency.

Polk County's response to the internal control over compliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs as a Corrective Action Plan. Polk County's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **Purpose of This Report**

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

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

September 22, 2016