

STATE OF MINNESOTA

Office of the State Auditor



Julie Blaha
State Auditor

HUBBARD COUNTY
PARK RAPIDS, MINNESOTA

YEAR ENDED DECEMBER 31, 2016

Description of the Office of the State Auditor

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

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

The State Auditor performs approximately 100 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

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

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

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

Pension - monitors investment, financial, and actuarial reporting for approximately 600 public pension funds; and

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

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

Office of the State Auditor
525 Park Street, Suite 500
Saint Paul, Minnesota 55103
(651) 296-2551
state.auditor@osa.state.mn.us
www.auditor.state.mn.us

This document can be made available in alternative formats upon request. Call 651-296-2551 [voice] or 1-800-627-3529 [relay service] for assistance; or visit the Office of the State Auditor's web site: www.auditor.state.mn.us.

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

Year Ended December 31, 2016



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

This page was left blank intentionally.

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

TABLE OF CONTENTS

	<u>Exhibit</u>	<u>Page</u>
Introductory Section		
Organization		1
Financial Section		
Independent Auditor’s Report		2
Management’s Discussion and Analysis		5
Basic Financial Statements		
Government-Wide Financial Statements		
Statement of Net Position	1	14
Statement of Activities	2	16
Fund Financial Statements		
Governmental Funds		
Balance Sheet	3	18
Reconciliation of Governmental Funds Balance Sheet to the Government-Wide Statement of Net Position—Governmental Activities	4	20
Statement of Revenues, Expenditures, and Changes in Fund Balance	5	21
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Government-Wide Statement of Activities—Governmental Activities	6	23
Proprietary Fund		
Heritage Community Enterprise Fund		
Statement of Fund Net Position	7	24
Statement of Revenues, Expenses, and Changes in Fund Net Position	8	26
Statement of Cash Flows	9	27
Fiduciary Funds		
Statement of Fiduciary Net Position	10	29
Notes to the Financial Statements		30

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

TABLE OF CONTENTS

	Exhibit	Page
Financial Section (Continued)		
Required Supplementary Information		
Budgetary Comparison Schedules		
General Fund	A-1	91
Road and Bridge Special Revenue Fund	A-2	94
Social Services Special Revenue Fund	A-3	95
Forfeited Tax Sale Special Revenue Fund	A-4	96
Schedule of Funding Progress – Other Postemployment Benefits	A-5	97
PERA General Employees Retirement Plan		
Schedule of Proportionate Share of Net Pension Liability	A-6	98
Schedule of Contributions	A-7	99
PERA Public Employees Police and Fire Plan		
Schedule of Proportionate Share of Net Pension Liability	A-8	100
Schedule of Contributions	A-9	100
PERA Public Employees Correctional Plan		
Schedule of Proportionate Share of Net Pension Liability	A-10	101
Schedule of Contributions	A-11	101
Notes to the Required Supplementary Information		102
 Other Information		
Nonmajor Governmental Funds		106
Combining Balance Sheet	B-1	107
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance	B-2	108
Budgetary Comparison Schedules		
Solid Waste Special Revenue Fund	B-3	109
Environmental Trust Permanent Fund	B-4	110
Agency Funds		111
Combining Statement of Changes in Assets and Liabilities – All Agency Funds	C-1	112
Other Schedule		
Schedule of Intergovernmental Revenue	D-1	114

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

TABLE OF CONTENTS
(Continued)

	<u>Exhibit</u>	<u>Page</u>
Management and Compliance Section		
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		116
Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance		119
Report on the Schedule of Expenditures of Federal Awards in Accordance with the Uniform Guidance		123
Schedule of Findings and Questioned Costs		125
Corrective Action Plan		139
Summary Schedule of Prior Audit Findings		144
Schedule of Expenditures of Federal Awards	E-1	151
Notes to the Schedule of Expenditures of Federal Awards		154

This page was left blank intentionally.

This page was left blank intentionally.

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

ORGANIZATION
DECEMBER 31, 2016

Office	Name	Term Expires
Commissioners		
1st District	Vern Massie	January 2019
2nd District	Matthew Dotta ¹	January 2017
3rd District	Ed Smith	January 2019
4th District	Daniel Stacey	January 2017
5th District	Cal Johannsen	January 2019
Officers		
Elected		
Attorney	Donovan Dearstyne	January 2019
Sheriff	Cory Aukes	January 2019
Appointed		
Assessor	Ginger Woodrum	Indefinite
Auditor/Treasurer	Kay Rave	Indefinite
Coordinator	Debbie Thompson	Indefinite
Highway Engineer	David Olsonawski	Indefinite
Land Commissioner	Mark Lohmeier	Indefinite
Recorder	Nicole Lueth	Indefinite
Social Services Director	Deb Vizecky	Indefinite
Solid Waste Administrator	Jed Nordin	Indefinite
Veteran Services Officer	Jerrold Bjerke	Indefinite

¹Matthew Dotta was replaced by Charlene Christenson on July 5, 2016.

This page was left blank intentionally.

This page was left blank intentionally.



JULIE BLAHA
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@osa.state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Hubbard County
Park Rapids, 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 Hubbard County, Minnesota, as of and for the year ended December 31, 2016, including the Heritage Community Enterprise Fund as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Heritage Living Center, Manor, and Cottages, which statements reflect 28 percent and 100 percent, respectively, of the assets and revenues of both the Heritage Community Enterprise Fund, a major fund, and the business-type activities. Those statements were audited by other auditors, whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Heritage Living Center, Manor, and Cottages, is based solely on the report of the other auditors. We have applied audit procedures on the conversion adjustments to the financial statements of the Heritage Living Center, Manor, and Cottages, which conform those financial statements to accounting principles generally accepted in the United States of America. Our opinion, insofar as it relates to the amounts included for the Heritage Living Center, Manor, and Cottages, prior to these conversion adjustments, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of

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

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

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

Basis for Adverse Opinion on the Discretely Presented Component Unit

As discussed in Note 1.A. to the financial statements, the government-wide financial statements do not include financial data for the County's legally separate component unit. Accounting principles generally accepted in the United States of America require the financial data for the component unit to be reported with the financial data of the County's primary government, unless the County also issues financial statements for the financial reporting entity that include the financial data for its component unit. The County has not issued such reporting entity financial statements. Because of this departure from accounting principles generally accepted in the United States of America, the assets, liabilities, net position, revenues, and expenses of the discretely presented component unit would have been presented as \$1,502,313, \$623,262, \$879,051, \$553,075, and \$409,953, respectively.

Adverse Opinion

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on the Discretely Presented Component Unit" paragraph, the financial statements referred to above do not present fairly, the financial position of the discretely presented component unit of Hubbard County, Minnesota, as of December 31, 2016, or the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Hubbard County as of December 31, 2016, including the Heritage Community Enterprise Fund as of September 30, 2016, 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.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Hubbard County's basic financial statements. The other 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. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 16, 2019, on our consideration of Hubbard 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Hubbard County's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Hubbard County's internal control over financial reporting and compliance. It does not include the Heritage Community, which was audited by other auditors.

/s/Julie Blaha

JULIE BLAHA
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

April 16, 2019

This page was left blank intentionally.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This page was left blank intentionally.



Hubbard County

301 Court Avenue
Park Rapids, MN 56470

Phone: 218.732.2310 Fax: 218.732.2318

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

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

FINANCIAL HIGHLIGHTS

The total net position of governmental activities is \$81,925,979, of which \$66,398,075 is the net investment in capital assets, \$7,015,250 is restricted for specific purposes, and \$8,512,654 is unrestricted. The total net position of governmental activities increased by \$1,175,897 for the year ended December 31, 2016.

The total net position of business-type activities is (\$78,033), of which (\$97,815) is the net investment in capital assets, \$2,053,954 is restricted for specific purposes, and (\$2,034,172) is unrestricted. The total net position of business-type activities decreased by \$984,571 for the year ended September 30, 2016.

At the close of 2016, the County's governmental funds reported combined ending fund balances of \$24,255,680, an increase of \$2,110,018 from the prior year. Of the total fund balance amount, \$804,819 is nonspendable, \$5,980,488 is legally or contractually restricted, \$12,681,613 is assigned for specific purposes, and \$4,788,760 is noted as unassigned fund balance. Maintaining an adequate fund balance is necessary to provide County services throughout the year.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

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

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

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

- Governmental activities – Most of the County's basic services are reported here, including general government, public safety, highways and streets, sanitation, human services, culture and recreation, and conservation of natural resources. 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 Heritage Living Center, Heritage Manor, and Heritage Cottages.

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

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Hubbard 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 Balance – Governmental Funds provide a reconciliation to facilitate the comparison between governmental funds and governmental activities.

The County reports four governmental fund types: General, Special Revenue, Debt Service, and Permanent. 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, and the Forfeited Tax Sale Special Revenue Fund, all of which are considered to be major funds. Data from the Solid Waste Special Revenue Fund, the Building Bonds Debt Service Fund, and the Environmental Trust Permanent Fund are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in combining statements after the notes to the financial statements.

Hubbard County adopts annual budgets for its governmental funds, with the exception of the Building Bonds Debt Service Fund. Budgetary comparisons have been provided for these funds to demonstrate compliance with their budgets.

Proprietary Funds: Hubbard County maintains one enterprise fund. The Heritage Community Enterprise Fund accounts for the combined activities of the County’s Heritage Living Center, Heritage Manor, and Heritage Cottages facilities, which provide long-term health care, adult day care, memory care, and assisted living senior housing services for the elderly. Financing is provided by user service charges. 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.

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

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found beginning on page 30 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 combining statements, budgetary comparison schedules, a schedule of intergovernmental revenue, a schedule of expenditures of federal awards, and related notes.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Over time, net position serves as a useful indicator of the County’s financial position. The County’s assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$81,847,946 at the close of 2016. The largest portion of the County’s net position (approximately 81 percent) reflects its net investment in capital assets (i.e., land, construction in progress, infrastructure, buildings and improvements, land improvements, and machinery and equipment). It should be noted that this amount is not available for future spending. Approximately 11 percent of the County’s net position is restricted and 8 percent of the County’s net position is unrestricted. The unrestricted net position amount of \$6,478,482 as of December 31, 2016, may be used to meet the County’s ongoing obligations to citizens.

The County's overall financial position increased from last year. Total assets and deferred outflows of resources increased by \$11,330,926 from the prior year, and total liabilities and deferred inflows of resources increased by \$11,139,600 from the prior year, primarily due to increased deferred outflows and inflows of resources related to pensions and an increased net pension liability in the current year. This resulted in an increased net position of \$191,326 from the prior year.

Net Position

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
Assets						
Current and other assets	\$ 29,355,685	\$ 26,855,431	\$ 13,429,647	\$ 13,982,361	\$ 42,785,332	\$ 40,837,792
Capital assets	74,964,188	74,957,028	3,038,624	3,323,352	78,002,812	78,280,380
Total Assets	\$ 104,319,873	\$ 101,812,459	\$ 16,468,271	\$ 17,305,713	\$ 120,788,144	\$ 119,118,172
Deferred outflows of resources						
	\$ 9,745,543	\$ 1,328,078	\$ 1,505,893	\$ 262,404	\$ 11,251,436	\$ 1,590,482
Liabilities						
Long-term liabilities	\$ 27,378,914	\$ 18,264,788	\$ 17,148,717	\$ 15,907,254	\$ 44,527,631	\$ 34,172,042
Other liabilities	3,125,693	2,693,941	486,878	460,202	3,612,571	3,154,143
Total Liabilities	\$ 30,504,607	\$ 20,958,729	\$ 17,635,595	\$ 16,367,456	\$ 48,140,202	\$ 37,326,185
Deferred inflows of resources						
	\$ 1,634,830	\$ 1,431,726	\$ 416,602	\$ 294,123	\$ 2,051,432	\$ 1,725,849
Net position						
Net investment in capital assets	\$ 66,398,075	\$ 65,659,575	\$ (97,815)	\$ 63,352	\$ 66,300,260	\$ 65,722,927
Restricted	7,015,250	5,925,711	2,053,954	2,052,923	9,069,204	7,978,634
Unrestricted	8,512,654	9,164,796	(2,034,172)	(1,209,737)	6,478,482	7,955,059
Total Net Position	\$ 81,925,979	\$ 80,750,082	\$ (78,033)	\$ 906,538	\$ 81,847,946	\$ 81,656,620

Changes in Net Position

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
Revenues						
Program revenues						
Fees, charges, fines, and other	\$ 8,344,636	\$ 8,583,113	\$ 6,160,397	\$ 6,189,782	\$ 14,505,033	\$ 14,772,895
Operating grants and contributions	10,445,386	9,919,147	25,800	30,582	10,471,186	9,949,729
Capital grants and contributions	520,005	829,371	-	-	520,005	829,371
General revenues						
Property taxes	13,533,862	13,171,269	-	-	13,533,862	13,171,269
Transportation sales tax	911,649	399,287	-	-	911,649	399,287
Mortgage registry and deed tax	22,082	-	-	-	22,082	-
Grants and contributions not restricted to specific programs	852,769	851,923	-	-	852,769	851,923
Payments in lieu of tax	987,493	986,293	-	-	987,493	986,293
Investment earnings	304,993	152,711	8,835	-	313,828	152,711
Miscellaneous	300,338	119,659	-	-	300,338	119,659
Total Revenues	\$ 36,223,213	\$ 35,012,773	\$ 6,195,032	\$ 6,220,364	\$ 42,418,245	\$ 41,233,137
Expenses						
General government	\$ 5,620,267	\$ 3,925,208	\$ -	\$ -	\$ 5,620,267	\$ 3,925,208
Public safety	7,656,195	5,721,111	-	-	7,656,195	5,721,111
Highways and streets	8,493,919	7,808,881	-	-	8,493,919	7,808,881
Sanitation	2,742,959	2,630,364	-	-	2,742,959	2,630,364
Human services	7,605,009	8,300,975	-	-	7,605,009	8,300,975
Culture and recreation	488,976	533,781	-	-	488,976	533,781
Conservation of natural resources	1,934,915	1,609,782	-	-	1,934,915	1,609,782
Interest	180,781	198,839	-	-	180,781	198,839
Heritage Community	-	-	7,143,968	6,143,977	7,143,968	6,143,977
Heritage Center Project	-	-	-	309,914	-	309,914
Total Expenses	\$ 34,723,021	\$ 30,728,941	\$ 7,143,968	\$ 6,453,891	\$ 41,866,989	\$ 37,182,832
Changes in Net Position Before Transfers	\$ 1,500,192	\$ 4,283,832	\$ (948,936)	\$ (233,527)	\$ 551,256	\$ 4,050,305
Transfers	(324,295)	-	(35,635)	1,000,000	(359,930)	1,000,000
Changes in Net Position	\$ 1,175,897	\$ 4,283,832	\$ (984,571)	\$ 766,473	\$ 191,326	\$ 5,050,305
Net Position – January 1	80,750,082	76,466,250	906,538	140,065	81,656,620	76,606,315
Net Position – December 31	\$ 81,925,979	\$ 80,750,082	\$ (78,033)	\$ 906,538	\$ 81,847,946	\$ 81,656,620

FINANCIAL ANALYSIS OF THE GOVERNMENTS FUNDS

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

Governmental Funds

At the end of 2016, the County's governmental funds reported combined ending fund balances of \$24,255,680. Of this amount, approximately 3 percent constitutes nonspendable fund balance, 25 percent constitutes legally or contractually restricted fund balance, 52 percent constitutes specifically assigned fund balance, and 20 percent constitutes unassigned fund balance.

The General Fund is the operating fund of the County. At the end of the current fiscal year, the General Fund's total fund balance was \$6,720,095. The General Fund's restricted fund balance was \$1,931,335, and unassigned fund balance was \$4,788,760. As a measure of the General Fund's liquidity, it is useful to compare both unrestricted fund balance and total fund balance to total fund expenditures for 2016. Unrestricted fund balance represents 39 percent of total General Fund expenditures, while total fund balance represents 55 percent of that same amount.

In 2016, the fund balance amount in the General Fund increased by \$385,784. This was due to an increase in charges for services and investment earnings revenue.

The fund balance of the Road and Bridge Special Revenue Fund increased by \$495,201 in 2016 due to an increase in transportation sales tax revenue collected.

The fund balance of the Social Services Special Revenue Fund increased \$893,382 from the prior year due to increased funding for income maintenance administration and social services.

The fund balance of the Forfeited Tax Sale Special Revenue Fund decreased \$245,163. This decrease was the result of increased road maintenance and forfeiture expenditures.

Proprietary Fund

The Heritage Community Enterprise Fund operating loss in 2016 was \$451,294.

Total resident services and ancillary revenues increased 2.2 percent, from \$6,050,256 in fiscal year 2015 to \$6,186,197 in fiscal year 2016. Total revenue decreased 0.4 percent, from \$6,220,364 in fiscal year 2015 to \$6,195,032 in fiscal year 2016. The decreased revenues were a result of a decrease in investment earnings in 2016. Resident service expenses increased 10.2 percent, from \$6,025,642 in 2015 to \$6,637,491 in 2016.

GENERAL FUND BUDGETARY HIGHLIGHTS

Actual revenues were more than overall final budgeted revenues by \$1,163,530, with the largest positive variances in intergovernmental and miscellaneous revenues. Actual expenditures were more than overall final budgeted expenditures by \$676,891, mainly as a result of unbudgeted human services expenditures.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The County's investment in capital assets for its governmental activities as of December 31, 2016, and business-type activities as of September 30, 2016, amounted to \$78,002,812 (net of accumulated depreciation). The total decrease in the County's investment in capital assets for the current fiscal year was less than one percent.

Capital Assets (Net of Depreciation)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
Land	\$ 861,745	\$ 853,045	\$ 117,299	\$ 117,299	\$ 979,044	\$ 970,344
Permanent right of way	3,626,900	-	-	-	3,626,900	-
Construction in progress	2,008,235	6,878,189	-	-	2,008,235	6,878,189
Infrastructure	51,801,291	56,003,474	-	-	51,801,291	56,003,474
Buildings and improvements	14,124,371	8,764,064	2,665,867	2,886,327	16,790,238	11,650,391
Land improvements	154,629	192,667	23,143	27,692	177,772	220,359
Machinery and equipment	2,387,017	2,265,589	232,315	292,034	2,619,332	2,557,623
Total Capital Assets	\$ 74,964,188	\$ 74,957,028	\$ 3,038,624	\$ 3,323,352	\$ 78,002,812	\$ 78,280,380

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

Long-Term Debt

At the end of the current fiscal years, the County had total debt outstanding of \$21,666,175, which is backed by the full faith and credit of the government.

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
G.O. Bonds, net of premium	\$ 3,262,810	\$ 3,445,664	\$ 3,136,439	\$ 3,316,187	\$ 6,399,249	\$ 6,761,851
G.O. Refunding Bonds, net of premium	4,940,040	5,420,044	-	-	4,940,040	5,420,044
G.O. Nursing Home Revenue Bonds, net of Discount	-	-	10,015,402	10,009,768	10,015,402	10,009,768
Minnesota Public Facilities Authority loan	240,000	427,000	-	-	240,000	427,000
Capital leases	71,484	105,453	-	-	71,484	105,453
Total Long-Term Debt	\$ 8,514,334	\$ 9,398,161	\$ 13,151,841	\$ 13,325,955	\$ 21,666,175	\$ 22,724,116

The County's net decrease in debt of \$1,057,941 (5 percent) during the fiscal year was due to the payment of debt.

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

Hubbard County's bond rating is "Aa3" from Moody's.

Additional information on the County's long-term debt can be found in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The County depends on financial resources flowing from, or associated with, both the federal government and the State of Minnesota. Because of this dependency, the County is subject to changes in specific flows of intergovernmental revenues based on modifications to federal and state laws and federal and state appropriations. Revenue from intergovernmental sources, which includes federal and state revenues, totaled \$12,213,343 in 2016. This amounts to 34.1 percent of the total governmental fund revenue received in 2016. This compares to intergovernmental revenues in 2015 of \$12,632,134, or 36.1 percent of the total governmental fund revenue received.

While Hubbard County is progressive in their technology and equipment needs, they also maximize the use of all equipment to assure the taxpayers they are not buying new equipment needlessly. The Commissioners support the department managers in their search for ways to provide better services to the taxpayers at a lesser expense by using technology rather than increasing staff.

The Hubbard County Board of Commissioners, elected officials, and their department managers take very seriously the spending of taxpayer dollars. The departments have reduced their spending as much as possible while still providing the mandatory services to the taxpayers.

The unemployment rate for Hubbard County was 8.6 percent as of March 30, 2016. This is higher than the statewide rate of 4.6 percent and the national average rate of 4.9 percent.

Hubbard County's population at July 1, 2016, was 20,730, an increase of 302 since 2010. This ranks Hubbard County 41st out of the 87 counties in the State of Minnesota for population.

On December 7, 2016, Hubbard County set its 2017 revenue and expenditure budgets.

REQUESTS FOR INFORMATION

This annual financial report is designed to provide a general overview of Hubbard 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 the Hubbard County Auditor/Treasurer, Hubbard County Courthouse, 301 Court Avenue, Park Rapids, Minnesota 56470.

This page was left blank intentionally.

BASIC FINANCIAL STATEMENTS

This page was left blank intentionally.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET POSITION
DECEMBER 31, 2016
INCLUDING THE BUSINESS-TYPE INFORMATION
AS OF SEPTEMBER 30, 2016**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<u>Assets</u>			
Cash and cash equivalents	\$ 23,794,100	\$ 1,836,888	\$ 25,630,988
Taxes receivable – delinquent	466,158	-	466,158
Accounts receivable – net	317,830	1,174,086	1,491,916
Accrued interest receivable	69,490	-	69,490
Contracts receivable	1,444,906	-	1,444,906
Due from other governments	2,442,303	-	2,442,303
Due from related parties	-	11,289	11,289
Internal balances	-	136,531	136,531
Prepaid items	-	62,474	62,474
Inventories	337,539	-	337,539
Leveraged loan receivable	-	10,091,000	10,091,000
Restricted assets			
Cash and cash equivalents			
Resident trust funds	-	3,762	3,762
Board-designated – bond fund	-	99,885	99,885
Board-designated – building fund	-	1,047	1,047
Tenant security deposits	-	12,685	12,685
Permanent fund principal	483,359	-	483,359
Capital assets			
Non-depreciable	6,496,880	117,299	6,614,179
Depreciable – net of accumulated depreciation	68,467,308	2,921,325	71,388,633
Total Assets	\$ 104,319,873	\$ 16,468,271	\$ 120,788,144
<u>Deferred Outflows of Resources</u>			
Deferred pension outflows	\$ 9,745,543	\$ 1,505,893	\$ 11,251,436

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

**EXHIBIT 1
(Continued)**

**STATEMENT OF NET POSITION
DECEMBER 31, 2016
INCLUDING THE BUSINESS-TYPE INFORMATION
AS OF SEPTEMBER 30, 2016**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<u>Liabilities</u>			
Accounts payable	\$ 1,082,486	\$ 242,797	\$ 1,325,283
Salaries payable	699,413	158,922	858,335
Due to related parties	-	48,894	48,894
Contracts payable	51,779	-	51,779
Due to other governments	1,217,234	9,772	1,227,006
Accrued interest payable	74,781	6,733	81,514
Unearned revenue	-	3,700	3,700
Current liabilities payable from restricted assets	-	16,060	16,060
Long-term liabilities			
Due within one year	1,551,517	258,634	1,810,151
Due in more than one year	8,337,884	13,144,157	21,482,041
Net pension liability	16,740,862	3,653,777	20,394,639
Net other postemployment benefits obligation	748,651	92,149	840,800
Total Liabilities	\$ 30,504,607	\$ 17,635,595	\$ 48,140,202
<u>Deferred Inflows of Resources</u>			
Deferred pension inflows	\$ 1,634,830	\$ 416,602	\$ 2,051,432
<u>Net Position</u>			
Net investment in capital assets	\$ 66,398,075	\$ (97,815)	\$ 66,300,260
Restricted for			
General government	690,777	-	690,777
Public safety	384,187	-	384,187
Highways and streets	1,670,862	-	1,670,862
Sanitation	583,059	-	583,059
Culture and recreation	583,593	-	583,593
Conservation of natural resources	1,452,369	-	1,452,369
Capital projects	-	1,954,069	1,954,069
Debt service	1,183,123	99,885	1,283,008
Permanent fund principal	467,280	-	467,280
Unrestricted	8,512,654	(2,034,172)	6,478,482
Total Net Position	\$ 81,925,979	\$ (78,033)	\$ 81,847,946

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016
INCLUDING THE BUSINESS-TYPE INFORMATION
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

	Expenses	Fees, Charges, Fines, and Other
<u>Functions/Programs</u>		
Governmental activities		
General government	\$ 5,620,267	\$ 847,602
Public safety	7,656,195	878,813
Highways and streets	8,493,919	1,014,285
Sanitation	2,742,959	3,031,888
Human services	7,605,009	935,668
Culture and recreation	488,976	339
Conservation of natural resources	1,934,915	1,636,041
Interest	180,781	-
	\$ 34,723,021	\$ 8,344,636
Business-type activities		
Heritage Community	7,143,968	6,160,397
	\$ 41,866,989	\$ 14,505,033

General Revenues

Property taxes
Transportation sales tax
Mortgage registry and deed tax
Grants and contributions not restricted
to specific programs
Payments in lieu of tax
Investment earnings
Miscellaneous

Transfers

Total general revenues and transfers

Change in net position

Net Position – Beginning

Net Position – Ending

EXHIBIT 2

Program Revenues		Net (Expense) Revenue and Changes in Net Position		
Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
\$ 243,832	\$ -	\$ (4,528,833)	\$ -	\$ (4,528,833)
397,909	-	(6,379,473)	-	(6,379,473)
4,541,015	460,805	(2,477,814)	-	(2,477,814)
68,710	-	357,639	-	357,639
4,771,405	59,200	(1,838,736)	-	(1,838,736)
151,933	-	(336,704)	-	(336,704)
270,582	-	(28,292)	-	(28,292)
-	-	(180,781)	-	(180,781)
\$ 10,445,386	\$ 520,005	\$ (15,412,994)	\$ -	\$ (15,412,994)
25,800	-	-	(957,771)	(957,771)
\$ 10,471,186	\$ 520,005	\$ (15,412,994)	\$ (957,771)	\$ (16,370,765)
		\$ 13,533,862	\$ -	\$ 13,533,862
		911,649	-	911,649
		22,082	-	22,082
		852,769	-	852,769
		987,493	-	987,493
		304,993	8,835	313,828
		300,338	-	300,338
		(324,295)	(35,635)	(359,930)
		\$ 16,588,891	\$ (26,800)	\$ 16,562,091
		\$ 1,175,897	\$ (984,571)	\$ 191,326
		80,750,082	906,538	81,656,620
		\$ 81,925,979	\$ (78,033)	\$ 81,847,946

This page was left blank intentionally.

FUND FINANCIAL STATEMENTS

This page was left blank intentionally.

GOVERNMENTAL FUNDS

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

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

	General	Road and Bridge
<u>Assets</u>		
Cash and cash equivalents	\$ 6,607,858	\$ 5,667,841
Taxes receivable – delinquent	213,618	110,617
Accounts receivable	23,126	8,914
Accrued interest receivable	69,490	-
Contracts receivable	-	-
Due from other funds	634,220	23,594
Due from other governments	314,470	1,569,963
Inventories	-	337,539
Permanent fund principal	-	-
	\$ 7,862,782	\$ 7,718,468
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>		
Liabilities		
Accounts payable	\$ 527,133	\$ 271,658
Salaries payable	361,215	99,470
Contracts payable	-	51,779
Due to other funds	11,372	8,254
Due to other governments	25,302	11,087
	\$ 925,022	\$ 442,248
Deferred Inflows of Resources		
Unavailable revenue – taxes	\$ 164,733	\$ 85,303
Unavailable revenue – charges for services	-	-
Unavailable revenue – County state-aid highway allotments	-	669,225
Unavailable revenue – land and timber sales	-	-
Unavailable revenue – interest	52,932	-
	\$ 217,665	\$ 754,528
Fund Balances		
Nonspendable	\$ -	\$ 337,539
Restricted	1,931,335	1,001,637
Assigned	-	5,182,516
Unassigned	4,788,760	-
	\$ 6,720,095	\$ 6,521,692
	\$ 6,720,095	\$ 6,521,692
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 7,862,782	\$ 7,718,468

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

EXHIBIT 3

<u>Social Services</u>	<u>Forfeited Tax Sale</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 4,944,558	\$ 2,970,997	\$ 3,602,846	\$ 23,794,100
111,040	-	30,883	466,158
86,970	-	198,820	317,830
-	-	-	69,490
-	1,444,906	-	1,444,906
-	-	-	657,814
554,742	-	3,128	2,442,303
-	-	-	337,539
-	-	483,359	483,359
<u>\$ 5,697,310</u>	<u>\$ 4,415,903</u>	<u>\$ 4,319,036</u>	<u>\$ 30,013,499</u>
\$ 227,710	\$ 1,557	\$ 54,428	\$ 1,082,486
187,990	25,402	25,336	699,413
-	-	-	51,779
6,896	625,314	5,978	657,814
28,639	1,095,738	56,468	1,217,234
<u>\$ 451,235</u>	<u>\$ 1,748,011</u>	<u>\$ 142,210</u>	<u>\$ 3,708,726</u>
\$ 85,629	\$ -	\$ 23,816	\$ 359,481
-	-	133,237	133,237
-	-	-	669,225
-	834,218	-	834,218
-	-	-	52,932
<u>\$ 85,629</u>	<u>\$ 834,218</u>	<u>\$ 157,053</u>	<u>\$ 2,049,093</u>
\$ -	\$ -	\$ 467,280	\$ 804,819
-	1,209,177	1,838,339	5,980,488
5,160,446	624,497	1,714,154	12,681,613
-	-	-	4,788,760
<u>\$ 5,160,446</u>	<u>\$ 1,833,674</u>	<u>\$ 4,019,773</u>	<u>\$ 24,255,680</u>
<u>\$ 5,697,310</u>	<u>\$ 4,415,903</u>	<u>\$ 4,319,036</u>	<u>\$ 30,013,499</u>

This page was left blank intentionally.

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

EXHIBIT 4

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

Fund balance – total governmental funds (Exhibit 3)		\$ 24,255,680
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.		74,964,188
Deferred outflows of resources resulting from pension obligations are not available resources and, therefore, are not reported in governmental funds.		9,745,543
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as deferred inflows of resources—unavailable revenue in the governmental funds.		2,049,093
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
Bonds payable	\$ (8,110,000)	
Unamortized premiums on bonds	(92,850)	
Leases payable	(71,484)	
Loans payable	(240,000)	
Compensated absences	(1,375,067)	
Net other postemployment benefits obligation	(748,651)	
Net pension liability	(16,740,862)	
Accrued interest payable	(74,781)	(27,453,695)
Deferred inflows of resources resulting from pension obligations are not due and payable in the current period and, therefore, are not reported in the governmental funds.		(1,634,830)
Net Position of Governmental Activities (Exhibit 1)		\$ 81,925,979

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

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

	General	Road and Bridge
Revenues		
Taxes	\$ 6,412,839	\$ 4,021,695
Licenses and permits	159,658	-
Intergovernmental	3,586,752	4,485,777
Charges for services	1,223,664	960,229
Fines and forfeitures	43,604	-
Investment earnings	239,835	4,056
Gifts and contributions	20,157	-
Land and timber sales	-	-
Miscellaneous	702,926	54,056
	\$ 12,389,435	\$ 9,525,813
Expenditures		
Current		
General government	\$ 4,465,232	\$ -
Public safety	5,743,606	-
Highways and streets	-	8,493,360
Sanitation	-	-
Human services	909,688	-
Culture and recreation	573,124	-
Conservation of natural resources	593,742	-
Intergovernmental		
Highways and streets	-	342,741
Debt service		
Principal	-	220,969
Interest	-	13,911
	\$ 12,285,392	\$ 9,070,981
Excess of Revenues Over (Under) Expenditures	\$ 104,043	\$ 454,832
Other Financing Sources (Uses)		
Transfers in	\$ 622,969	\$ -
Transfers out	(341,228)	-
	\$ 281,741	\$ -
Net Change in Fund Balance	\$ 385,784	\$ 454,832
Fund Balance – January 1	6,334,311	6,026,491
Increase (decrease) in inventories	-	40,369
	\$ 6,720,095	\$ 6,521,692
Fund Balance – December 31	\$ 6,720,095	\$ 6,521,692

EXHIBIT 5

<u>Social Services</u>	<u>Forfeited Tax Sale</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 3,301,285	\$ -	\$ 898,151	\$ 14,633,970
-	-	425	160,083
3,957,444	110,496	72,874	12,213,343
435,964	-	3,044,447	5,664,304
-	-	-	43,604
382	-	7,788	252,061
-	-	-	20,157
-	1,507,947	-	1,507,947
499,704	18,030	40,843	1,315,559
<u>\$ 8,194,779</u>	<u>\$ 1,636,473</u>	<u>\$ 4,064,528</u>	<u>\$ 35,811,028</u>
\$ -	\$ -	\$ -	\$ 4,465,232
-	-	-	5,743,606
-	-	-	8,493,360
-	-	2,645,664	2,645,664
7,301,397	-	-	8,211,085
-	-	-	573,124
-	1,258,667	18,620	1,871,029
-	-	-	342,741
-	-	655,000	875,969
-	-	181,363	195,274
<u>\$ 7,301,397</u>	<u>\$ 1,258,667</u>	<u>\$ 3,500,647</u>	<u>\$ 33,417,084</u>
<u>\$ 893,382</u>	<u>\$ 377,806</u>	<u>\$ 563,881</u>	<u>\$ 2,393,944</u>
\$ -	\$ -	\$ 16,933	\$ 639,902
-	(622,969)	-	(964,197)
<u>\$ -</u>	<u>\$ (622,969)</u>	<u>\$ 16,933</u>	<u>\$ (324,295)</u>
\$ 893,382	\$ (245,163)	\$ 580,814	\$ 2,069,649
4,267,064	2,078,837	3,438,959	22,145,662
-	-	-	40,369
<u>\$ 5,160,446</u>	<u>\$ 1,833,674</u>	<u>\$ 4,019,773</u>	<u>\$ 24,255,680</u>

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

EXHIBIT 6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016**

Net change in fund balance – total governmental funds (Exhibit 5) \$ 2,069,649

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

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

Unavailable revenue – December 31	\$ 2,049,093	
Unavailable revenue – January 1	(1,682,056)	367,037

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

Expenditures for general capital assets and infrastructure	\$ 3,374,791	
Net book value of assets disposed of	(61,982)	
Current year depreciation	(3,305,649)	7,160

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

Principal repayments		
General obligation bonds	\$ 655,000	
Loans payable	187,000	
Leases payable	33,969	
Amortization of premiums	7,858	883,827

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	\$ 6,635	
Change in compensated absences	(171,527)	
Change in net other postemployment benefits obligation	(60,168)	
Change in net pension liability	(9,766,258)	
Change in deferred pension outflows	8,417,465	
Change in deferred pension inflows	(618,292)	
Change in inventories	40,369	(2,151,776)

Change in Net Position of Governmental Activities (Exhibit 2) \$ 1,175,897

PROPRIETARY FUND

This page was left blank intentionally.

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

EXHIBIT 7

**STATEMENT OF FUND NET POSITION
HERITAGE COMMUNITY ENTERPRISE FUND
SEPTEMBER 30, 2016**

Assets

Current assets

Cash and cash equivalents	\$	1,836,888
Accounts receivable – net of allowance for uncollectible accounts of \$147,783		1,174,086
Due from other funds		136,531
Due from related parties		11,289
Prepaid items		62,474
		62,474

Total current assets **\$ 3,221,268**

Restricted assets

Cash and cash equivalents		
Resident trust funds	\$	3,762
Board-designated – bond fund		99,885
Board-designated – building fund		1,047
Tenant security deposits		12,685
		12,685

Total restricted assets **\$ 117,379**

Noncurrent assets

Leveraged loan receivable	\$	10,091,000
Capital assets		
Non-depreciable		117,299
Depreciable – net of accumulated depreciation		2,921,325
		2,921,325

Total noncurrent assets **\$ 13,129,624**

Total Assets **\$ 16,468,271**

Deferred Outflows of Resources

Deferred pension outflows **\$ 1,505,893**

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

**EXHIBIT 7
(Continued)**

**STATEMENT OF FUND NET POSITION
HERITAGE COMMUNITY ENTERPRISE FUND
SEPTEMBER 30, 2016**

Liabilities

Current liabilities

Accounts payable	\$ 242,797
Salaries payable	158,922
Compensated absences payable	133,634
Due to related parties	48,894
Due to other governments	9,772
Accrued interest payable	6,733
Unearned revenue	3,700
General obligation bonds payable	125,000

Total current liabilities **\$ 729,452**

Current liabilities payable from restricted assets

Tenant security deposits payable	\$ 12,298
Resident trust funds payable	3,762

Total current liabilities payable from restricted assets **\$ 16,060**

Noncurrent liabilities

Compensated absences payable	\$ 117,316
General obligation bonds payable	13,026,841
Net pension liability	3,653,777
Net other postemployment benefits obligation	92,149

Total noncurrent liabilities **\$ 16,890,083**

Total Liabilities **\$ 17,635,595**

Deferred Inflows of Resources

Deferred pension inflows	\$ 416,602
--------------------------	------------

Net Position

Net investment in capital assets	\$ (97,815)
Restricted for capital projects	1,954,069
Restricted for debt service	99,885
Unrestricted	(2,034,172)

Total Net Position **\$ (78,033)**

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

EXHIBIT 8

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
HERITAGE COMMUNITY ENTERPRISE FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

Operating Revenues	
Charges for services	\$ 4,176,362
Rental income	1,606,439
Intergovernmental	25,800
Miscellaneous	<u>377,596</u>
Total Operating Revenues	<u>\$ 6,186,197</u>
Operating Expenses	
Nursing services	\$ 2,329,063
Administration and fiscal services	848,548
Other care related	452,198
Dietary services	623,587
Laundry	161,597
Housekeeping services	124,831
Plant operations	314,369
Employee benefits	1,492,481
Depreciation and amortization	<u>290,817</u>
Total Operating Expenses	<u>\$ 6,637,491</u>
Operating Income (Loss)	<u>\$ (451,294)</u>
Nonoperating Revenues (Expenses)	
Investment earnings	\$ 8,835
Interest expense	(503,977)
Miscellaneous	<u>(2,500)</u>
Total Nonoperating Revenues (Expenses)	<u>\$ (497,642)</u>
Income (Loss) Before Transfers	\$ (948,936)
Transfers in	187,764
Transfers out	<u>(223,399)</u>
Change in net position	\$ (984,571)
Net Position – October 1	<u>906,538</u>
Net Position – September 30	<u><u>\$ (78,033)</u></u>

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

EXHIBIT 9

**STATEMENT OF CASH FLOWS
HERITAGE COMMUNITY ENTERPRISE FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2016
Increase (Decrease) in Cash and Cash Equivalents**

Cash Flows from Operating Activities

Receipts from residents, programs, counties, and other revenue	\$ 5,726,872
Payments to employees	(4,048,045)
Payments to suppliers	<u>(1,997,884)</u>
Net cash provided by (used in) operating activities	<u>\$ (319,057)</u>

Cash Flows from Capital and Related Financing Activities

Principal paid on long-term debt	\$ (175,000)
Interest paid on long-term debt	(503,491)
Transfer to other funds	(38,135)
Purchase of capital assets	<u>(8,352)</u>
Net cash provided by (used in) capital and related financing activities	<u>\$ (724,978)</u>

Cash Flows from Investing Activities

Investment earnings received	\$ 8,835
Deposits to bond fund and reinvested interest	<u>66,861</u>
Net cash provided by (used in) investing activities	<u>\$ 75,696</u>

Net Increase (Decrease) in Cash and Cash Equivalents	\$ (968,339)
---	---------------------

Cash and Cash Equivalents – October 1	<u>2,805,227</u>
---------------------------------------	------------------

Cash and Cash Equivalents – September 30	<u><u>\$ 1,836,888</u></u>
--	-----------------------------------

Reconciliation of Cash and Cash Equivalents to the Statement of Net Position

Cash and Cash Equivalents – September 30	<u><u>\$ 1,836,888</u></u>
--	-----------------------------------

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

**EXHIBIT 9
(Continued)**

**STATEMENT OF CASH FLOWS
HERITAGE COMMUNITY ENTERPRISE FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2016
Increase (Decrease) in Cash and Cash Equivalents**

Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities	
Operating income (loss)	<u>\$ (451,294)</u>
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities	
Depreciation expense	\$ 290,817
Loss on disposal of assets	2,263
(Increase) decrease in accounts receivable	(427,884)
(Increase) decrease in due from related party	(7,188)
(Increase) decrease in due from Hubbard County	(22,726)
(Increase) decrease in prepaid items	(449)
(Increase) decrease in deferred pension outflows	(1,243,489)
Increase (decrease) in accounts payable	72,506
Increase (decrease) in salaries payable	50,218
Increase (decrease) in due to Hubbard County	(3,160)
Increase (decrease) in due to related party	(76,268)
Increase (decrease) in tenant security deposits payable	84
Increase (decrease) in other current liabilities	(8,799)
Increase (decrease) in deferred pension inflows	122,479
Increase (decrease) in net pension liability	<u>1,383,833</u>
Total adjustments	<u>\$ 132,237</u>
Net Cash Provided by (Used in) Operating Activities	<u><u>\$ (319,057)</u></u>

This page was left blank intentionally.

FIDUCIARY FUNDS

This page was left blank intentionally.

HUBBARD COUNTY
PARK RAPIDS, MINNESOTA

EXHIBIT 10

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
DECEMBER 31, 2016

	<u>Agency Funds</u>
<u>Assets</u>	
Cash and cash equivalents	\$ <u>587,078</u>
<u>Liabilities</u>	
Due to other governments	\$ <u>587,078</u>

This page was left blank intentionally.

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

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

1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). 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.

Hubbard County has not included in its government-wide financial statements financial data for the County's legally separate component unit as required by GASB Statements 14 and 34. This departure from GAAP is discussed in Note 1.A.

A. Financial Reporting Entity

Hubbard County was established February 26, 1883, 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 Coordinator, appointed by the Board, serves as the clerk of the Board but has no vote.

Blended Component Unit

A Joint Governmental Cooperative Fuel Facility was organized in 1997 under the authority of Minn. Stat. § 471.59. The Facility is operated, supervised, and controlled by the County. The governing body of the Facility is a Joint Powers Board, which consists of five members. Two of the members are appointed by the Hubbard County Board of Commissioners, two are appointed by the Park Rapids School Board, and the other member is appointed by the Park Rapids City Council. The County Highway Department is serving as the fiscal agent of the Joint Powers Board.

Although the Facility is legally separate from the County, it is reported as part of the County since it provides service almost entirely to the County. Title to the land, equipment, and structures of the Facility are in the name of the County. The activity of the Facility is recorded in the Road and Bridge Fund of the County. Separate financial statements are not prepared for the Facility.

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Discretely Presented Component Unit

The following component unit of Hubbard County qualifies for inclusion in the financial reporting entity as a discretely presented component unit:

<u>Component Unit</u>	<u>Component Unit to be Included in Reporting Entity Because</u>	<u>Separate Financial Statements</u>
Hubbard County Housing and Redevelopment Authority (HRA) provides services pursuant to Minn. Stat. §§ 469.001-469.047.	The County Board appoints a voting majority of the HRA Board and can impose its will on the HRA	Separate financial statements can be obtained at: Hubbard County Housing and Redevelopment Authority 312 East 3rd Street Park Rapids, Minnesota 56470

When included as part of the financial reporting entity, GAAP require financial data for discretely presented component units to be presented in separate columns in the government-wide financial statements to emphasize that they are legally separate from the reporting entity. Hubbard County has elected not to include the component unit information in the County’s government-wide financial statements. This is a departure from accounting principles generally accepted in the United States of America.

Joint Ventures and Jointly-Governed Organizations

The County participates in joint ventures and jointly-governed organizations which are described in Note 6.E. and Note 6.F., respectively.

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (the statement of net position and the statement of activities) display information about the primary government and its component units. 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.

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

In the government-wide statement of net position, both the governmental and business-type activities columns are presented on a consolidated basis by column and are reported on a full accrual, economic resource basis, that 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, different business-type activities, and discretely presented component unit are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenues include: (1) fees, charges, and fines paid by the recipients of goods, services, or privileges provided by a given function or activity; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

2. Fund Financial Statements

The fund financial statements provide information about the County's funds, including its fiduciary funds and blended component unit. Separate statements for each fund category—governmental, 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.

The County reports the following major governmental funds:

The General Fund is the County's primary operating fund. It accounts for and reports all financial resources of the general government not accounted for in another fund.

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

The Road and Bridge Special Revenue Fund accounts for restricted revenues from the federal and state government, as well as assigned property tax revenues used for the construction and maintenance of roads, bridges, and other projects affecting County roadways.

The Social Services Special Revenue Fund accounts for restricted revenues from the federal, state, and other oversight agencies, as well as assigned property tax revenues used for economic assistance and community social services programs.

The Forfeited Tax Sale Special Revenue Fund accounts for all funds received from the sale of land for forfeited taxes and various forest and timber management grants. Monies are held until disbursement to various entities.

The County reports the following major enterprise fund:

The Heritage Community Enterprise Fund accounts for the combined activities of the County's Heritage Living Center, Heritage Manor, and Heritage Cottages facilities, which provide long-term health care, adult day care, memory care, and assisted living senior housing services for the elderly. Financing is provided by user service charges.

Additionally, the County reports the following fund types:

The Solid Waste Special Revenue Fund accounts for restricted special assessment revenues, miscellaneous revenues, and revenue resources from the state for costs relating to disposal of the County's solid waste.

The Building Bonds Debt Service Fund is used to account for the accumulation of restricted resources used for and the payment of principal, interest, and related costs.

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

The Environmental Trust Permanent Fund is used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for environmental purposes.

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

C. Measurement Focus and Basis of Accounting

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

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. Hubbard County considers all revenues to be available if they are collected within 60 days after the end of the current period. Property taxes are recognized as revenues in the year for which they are levied provided they are also available. Shared revenues are generally recognized in the period the appropriation goes into effect and the revenues are available. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met and are available. Property and other taxes, licenses, and interest are all considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Issuances of long-term debt and acquisitions under capital leases are reported as other financing sources.

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

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

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

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

1. Cash and Cash Equivalents

The County has defined cash and cash equivalents for the purpose of the statement of cash flows for the proprietary funds 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 Auditor/Treasurer for the purpose of increasing earnings through investing activities. Pooled and fund investments, if any, are reported at their fair value at December 31, 2016. A market approach is used to value all investments other than external investment pools, which are measured at net asset value. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds receive investment earnings based on state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2016 were \$167,060.

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

1. Summary of Significant Accounting Policies

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

3. Receivables and Payables

Activities between funds that is 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 from/to 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.”

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 on May 15 and the second half due on October 15 or November 15. Unpaid taxes at December 31 become liens on the respective property and are classified in the financial statements as delinquent taxes receivable.

Accounts receivable are shown net of any allowance for uncollectible amounts, if applicable. No allowance for uncollectible taxes/special assessments has been provided because such amounts are not expected to be material.

4. Leveraged Loan Receivable

On December 31, 2014, Hubbard County entered into agreements whereby \$10,091,000 of the proceeds from issuance of G.O. Nursing Home Revenue Bonds were applied to capital costs of the County’s nursing home replacement project, on the premises of the Heritage Community, through a leveraged loan to Twain Investment Fund 65, and related transactions, all for the purpose of obtaining New Market Tax Credit Funding from U.S. Bancorp Community Development Corporation, to complete the funding for the project. This loan will be repaid through annual payments on each December 31 during the life of the leveraged loan.

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

1. Summary of Significant Accounting Policies

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

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.

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.

6. Restricted Assets

Certain funds of the County are classified as restricted 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 land; right-of-way; construction in progress; infrastructure (e.g., roads, bridges, and similar items); buildings and improvements; land improvements; and machinery and equipment, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the County as assets with initial useful lives extending beyond two years and a dollar amount for capitalization per asset of \$5,000, except all land which is capitalized regardless of cost. Capital assets are recorded at historical cost or estimated historical cost when purchased or constructed. Donated capital assets are recorded at acquisition value (entry price) on the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extended the life of the asset are not capitalized.

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

1. Summary of Significant Accounting Policies

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

7. Capital Assets (Continued)

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 Heritage Community Enterprise Fund had no capitalized interest.

Infrastructure, 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	15 – 70
Buildings and improvements	25 – 40
Land improvements	25 – 30
Machinery and equipment	3 – 15

All capital assets, other than land and construction in progress, of business-type activities are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	5 – 15
Buildings and improvements	5 – 25
Machinery and equipment	5 – 20

8. Compensated Absences

The liability for compensated absences reported in financial statements is calculated differently between certain departments during 2016. The liability is calculated either by using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

1. Summary of Significant Accounting Policies

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

8. Compensated Absences (Continued)

employees who are expected to become eligible in the future to receive such payments upon termination are included, or the liability is calculated from unused paid time off (PTO) balances. Compensated absences are accrued when incurred in the government-wide and proprietary fund financial statements. The current portion of this liability is estimated based on the employee's hourly wage and the employee's PTO accrual rate, which is based on years of service. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

9. Deferred Outflows/Inflows of Resources

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

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The County has two items, unavailable revenue and deferred pension inflows, which qualify for reporting in this category. The County reports unavailable revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Unavailable revenues are reported only in the governmental funds balance sheet. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available. Deferred pension inflows arise only under the full accrual basis of accounting and, accordingly, are reported only in the statement of net position.

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

1. Summary of Significant Accounting Policies

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

10. Pensions

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA, except that PERA's fiscal year-end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates, and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Plan investments are reported at fair value. The net pension liability is liquidated by the General Fund, the Road and Bridge Special Revenue Fund, the Social Services Special Revenue Fund, the Forfeited Tax Sale Special Revenue Fund, the Solid Waste Special Revenue Fund, the Environmental Trust Permanent Fund, and the Heritage Community Enterprise Fund.

11. Long-Term Obligations

In the government-wide financial statements and the proprietary 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 recognized as an expense in the period incurred.

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 when issued. 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.

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

1. Summary of Significant Accounting Policies

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

12. Net Position and Fund Balance

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

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

In the governmental fund financial statements, the County classifies fund balances as follows:

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

Restricted – includes fund balance amounts that are constrained for specific purposes which are either externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Committed – includes fund balance amounts that are constrained for specific purposes imposed by resolution of the County Board (which is the highest level of decision-making authority). To remove the constraint on specified use of committed resources, the County Board shall pass a resolution.

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

1. Summary of Significant Accounting Policies

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

12. Net Position and Fund Balance (Continued)

Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither restricted nor 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 Auditor/Treasurer who has been delegated that authority by County Board resolution.

Unassigned – includes positive fund balance within the General Fund, which has not been classified within the above-mentioned categories, and negative fund balances in other governmental funds.

The County will maintain an unrestricted fund balance in the General Fund of an amount not less than 35 to 50 percent of next year’s budgeted expenditures of the General Fund. Unrestricted fund balance can be “spent down” if there is an anticipated budget shortfall. If spending unrestricted fund balance in designated circumstances has reduced unrestricted fund balance to a point below the minimum targeted level, as noted above, the replenishment will be funded by tax levies within five years.

Stabilization arrangements are defined as formally setting aside amounts for use in emergency situations or when revenue shortages or budgetary imbalances arise. The County Board will set aside amounts by resolution as deemed necessary that can only be expended for a natural disaster, human catastrophe, or other unforeseen emergencies, such as a lengthy court trial, as the need for stabilization arises. The need for stabilization will only be utilized for situations that are not expected to occur routinely. The County did not identify an amount for stabilization as of December 31, 2016.

When both restricted and unrestricted resources are available for use, it is the County’s policy to use restricted resources first, then unrestricted resources as they are needed. When committed, assigned, or unassigned resources are available for use, it is the County’s policy to use resources in the following order: (1) committed, (2) assigned, and (3) unassigned.

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

1. Summary of Significant Accounting Policies

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

13. Net Resident Service Revenues

The Heritage Community's Heritage Living Center net resident service revenues include room charges and ancillary services to residents and are recorded at established billing rates, net of contractual adjustments, resulting from agreements with third-party payers.

Provisions for estimated third-party payer settlements are provided in the period the related services are rendered. Differences between the estimated amounts accrued and subsequent settlements are recorded in revenues in the year of settlement. Following is a reconciliation of gross resident service revenues to net resident service revenues:

	<u>Amount</u>
Gross resident service revenues	\$ 4,524,971
Adjustments and allowances	(299,450)
Provisions for uncollectible accounts	<u>(49,159)</u>
Net Resident Service Revenues	<u>\$ 4,176,362</u>

14. Third-Party Reimbursement Agreements

Medicaid

The Heritage Community's Heritage Living Center participates in the Medicaid program, which is administered by the Minnesota Department of Human Services (DHS). Medicaid and private paying residents are classified into one of 48 Resource Utilization Groups (RUG) for purposes of establishing payment rates.

Effective January 1, 2016, nursing facilities are paid under the Value Based Nursing Facility Reimbursement (VBR) system as approved during the 2015 Minnesota State Legislative Session. Under the VBR system, care-related costs are reimbursed at actual cost subject to certain limitations. Other operating costs are reimbursed using a pricing model, which results in the rates of these costs

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

1. Summary of Significant Accounting Policies

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

14. Third-Party Reimbursement Agreements

Medicaid (Continued)

being the same for all nursing facilities in the state. Certain other costs, such as qualifying employer health insurance costs, are reimbursed at an external fixed payment rate and will be cost based with no limitations. Reimbursement for historic property-related costs is a separate component of the rate that has been frozen since 2010. Additional reimbursement for new property-related costs is possible under certain conditions.

The change to the VBR system includes a hold harmless provision which protects nursing home facilities from being paid at rates lower than those in effect December 31, 2015. Nursing facilities are also protected from significant decreases in rates in a single year due to changes in care-related costs.

By Minnesota statute, a nursing facility may not charge private-paying residents in multiple-occupancy rooms per diem rates in excess of the approved Medicaid rates for similar services.

Medicare

The Heritage Community's Heritage Living Center participates in the Medicare program. This federal program is administered by the Centers for Medicare and Medicaid Services (CMS). Heritage Living Center is paid under the Medicare Prospective Payment System (PPS) for residents who are Medicare Part A eligible and meet the coverage guidelines for skilled nursing facility services (SNFs). The PPS is a per diem price-based system. Annual cost reports are required to be submitted to the designated Medicare Administrative Contractor, however, they do not contain a cost settlement.

Nursing facilities licensed for participation in the Medicare and Medicaid programs are subject to annual surveys. If it is determined that a nursing facility is not in substantial compliance with the requirements of participation, CMS may impose sanctions and penalties during the period of noncompliance, which would have a negative impact on the revenues of the nursing facility.

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

1. Summary of Significant Accounting Policies

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

15. Occupancy Percentages

During the year ended September 30, 2016, the Heritage Community's Heritage Living Center's occupancy percentages and the percentages of resident days covered under the Medicaid and Medicare programs were as follows:

	<u>Percentage</u>
Total Occupancy (Based on 60 beds)	87.7%
Medicaid	55.1
Medicare	12.6

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

2. Stewardship, Compliance, and Accountability

A. Deficits in Equity Accounts

The Heritage Community Enterprise Fund had a deficit net position of \$78,033 as of September 30, 2016. This deficit will be eliminated with future revenues and transfers if necessary.

B. Land Management

The County manages 137,351 acres of state-owned, tax-forfeited land. This land generates revenues primarily from recreational land leases and land and timber sales. Land management costs, including forestry costs such as site preparation, seedlings,

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

2. Stewardship, Compliance, and Accountability

B. Land Management (Continued)

tree planting, and logging roads, are accounted for as current operating expenditures. Revenues in excess of expenditures are distributed to the County and cities, towns, and school districts within the County according to state statute. As of December 31, 2016, the County has \$1,444,906 in contracts receivable from land leases and timber sales.

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

Reconciliations of the County's total deposits and investments to the basic financial statements as of December 31, 2016, are reported as follows:

Governmental funds		
Cash and cash equivalents	\$	23,794,100
Restricted assets		
Permanent fund principal		483,359
Proprietary funds		
Cash and cash equivalents		1,836,888
Restricted assets		
Cash and cash equivalents		
Resident trust funds		3,762
Tenant security deposits		12,685
Board-designated – bond fund		99,885
Board-designated – building fund		1,047
Fiduciary funds		
Cash and cash equivalents		587,078
Total Cash and Cash Equivalents	\$	26,818,804
Deposits	\$	26,815,794
Cash on Hand		3,010
Total Deposits and Cash on Hand	\$	26,818,804

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Deposits

Minnesota Statutes, sections 118A.02 and 118A.04 authorize the County to deposit its cash and to invest in certificates of deposit in financial institutions designated by the Board. Minnesota Statute, section 118A.03 requires that all County deposits be covered by insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit plus accrued interest at the close of the financial institution's banking day, not covered by insurance or bonds.

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk. As of December 31, 2016, the County's deposits were not exposed to custodial credit risk.

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2016, for the County's governmental activities and as of September 30, 2016, for the County's business-type activities, including any applicable allowances for uncollectible accounts, are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	\$ 466,158	\$ -
Accounts	317,830	-
Accrued interest	69,490	-
Contracts	1,444,906	-
Due from other governments	2,442,303	-
Total Governmental Activities	\$ 4,740,687	\$ -
Business-Type Activities		
Accounts – net of allowance for uncollectible accounts of \$147,783	\$ 1,174,086	\$ -
Leveraged loan receivable	10,091,000	10,091,000
Due from related parties	11,289	-
Total Business-Type Activities	\$ 11,276,375	\$ 10,091,000

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the governmental activities for the year ended December 31, 2016, and for the business-type activities for the year ended September 30, 2016, was as follows:

Governmental Activities

	Beginning Balance	Increases*	Decreases*	Ending Balance
Capital assets not depreciated				
Land	\$ 853,045	\$ 8,700	\$ -	\$ 861,745
Permanent right-of-way	-	3,626,900	-	3,626,900
Construction in progress	6,878,189	1,383,612	6,253,566	2,008,235
Total capital assets not depreciated	<u>\$ 7,731,234</u>	<u>\$ 5,019,212</u>	<u>\$ 6,253,566</u>	<u>\$ 6,496,880</u>
Capital assets depreciated				
Infrastructure	\$ 73,678,854	\$ 861,987	\$ 2,968,764	\$ 71,572,077
Buildings and improvements	16,634,656	5,969,745	12,500	22,591,901
Land improvements	629,002	-	-	629,002
Machinery and equipment	9,842,804	746,177	607,871	9,981,110
Total capital assets depreciated	<u>\$ 100,785,316</u>	<u>\$ 7,577,909</u>	<u>\$ 3,589,135</u>	<u>\$ 104,774,090</u>
Less: accumulated depreciation				
Infrastructure	\$ 17,675,380	\$ 2,095,406	\$ -	\$ 19,770,786
Buildings and improvements	7,870,592	609,438	12,500	8,467,530
Land improvements	436,335	38,038	-	474,373
Machinery and equipment	7,577,215	562,767	545,889	7,594,093
Total accumulated depreciation	<u>\$ 33,559,522</u>	<u>\$ 3,305,649</u>	<u>\$ 558,389</u>	<u>\$ 36,306,782</u>
Total capital assets depreciated, net	<u>\$ 67,225,794</u>	<u>\$ 4,272,260</u>	<u>\$ 3,030,746</u>	<u>\$ 68,467,308</u>
Governmental Activities Capital Assets, Net	<u>\$ 74,957,028</u>	<u>\$ 9,291,472</u>	<u>\$ 9,284,312</u>	<u>\$ 74,964,188</u>

*In the prior year, \$2,968,764 of permanent right-of-way was included in infrastructure, a depreciable asset, when it should have been included in non-depreciable assets. There was no depreciation being observed while it was under infrastructure.

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

Business-Type Activities

	Beginning Balance	Increases	Decreases	Ending Balance
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Capital assets not depreciated				
Land	\$ 117,299	\$ -	\$ -	\$ 117,299
Capital assets depreciated				
Buildings and improvements	\$ 6,314,237	\$ 8,352	\$ 319,145	\$ 6,003,444
Land improvements	190,783	-	-	190,783
Machinery and equipment	1,471,628	-	511,817	959,811
Total capital assets depreciated	<u>\$ 7,976,648</u>	<u>\$ 8,352</u>	<u>\$ 830,962</u>	<u>\$ 7,154,038</u>
Less: accumulated depreciation				
Buildings and improvements	\$ 3,427,910	\$ 226,549	\$ 316,882	\$ 3,337,577
Land improvements	163,091	4,549	-	167,640
Machinery and equipment	1,179,594	59,719	511,817	727,496
Total accumulated depreciation	<u>\$ 4,770,595</u>	<u>\$ 290,817</u>	<u>\$ 828,699</u>	<u>\$ 4,232,713</u>
Total capital assets depreciated, net	<u>\$ 3,206,053</u>	<u>\$ (282,465)</u>	<u>\$ 2,263</u>	<u>\$ 2,921,325</u>
Business-Type Activities, Capital Assets, Net	<u>\$ 3,323,352</u>	<u>\$ (282,465)</u>	<u>\$ 2,263</u>	<u>\$ 3,038,624</u>

Depreciation Expense

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

Governmental Activities	
General government	\$ 138,248
Public safety	589,224
Highways and streets, including depreciation of infrastructure assets	2,345,186
Sanitation	103,063
Human services	68,266
Culture and recreation	18,289
Conservation of natural resources	43,373
Total Depreciation Expense – Governmental Activities	<u>\$ 3,305,649</u>
Business-Type Activities	
Heritage Community	<u>\$ 290,817</u>

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

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

Due To/From Other Funds

Receivable Fund	Payable Fund	Amount	
General Fund	Road and Bridge Special Revenue Fund	\$ 8,254	Reimbursements
	Social Services Special Revenue Fund	2,005	Reimbursements
	Forfeited Tax Sale Special Revenue Fund	623,716	Reimbursements
	Solid Waste Special Revenue Fund	245	Reimbursements
Total Due to General Fund		<u>\$ 634,220</u>	
Road and Bridge Special Revenue Fund	General Fund	\$ 11,372	Reimbursements
	Social Services Special Revenue Fund	4,891	Reimbursements
	Forfeited Tax Sale Special Revenue Fund	1,598	Reimbursements
	Solid Waste Special Revenue Fund	5,733	Charges for services
Total Due to Road and Bridge Special Revenue Fund		<u>\$ 23,594</u>	
Heritage Community Enterprise Fund	General Fund	<u>\$ 136,531</u>	Reimbursements
Total Due From Other Funds		\$ 794,345	
Due to General Fund from the Heritage Community Enterprise Fund occurring between September 30 and December 31, 2016		<u>(136,531)</u>	
Total Due To Other Funds		<u>\$ 657,814</u>	

The interfund receivables and payables are expected to be paid within one year of December 31, 2016.

Interfund Transfers

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

	Interfund Transfer In	Interfund Transfer Out	Purpose of Transfer In
General Fund	\$ 622,969	\$ 341,228	Forfeited tax sale proceeds
Forfeited Tax Sale Special Revenue Fund	-	622,969	
Solid Waste Special Revenue Fund	16,933	-	Matching grant funds
Heritage Community Enterprise Fund	187,764	223,399	Reimbursements
Total	<u>\$ 827,666</u>	<u>\$ 1,187,596</u>	
Change in the Heritage Community Enterprise Fund amounts from September 30 to December 31, 2016	<u>359,930</u>	-	Reimbursements
Total	<u>\$ 1,187,596</u>	<u>\$ 1,187,596</u>	

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

C. Liabilities

Governmental Activities

Compensated Absences

Under the County's personnel policies and union contracts, employees are granted vacation in varying amounts based on their length of service. The County's Paid Time Off (PTO) policy was adopted on August 1, 2012. Employees will earn time off according to the PTO policy. PTO accrual varies from 18 to 36 days per year. Leave may be accumulated to a maximum of 60 days of PTO under the County's employment policies. For the governmental activities, compensated absences are generally liquidated by the General Fund, the Road and Bridge Special Revenue Fund, the Social Services Special Revenue Fund, the Forfeited Tax Sale Special Revenue Fund, the Solid Waste Special Revenue Fund, and the Environmental Trust Permanent Fund.

Unused compensatory time, accumulated PTO, vacation, and vested sick leave are paid to employees upon termination. Unvested sick leave, approximately \$349,794 at December 31, 2016, is available to employees in the event of illness-related absences and is not paid to them at termination.

Contract Commitments

The County has an active contract commitment as of December 31, 2016. The commitment includes highway project SP 029-6258-002 in the Road and Bridge Special Revenue Fund. As of December 31, 2016, the County spent \$610,409 and had a remaining commitment of \$1,480,627 on the highway project.

Capital Leases

The County has entered into lease agreements as lessee for financing the acquisition of certain equipment. The lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception dates. The capital leases consist of the following at December 31, 2016:

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

Governmental Activities

Capital Leases (Continued)

<u>Lease</u>	<u>Maturity</u>	<u>Installment</u>	<u>Payment Amount</u>	<u>Original</u>	<u>Balance</u>
Governmental Activities					
2012 Challenger tractor	2017	Annual	\$ 18,230	\$ 102,242	\$ 17,657
2013 John Deere tractor	2019	Annual	19,073	108,515	53,827
Less: accumulated depreciation				<u>(99,540)</u>	<u>-</u>
Total Governmental Activities Capital Leases				<u>\$ 111,217</u>	<u>\$ 71,484</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2016, were as follows:

<u>Year Ending December 31</u>	<u>Governmental Activities</u>
2017	\$ 37,304
2018	19,073
2019	<u>19,073</u>
Total minimum lease payments	\$ 75,450
Less: amount representing interest	<u>(3,966)</u>
Present Value of Minimum Lease Payments	<u>\$ 71,484</u>

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

Business-Type Activities

Operating Leases

On December 31, 2014, Hubbard County entered into operating leases for leased property to facilitate the construction and reconstruction project of the Heritage Community with Heritage Center, LLC. The term of the lease expires on December 31, 2049, with the option to extend or terminate at alternative dates as described in the lease documents. The future lease payments to be made by the County as of September 30, 2016, are as follows:

<u>Year Ending September 30</u>	<u>Lease Payment</u>
2017	\$ 65,000
2018	172,000
2019	172,000
2020	172,000
2021	172,000
2022 – 2026	2,684,000
2027 – 2031	3,156,000
2032 – 2036	3,184,000
2037 – 2041	3,210,000
2042 – 2046	3,243,000
2047 – 2050	<u>2,600,000</u>
Total	<u>\$ 18,830,000</u>

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

Long-Term Debt

Governmental Activities

General Obligation Bonds

Hubbard County General Obligation Correctional Facility Refunding Bonds, Series 2012, represent debt incurred to refund the General Obligation Correctional Facilities Bonds, Series 2004, on the crossover date of February 1, 2014. These bonds, dated May 23, 2012, have an original issue amount of \$5,835,000. They carry a net interest rate of 2.00 to 2.25 percent and are due in annual installments beginning February 1, 2015, through February 2025. As a result of the refunding, the County realized a substantial interest rate reduction, a gross savings of approximately \$669,462 and a present value savings of approximately \$590,314. The balance due on these bonds is \$4,890,000, including bond premium of \$50,040, as of December 31, 2016.

Hubbard County General Obligation Capital Improvement Plan Bonds, Series 2013, represent debt incurred for the purpose of providing financing of a portion of the estimated cost of acquisition and betterment for the capital improvement projects included in the 2013 – 2017 Capital Improvement Plan. These bonds are dated May 29, 2013, with an original issue amount of \$3,580,000 and a net premium of \$51,372. They carry a net interest rate of 2.0 to 3.0 percent and are due in annual installments of \$180,000 to \$250,000 through February 2031. The balance due on these bonds is \$3,220,000, including bond premium of \$42,810, as of December 31, 2016.

Transportation Revolving Loan

Hubbard County Minnesota Public Facilities Authority Loan represents debt incurred for road and bridge construction. This loan, dated October 1, 2007, is authorized up to \$1,800,000, with \$503,976 loaned in 2007, \$1,131,290 loaned in 2008, and \$144,897 loaned in 2009. It carries a net interest rate of 2.477 percent and is due in annual installments of \$48,000 to \$192,000 through 2018. The balance due on this loan is \$240,000 as of December 31, 2016.

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

Long-Term Debt

Governmental Activities (Continued)

Debt Service Requirements

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

Year Ending December 31	General Obligation Correctional Facility Refunding Bonds, Series 2012			
	Principal	Interest		
2017	\$ 490,000	\$ 94,400		
2018	505,000	84,450		
2019	515,000	74,250		
2020	530,000	63,800		
2021	540,000	53,100		
2022 – 2026	2,310,000	99,150		
Subtotal	\$ 4,890,000	\$ 469,150		
Bond premium	50,040	-		
Total	\$ 4,940,040	\$ 469,150		

Year Ended December 31	General Obligation Capital Improvement Plan Bonds, Series 2013		Minnesota Public Facilities Authority Loan	
	Principal	Interest	Principal	Interest
2017	\$ 185,000	\$ 73,212	\$ 192,000	\$ 5,945
2018	190,000	69,462	48,000	1,189
2019	195,000	65,613	-	-
2020	195,000	61,713	-	-
2021	200,000	57,763	-	-
2022 – 2026	1,070,000	225,563	-	-
2027 – 2031	1,185,000	87,931	-	-
Subtotal	\$ 3,220,000	\$ 641,257	\$ 240,000	\$ 7,134
Bond premium	42,810	-	-	-
Total	\$ 3,262,810	\$ 641,257	\$ 240,000	\$ 7,134

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

Long-Term Debt

Governmental Activities (Continued)

Changes in Long-Term Liabilities

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General Obligation Correctional Facility Refunding Bonds, Series 2012	\$ 5,365,000	\$ -	\$ 475,000	\$ 4,890,000	\$ 490,000
Add: Bond premium	55,044	-	5,004	50,040	-
General Obligation Capital Improvement Plan Bonds, Series 2013	3,400,000	-	180,000	3,220,000	185,000
Add: Bond premium	45,664	-	2,854	42,810	-
Minnesota Public Facilities Authority loan	427,000	-	187,000	240,000	192,000
Capital leases	105,453	-	33,969	71,484	35,051
Compensated absences	1,203,540	876,630	705,103	1,375,067	649,466
Governmental Activities Long-Term Liabilities	\$ 10,601,701	\$ 876,630	\$ 1,588,930	\$ 9,889,401	\$ 1,551,517

The capital leases and Minnesota Public Facilities Authority loan are being paid by the Road and Bridge Special Revenue Fund, and the General Obligation Bonds are paid by the Building Bonds Debt Service Fund.

Business-Type Activities

General Obligation Bonds

Hubbard County General Obligation Housing Revenue Refunding Bonds, Series 2014, \$1,795,000 General Obligation Housing Revenue Refunding Bonds dated April 22, 2014, due in annual installments of \$110,000 to \$160,000, with interest from 2.0 percent to 3.0 percent through August 2027. The balance due on these bonds is \$1,565,000 as of September 30, 2016.

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

Long-Term Debt

Business-Type Activities

General Obligation Bonds (Continued)

Hubbard County General Obligation Housing Development Revenue Bonds, Series 2008, \$1,825,000 General Obligation Housing Development Revenue Bonds dated November 18, 2008, due in annual installments of \$45,000 to \$125,000 with interest from 3.75 percent to 5.50 percent through October 2034. The balance due on these bonds is \$1,520,000 as of September 30, 2016.

Hubbard County General Obligation Nursing Home Revenue Bonds, Series 2014, represent debt incurred for the purpose of providing financing for the Heritage Capital Project, \$10,145,000 General Obligation Nursing Home Revenue Bonds dated December 31, 2014, due in annual installments of \$250,000 to \$715,000, with interest from 1.5 percent to 4.5 percent through October 2039. The balance due on these bonds is \$10,145,000 as of September 30, 2016.

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Interest Rates (%)</u>	<u>Original Issue Amounts</u>	<u>Outstanding Balance September 30, 2016</u>
General Obligation Bonds					
2014 G.O. Housing Development Revenue Bonds	2027	\$110,000 – \$160,000	2.00 – 3.00	\$ 1,795,000	\$ 1,565,000
2014 G.O. Nursing Home Revenue Bonds	2039	\$250,000 – \$715,000	1.50 – 4.50	10,145,000	10,145,000
2008 G.O. Housing Development Revenue Bonds	2034	\$45,000 – \$125,000	3.75 – 5.50	<u>1,825,000</u>	<u>1,520,000</u>
Total General Obligation Bonds				<u>\$ 13,765,000</u>	<u>\$ 13,230,000</u>

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

Long-Term Debt

Business-Type Activities (Continued)

Debt Service Requirements

Debt service requirements for business-type activities at September 30, 2016, are as follows:

Year Ending September 30	General Obligation Bonds	
	Principal	Interest
2017	\$ 125,000	\$ 499,819
2018	435,000	494,982
2019	440,000	486,187
2020	445,000	476,182
2021	320,000	465,108
2022 – 2026	3,050,000	2,099,721
2027 – 2031	3,000,000	1,548,627
2032 – 2036	3,360,000	897,248
2037 – 2039	2,055,000	187,649
Total	\$ 13,230,000	\$ 7,155,523

Changes in Long-Term Liabilities

Long-term liability activity for the business-type activities for the year ended September 30, 2016, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
2014 General Obligation Revenue Bonds	\$ 1,685,000	\$ -	\$ 120,000	\$ 1,565,000	\$ 125,000
Add: Bond premium	56,187	-	4,748	51,439	-
2014 General Obligation Nursing Home Revenue Bonds	10,145,000	-	-	10,145,000	-
Less: bond discounts	(135,232)	-	(5,634)	(129,598)	-
2008 General Obligation Revenue Bonds	1,575,000	-	55,000	1,520,000	-
Compensated absences	231,728	19,222	-	250,950	133,634
Business-Type Activities Long-Term Liabilities	\$ 13,557,683	\$ 19,222	\$ 174,114	\$ 13,402,791	\$ 258,634

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

D. Fund Balances

Fund balances at year-end December 31, 2016, were as follows:

	General	Road and Bridge	Social Services	Forfeited Tax Sale	Other Governmental Funds	Total Governmental Funds
Nonspendable for						
Inventories	\$ -	\$ 337,539	\$ -	\$ -	\$ -	\$ 337,539
Endowments	-	-	-	-	467,280	467,280
Total nonspendable	\$ -	\$ 337,539	\$ -	\$ -	\$ 467,280	\$ 804,819
Restricted for						
AIS prevention	\$ 192,655	\$ -	\$ -	\$ -	\$ -	\$ 192,655
Attorney forfeitures	18,713	-	-	-	-	18,713
Attorney pretrial diversion program	2,977	-	-	-	-	2,977
Boat and water safety	73,759	-	-	-	-	73,759
Conceal and carry permits	69,687	-	-	-	-	69,687
Debt service	-	-	-	-	1,201,035	1,201,035
Drug education	7,538	-	-	-	-	7,538
DWI assessment	14,134	-	-	-	-	14,134
DWI forfeitures	10,585	-	-	-	-	10,585
Equipment purchase	-	27,500	-	-	-	27,500
Enhanced 911	149,805	-	-	-	-	149,805
Forest development	-	-	-	1,102,025	-	1,102,025
Fuel facility	-	87,361	-	-	-	87,361
Government forfeitures	33,407	-	-	-	-	33,407
Law library	12,103	-	-	-	-	12,103
Memorial forest	-	-	-	107,152	-	107,152
Missing heirs	8,188	-	-	-	-	8,188
Natural resources	71,935	-	-	-	15,485	87,420
Parks and recreation	583,593	-	-	-	-	583,593
Probation	47,678	-	-	-	-	47,678
Recorder's equipment	351,545	-	-	-	-	351,545
Recorder's technology	272,032	-	-	-	-	272,032
Sheriff's contingent fund	11,001	-	-	-	-	11,001
Solid waste operations	-	-	-	-	621,819	621,819
Transit	-	886,776	-	-	-	886,776
Total restricted	\$ 1,931,335	\$ 1,001,637	\$ -	\$ 1,209,177	\$ 1,838,339	\$ 5,980,488
Assigned to						
Forfeited land sales	\$ -	\$ -	\$ -	\$ 624,497	\$ -	\$ 624,497
Highways and streets	-	5,182,516	-	-	-	5,182,516
Human services	-	-	5,160,446	-	-	5,160,446
Sanitation	-	-	-	-	1,714,154	1,714,154
Total assigned	\$ -	\$ 5,182,516	\$ 5,160,446	\$ 624,497	\$ 1,714,154	\$ 12,681,613
Unassigned	\$ 4,788,760	\$ -	\$ -	\$ -	\$ -	\$ 4,788,760
Total Fund Balances	\$ 6,720,095	\$ 6,521,692	\$ 5,160,446	\$ 1,833,674	\$ 4,019,773	\$ 24,255,680

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

4. Other Postemployment Benefits (OPEB)

Plan Description

Hubbard 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 for retirees as required by Minn. Stat. § 471.61, subd. 2b. The retiree health care plan does not issue a publicly available financial report.

Effective January 1, 2006, Hubbard County agreed to provide a monetary contribution toward medical and hospitalization insurance coverage under the Hubbard County group health insurance plan to all current or future County employees who have served as an elected official. Upon leaving Hubbard County service, the dollar amount would be calculated based on years of service per elected term. Accrual of paid benefits under this policy sunset December 2014.

The monetary contribution under the adopted plan for elected officials was equal to one year of non-union annual family cafeteria plan contributions for every four years of service completed, with that amount held by Hubbard County and used to provide insurance coverage as chosen by the leaving official. A prorated contribution was calculated for officials that served less than a four-year term. When an official's contribution is exhausted, the official has the choice to remain on the County health insurance plan as provided to all other retired and qualified terminated employees.

Funding Policy

The contribution requirements of the plan and the County are established and may be amended by the Hubbard County Board of Commissioners. The required contribution is based on projected pay-as-you-go financing requirements. Non-elected retirees are required to pay 100 percent of the total premium cost. Since the premium is determined on the entire active and retiree population, the retirees are receiving an implicit rate subsidy. This postemployment benefit is funded on a pay-as-you-go basis, usually paying retiree benefits out of the General Fund. For governmental activities in 2016, there were approximately 158 participants in the plan, with 6 retirees. For the Heritage Community, there were 58 participants in the plan, with no retirees.

Other postemployment benefits are generally liquidated by the General Fund, the Road and Bridge Special Revenue Fund, the Social Services Special Revenue Fund, the Forfeited Tax Sale Special Revenue Fund, the Solid Waste Special Revenue Fund, the Environmental Trust Permanent Fund, and the Heritage Community Enterprise Fund.

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

4. Other Postemployment Benefits (OPEB) (Continued)

Annual OPEB Cost and Net OPEB Obligation

For benefits provided as required by Minn. Stat. § 471.61, subd. 2b, the County’s annual OPEB cost (expense) is calculated based on the *annual required contribution of the employer* (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. Additional benefits provided to elected officials have not been included in the calculation of the ARC. For fiscal year 2016, the County paid benefits of \$27,797 and calculated a liability of \$136,575, which has been included as part of contributions made and net OPEB obligation, respectively.

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 retiree health plan.

	Governmental Activities December 31, 2016	Business-Type Activities September 30, 2016	Total
ARC	\$ 187,757	\$ 25,463	\$ 213,220
Interest on net OPEB obligation	25,095	3,583	28,678
Adjustments to ARC	(35,338)	(4,961)	(40,299)
Annual OPEB cost (expense)	\$ 177,514	\$ 24,085	\$ 201,599
Contributions made	(117,346)	(11,563)	(128,909)
Increase in net OPEB obligation	\$ 60,168	\$ 12,522	\$ 72,690
Net OPEB Obligation – Beginning of Year	688,483	79,627	768,110
Net OPEB Obligation – End of Year	\$ 748,651	\$ 92,149	\$ 840,800

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

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2014	\$ 172,417	\$ 55,068	31.9%	\$ 544,274
2015	170,060	109,088	64.1	768,110
2016	201,599	128,909	63.9	840,800

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

4. Other Postemployment Benefits (OPEB) (Continued)

Funded Status and Funding Progress

As of January 1, 2014, the most recent actuarial valuation date for governmental activities, the County had no assets to fund the plan. The actuarial accrued liability for benefits was \$1,036,025, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,036,025. The covered payroll (annual payroll of active employees covered by the plan) was \$7,897,453, and the ratio of the UAAL to the covered payroll was 13.1 percent.

As of January 1, 2014, the most recent actuarial valuation date for business-type activities, the County had no assets to fund the plan. The actuarial accrued liability for benefits was \$167,483, and the actuarial value of assets was zero, resulting in a UAAL of \$167,483. The covered payroll (annual payroll of active employees covered by the plan) was \$1,721,774, and the ratio of the UAAL to the covered payroll was 9.7 percent.

The projection of future benefit payments for an ongoing plan involves 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 contributions 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.

Methods and Assumptions

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

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

4. Other Postemployment Benefits (OPEB)

Methods and Assumptions (Continued)

In the January 1, 2014, actuarial valuation used for benefits provided as required by Minn. Stat. § 471.61, subd. 2b, the Projected Unit Credit Actuarial Cost Method was used. The actuarial assumptions include a 4.5 percent investment rate of return (net of investment expenses), which is Hubbard County's implicit rate of return. For governmental activities, the annual health care 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, 2016, was 21 years.

In the January 1, 2014, actuarial valuation of the business-type activities, the Projected Unit Credit Actuarial Cost Method was used. The actuarial assumptions include a 4.5 percent investment rate of return (net of investment expenses), which is the Heritage Community's implicit rate of return. The annual health care 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, 2016, was 22 years.

5. Pension Plans

A. Defined Benefit Pension Plans

1. Plan Description

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

The General Employees Retirement Plan (accounted for in the General Employees Fund) has multiple benefit structures with members belonging to the Coordinated Plan, the Basic Plan, or the Minneapolis Employees Retirement Fund. Coordinated Plan members are covered by Social Security and Basic Plan

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

5. Pension Plans

A. Defined Benefit Pension Plans

1. Plan Description (Continued)

and Minneapolis Employees Retirement Fund members are not. The Basic Plan was closed to new members in 1967. The Minneapolis Employees Retirement Fund was closed to new members during 1978 and merged into the General Employees Retirement Plan in 2015. All new members must participate in the Coordinated Plan, for which benefits vest after five years of credited service. No County employees belong to the Minneapolis Employees Retirement Fund.

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

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

2. Benefits Provided

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

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

5. Pension Plans

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 Plan Coordinated and Basic Plan members. Members hired prior to July 1, 1989, receive the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years of service and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. Only Method 2 is used for members hired after June 30, 1989. For Public Employees Police and Fire Plan members, the annuity accrual rate is 3.0 percent of average salary for each year of service. For Public Employees Correctional Plan members, the annuity accrual rate is 1.9 percent of average salary for each year of service.

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

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

5. Pension Plans

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 Plan 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 2016. Public Employees Police and Fire Plan members were required to contribute 10.80 percent of their annual covered salary in 2016. Public Employees Correctional Plan members were required to contribute 5.83 percent of their annual covered salary in 2016.

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

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

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

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

General Employees Retirement Plan	\$ 718,199
Public Employees Police and Fire Plan	215,093
Public Employees Correctional Plan	131,469

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

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

5. Pension Plans

A. Defined Benefit Pension Plans (Continued)

4. Pension Costs

General Employees Retirement Plan

At December 31, 2016, the County reported a liability of \$12,171,137 for its proportionate share of the General Employees Retirement Plan's net pension liability, of which \$3,653,777 was the Heritage Community's portion as of September 30, 2016. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, Hubbard County's proportionate share was 0.1499 percent, which was a decrease of 0.0021 percent measured as of June 30, 2015. The County recognized pension expense of \$1,561,908 for its proportionate share of the General Employees Retirement Plan's pension expense, of which \$487,000 was the Heritage Community's expense.

The County also recognized \$47,411 as revenue, which results in a reduction of the net pension liability, for its proportionate share of the State of Minnesota's contribution to the General Employees Retirement Plan, which qualifies as a special funding situation. Legislation requires the State of Minnesota to contribute \$6 million to the General Employees Retirement Plan each year, starting September 15, 2015, through September 15, 2031.

	Governmental Activities	Business-Type Activities	Total
The County's proportionate share of the net pension liability	\$ 8,517,360	\$ 3,653,777	\$ 12,171,137
State of Minnesota's proportionate share of the net pension liability associated with the County	111,271	47,733	159,004
Total	\$ 8,628,631	\$ 3,701,510	\$ 12,330,141

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

5. Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs

General Employees Retirement Plan (Continued)

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

	Governmental Activities		Business-Type Activities		Total	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 690,342	\$ -	\$ 296,816	\$ -	\$ 987,158
Changes in actuarial assumptions	1,667,706	-	715,413	-	2,383,119	-
Difference between projected and actual investment earnings	1,613,320	-	693,503	-	2,306,823	-
Changes in proportion	34,982	307,686	44,578	119,786	79,560	427,472
Contributions paid to PERA subsequent to the measurement date	255,477	-	52,399	-	307,876	-
Total	\$ 3,571,485	\$ 998,028	\$ 1,505,893	\$ 416,602	\$ 5,077,378	\$ 1,414,630

The \$307,876 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	Governmental Activities	Business-Type Activities	Total
	Pension Expense Amount	Pension Expense Amount	Pension Expense Amount
2017	\$ 588,632	\$ 268,608	\$ 857,240
2018	588,632	268,608	857,240
2019	833,054	367,694	1,200,748
2020	307,662	131,982	439,644

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

5. Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs (Continued)

Public Employees Police and Fire Plan

At December 31, 2016, Hubbard County reported a liability of \$5,337,521 for its proportionate share of the Public Employees Police and Fire Plan's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. Hubbard County's proportion of the net pension liability was based on Hubbard County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, Hubbard County's proportion was 0.133 percent, which was an increase of 0.004 percent from its proportion measured as of June 30, 2015. The County recognized pension expense of \$943,400 for its proportionate share of the Public Employees Police and Fire Plan's pension expense.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
	<u> </u>	<u> </u>
Differences between expected and actual economic experience	\$ -	\$ 606,418
Changes in actuarial assumptions	2,937,471	-
Difference between projected and actual investment earnings	808,604	-
Changes in proportion	88,276	-
Contributions paid to PERA subsequent to the measurement date	109,068	-
	<u> </u>	<u> </u>
Total	\$ 3,943,419	\$ 606,418
	<u> </u>	<u> </u>

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

5. Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs

Public Employees Police and Fire Plan (Continued)

The \$109,068 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended December 31</u>	<u>Pension Expense Amount</u>
2017	\$ 694,990
2018	694,990
2019	694,990
2020	631,145
2021	511,818

Public Employees Correctional Plan

At December 31, 2016, the County reported a liability of \$2,885,981 for its proportionate share of the Public Employees Correctional Plan's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the County's proportion was 0.79 percent, which was an increase of 0.02 percent from its proportion measured as of June 30, 2015. The County recognized pension expense of \$815,912 for its proportionate share of the Public Employees Correctional Plan's pension expense.

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

5. Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs

Public Employees Police and Fire Plan (Continued)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 2,259	\$ 30,384
Changes in actuarial assumptions	1,838,717	-
Difference between projected and actual investment earnings	322,316	-
Changes in proportion	4,205	-
Contributions paid to PERA subsequent to the measurement date	63,142	-
Total	\$ 2,230,639	\$ 30,384

The \$63,142 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	Pension Expense Amount
2017	\$ 686,964
2018	686,964
2019	701,213
2020	61,972

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

5. Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs (Continued)

Total Pension Expense

The total pension expense for all plans recognized by the County for the year ended December 31, 2016, was \$3,321,220.

5. Actuarial Assumptions

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

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

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants in the General Employees Retirement Plan were based on RP-2014 tables, while mortality rates for the Public Employees Police and Fire Plan and the Public Employees Correctional Plan were based on RP-2000 tables for males or females, as appropriate, with slight adjustments. For the General Employees Retirement Plan and the Public Employees Police and Fire Plan, cost of living benefit increases for retirees are assumed to be 1.00 percent. Cost of living benefit increases for retirees are assumed to be 2.50 percent for the Public Employees Correctional Plan.

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

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

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

5. Pension Plans

A. Defined Benefit Pension Plans

5. Actuarial Assumptions (Continued)

The long-term expected rate of return on pension plan investments is 7.50 percent. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

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

6. Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent in 2016, a reduction of the 7.90 percent used in 2015. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, the fiduciary net position of the General Employees Retirement Plan was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. In the Public Employees Police and Fire Plan and the Public Employees Correctional Plan, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members through June 30, 2056, and June 30, 2058, respectively. Beginning in fiscal years ended June 30, 2057, for the Police and Fire Plan, and June 30, 2059, for the Public Employees Correctional Plan, when

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

5. Pension Plans

A. Defined Benefit Pension Plans

6. Discount Rate (Continued)

projected benefit payments exceed the Plans' projected fiduciary net position, benefit payments were discounted at the municipal bond rate of 2.85 percent based on an index of 20-year general obligation bonds with an average AA credit rating at the measurement date. An equivalent single discount rate of 5.60 percent for the Public Employees Police and Fire Plan and 5.31 percent for the Public Employees Correctional Plan was determined that produced approximately the same present value of the projected benefits when applied to all years of projected benefits as the present value of projected benefits using 7.50 percent applied to all years of projected benefits through the point of asset depletion and 2.85 percent thereafter.

7. Changes in Actuarial Assumptions

The following changes in actuarial assumptions occurred in 2016:

General Employees Retirement Plan

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

Public Employees Police and Fire Plan

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

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

5. Pension Plans

A. Defined Benefit Pension Plans

7. Changes in Actuarial Assumptions (Continued)

- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was changed from 7.90 percent to 5.60 percent.
- The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

Public Employees Correctional Plan

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

8. Pension Liability Sensitivity

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

	<u>1% Decrease in Discount Rate (6.50%)</u>	<u>Discount Rate (7.50%)</u>	<u>1% Increase in Discount Rate (8.50%)</u>
Proportionate share of the General Employees Retirement Plan net pension liability			
Governmental activities	\$ 12,097,175	\$ 8,517,360	\$ 5,568,566
Business-Type activities	<u>5,189,446</u>	<u>3,653,777</u>	<u>2,388,803</u>
Total General Employees Retirement Fund liability	<u>\$ 17,286,621</u>	<u>\$ 12,171,137</u>	<u>\$ 7,957,369</u>

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

5. Pension Plans

A. Defined Benefit Pension Plans

7. Changes in Actuarial Assumptions (Continued)

	1% Decrease in Discount Rate (4.60%)	Discount Rate (5.60%)	1% Increase in Discount Rate (6.60%)
Proportionate share of the Public Employees Police and Fire Plan net pension liability	\$ 7,471,822	\$ 5,337,521	\$ 3,593,636
	1% Decrease in Discount Rate (4.31%)	Discount Rate (5.31%)	1% Increase in Discount Rate (6.31%)
Proportionate share of the Public Employees Correctional Plan net pension liability	\$ 4,345,395	\$ 2,885,981	\$ 1,746,627

8. Pension Plan Fiduciary Net Position

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

B. Defined Contribution Plan

Three employees or elected officials of Hubbard 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.

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

5. Pension Plans

B. Defined Contribution Plan (Continued)

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

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

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 2,757	\$ 2,757
Percentage of covered payroll	5%	5%

6. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

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

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

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities (Continued)

Enbridge, Inc., is currently challenging tax valuations for the years 2012 through 2017 through litigation, which may affect several Minnesota counties. For tax valuations for 2012, 2013, and 2014, these cases are pending judgement. The tax years of 2015, 2016, and 2017 are in the pre-trial stage. Any loss is dependent on the outcome of the lawsuit. The County may be subject to a loss up to \$1,000,000 in future tax revenue.

B. Management Agreement

The Heritage Community is managed by Ecumen. All three facilities are under a three-year agreement which expires June 2017. Heritage Living Center, Heritage Manor, and Heritage Cottages each incur a monthly fee of \$15,800, \$1,920, and \$2,500 per month, respectively. Management fees amounted to \$241,362 for the year ended September 30, 2016.

Certain employees of Ecumen perform services for The Heritage Community. The Heritage Community had unpaid amounts pertaining to the above transactions presented as Due to Related Parties on the statements at September 30, 2016.

C. Heritage Community Building Project

During 2014 and 2015, Hubbard County entered into various agreements for the purpose of a construction and reconstruction project for the Heritage Community facilities.

Hubbard County issued its G.O. Nursing Home Revenue Bonds in the aggregate amount of \$10,145,000 and applied \$10,091,000 of the proceeds to capital costs of the County's nursing home replacement project on the premises of the Heritage Community, through a leveraged loan to Twain Investment Fund 65 (Twain), and related transactions, all for the purpose of obtaining New Market Tax Credit Funding From U.S. Bancorp Community Development Corporation to complete the overall funding for the project. Twain also received gross proceeds of \$4,159,000 from the sale of its New Market Tax Credits to U.S. Bancorp Community Development Corporation, and those proceeds, together with the proceeds of the leveraged loan, less certain fees, were provided by Twain to a subsidiary of Midwest Minnesota Community Development Corporation, which, in turn, loaned the funds to Heritage Center, LLC, for payment of capital costs of the project.

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

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

D. Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. To manage these risks, the County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Intergovernmental Trust (MCIT). MCIT is a public entity risk pool currently operated as a common risk management and insurance program for its members. The County is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. For group employee health benefits, the County has entered into a joint powers agreement, the Northwest Service Cooperative. For all other risk, the County carries commercial insurances.

There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for each of the past three fiscal years.

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$500,000 per claim in 2016 and 2017. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

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

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

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

E. Joint Ventures

Hubbard County Family Services Collaborative

The Hubbard County Family Services Collaborative was established in 1998 under the authority of Minn. Stat. §§ 124D.23 and 245.491. The Collaborative includes Hubbard County Social Services; Independent School District Numbers 306, 308, and 309; St. Joseph's Area Health Services; Mahube Community Head Start Program; Stellher Human Services, Inc.; Hubbard County Probation; and Park Rapids, Akeley, Walker, Nevis Education Cooperative. The purpose of the Collaborative is to improve the social, emotional, educational, and economic outcomes for all Hubbard County children, adolescents, and their families by mitigating risk factors, enhancing protective factors, and creating an integrated service delivery system for children, adolescents, and their families with multiple and special needs.

Control of the Hubbard County Family Services Collaborative is vested in a governing board. The board consists of one representative from each of the nine members.

In the event of a withdrawal from the Hubbard County Family Services Collaborative, the withdrawing party shall give a 180-day notice. The withdrawing party shall remain liable for fiscal obligation incurred prior to the effective date of withdrawal, but shall incur no additional fiscal liability beyond the effective date of withdrawal. In the event of dissolution of the Hubbard County Family Services Collaborative, the net assets of the Collaborative at that time shall be divided among the member counties in the same proportion as their contributions paid.

Financing is provided by state grants and contributions from its members. Hubbard County, in an agent capacity, reports the cash transactions of the Hubbard County Family Services Collaborative as an agency fund on the County's financial statements. During 2016, Hubbard County contributed \$60,263 to the Collaborative.

Kitchigami Regional Library

The Kitchigami Regional Library was formed pursuant to Minn. Stat. § 134.20. It was formed January 1, 1992, and includes Beltrami, Cass, Crow Wing, Hubbard, and Wadena Counties, and nine separate cities. Control of the Library is vested in the Kitchigami Regional Library Board, which is composed of 19 members with three-year terms made up of the following: one member appointed by each City Council and two

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

E. Joint Ventures

Kitchigami Regional Library (Continued)

members appointed by each County Board, consisting of one County Commissioner and one lay person. Hubbard County appropriated \$200,000 to the Library for the year ended December 31, 2016. Separate financial information can be obtained from the Kitchigami Regional Library, PO Box 84, Pine River, Minnesota 56474.

Mississippi Headwaters Board

The Mississippi Headwaters Board was established on February 22, 1980, under the authority of the Joint Powers Act, pursuant to Minn. Stat. § 471.59, and includes Aitkin, Beltrami, Cass, Clearwater, Crow Wing, Hubbard, Itasca, and Morrison Counties. The purpose of the Board is to prepare, adopt, and implement a comprehensive land use plan designed to protect and enhance the Mississippi River and related shoreline areas within the counties. The Board consists of eight members, one appointed from each participating county.

Financing is provided by federal, state, and local grants and appropriations from member counties. During 2016, Hubbard County contributed \$1,500 to the Board. Crow Wing County maintains the accounting records of the Board. Complete financial information can be obtained from the Mississippi Headwaters Board, Land Services Building, 322 Laurel Street, Brainerd, Minnesota 56401.

North Country Community Health Service

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

Control of the Health Service is vested in the North Country Health Service Board of Health, which is composed of three members appointed by Beltrami County and two members appointed by each of the other member counties, as provided in the Health Service's bylaws.

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

E. Joint Ventures

North Country Community Health Service (Continued)

In the event of dissolution of the North Country Community Health Service, the net assets of the Health Service at that time shall be divided among the member counties in the same proportion as their allocated share of subsidy funds as determined by the Minnesota Department of Health.

The Health Service has no long-term debt. Financing is provided by state and federal grants and appropriations from member counties. Clearwater County, in an agent capacity, reports the cash transactions of the Health Service as an agency fund on its financial statements.

Hubbard County did not contribute to the Health Service for the year ended December 31, 2016. Complete financial information can be obtained from the Clearwater County Auditor/Treasurer's Office or the Health Service's office located at 212 Main Avenue North, Bagley, Minnesota 56621.

Northwest Minnesota Regional Emergency Communication Board

The Northwest Minnesota Regional Emergency Communication Board (formerly known as the Northwest Minnesota Regional Radio Board) was formed in 2008, pursuant to the authority conferred upon the member parties by Minn. Stat. §§ 471.59 and 403.39, and includes the City of Moorhead; Becker, Beltrami, Clay, Clearwater, Hubbard, Kittson, Lake of the Woods, Mahnomon, Marshall, Norman, Pennington, Polk, Red Lake, and Roseau Counties; and the White Earth Reservation.

The purpose of the Northwest Minnesota Regional Emergency Communication 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 and to enhance and improve interoperable public safety communications along with coordination of 911 and public safety broadband data services within the region.

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

E. Joint Ventures

Northwest Minnesota Regional Emergency Communication Board (Continued)

The Northwest Minnesota Regional Emergency Communication Board is composed of one Commissioner of each county appointed by their respective County Board, one City Council member from the City appointed by its City Council, and one representative appointed by the Tribal Council from each tribal party to the agreement, as provided in the Northwest Minnesota Regional Emergency Communication Board's bylaws.

In the event of dissolution of the Northwest Minnesota Regional Emergency Communication 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, county, or tribal entity that has withdrawn from the agreement prior to termination of the Board shall share in the distribution of property, assets, and funds of the Board only to the extent they shared in the original expense.

The Northwest Minnesota Regional Emergency Communication Board has no long-term debt. Financing is provided by appropriations from member parties and by state and federal grants. Hubbard County's contribution for 2016 was \$2,500.

Complete financial information can be obtained from the Headwaters Regional Development Commission, 403 – 4th Street Northwest, Suite 310, Bemidji, Minnesota 56601.

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 include 12 counties covering a total of 14,853 square miles. These are the most sparsely populated regions of the state, with only 11 persons per square mile. The regions are known as "Pine to Prairie." The NWSC provides service to all school districts and many cities, counties, and other governmental agencies in the northwest region. The NWSC's purpose is to meet or exceed the needs of participating members by developing and delivering high quality, cost-effective services and programs that will support the activities of its members.

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

E. Joint Ventures

Northwest Service Cooperative (Continued)

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. The NWSC charges adequate rates so that the participating members experience no additional financial benefit or burden. Hubbard County contributed \$250 to the NWSC for the year ended December 31, 2016. Complete financial information can be obtained from the Northwest Service Cooperative, 114 First Street West, Thief River Falls, Minnesota 56701.

Northwestern Counties Data Processing Security Association

The Northwestern Counties Data Processing Security Association (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, Mahnommen, Marshall, Pennington, Polk, Roseau, and Wadena Counties. Mahnommen County withdrew from the NCDPSA in 2017. 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 appointed by each member County Board. In the event of dissolution, the net position of the NCDPSA at that time shall be distributed to the respective member counties in proportion to their contributions.

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

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

E. Joint Ventures (Continued)

Northwestern Minnesota Juvenile Center

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

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

In the event of dissolution of the Center, the unexpended balance of monies and assets held by the Center will be divided among the member counties in the same proportion as their respective financial responsibilities.

Financing is provided by state and federal grants, charges for services, and appropriations from member counties. Adequate rates are charged so that the member counties do not experience any additional financial benefit or burden. Hubbard County made \$70,919 in payments to the Center in 2016. Beltrami County, in an agent capacity, reports the cash transactions of the Northwestern Minnesota Juvenile Center as an agency fund on its financial statements. Complete financial information can be obtained from the Beltrami County Auditor/Treasurer's Office or at the Center's office, PO Box 247, Bemidji, Minnesota 56619.

Paul Bunyan Drug Task Force

The Paul Bunyan Drug Task Force was established July 16, 1992, under the authority of the Joint Powers Act, pursuant to Minn. Stat. § 471.59, and in 2016 included Beltrami, Clearwater, Hubbard, and Mahnomen Counties; the Leech Lake and White Earth Reservations; the Bureau of Indian Affairs; and the Cities of Bemidji and Park Rapids. The purpose of the Paul Bunyan Drug Task Force is to assist member organizations in the investigation and prosecution of persons in violation of Minnesota statutes.

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

E. Joint Ventures

Paul Bunyan Drug Task Force (Continued)

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

The Paul Bunyan Drug Task Force has no long-term debt. During 2016, Hubbard County did not contribute to the Paul Bunyan Drug Task Force. Financing is provided by the profits from forfeitures and seizures pursuant to Minn. Stat. § 609.531. Beltrami County, in an agent capacity, reports the cash transactions of the Paul Bunyan Drug Task Force on its financial statements. Complete financial information can be obtained from the Beltrami County Auditor/Treasurer, 701 Minnesota Avenue, Suite 220, Bemidji, Minnesota 56601.

PrimeWest Health

The PrimeWest Central County-Based Purchasing Initiative (since renamed PrimeWest Health) was established in December 1998 by a joint powers agreement with Big Stone, Douglas, Grant, McLeod, Meeker, Pipestone, Pope, Renville, Stevens, and Traverse Counties under the authority of Minn. Stat. § 471.59. Beltrami, Clearwater, and Hubbard Counties were later added to PrimeWest Health. Pipestone County has since joined Southwest Health and Human Services for public health and human services functions. The partnership is organized to directly purchase health care services for county residents who are eligible for Medical Assistance and General Assistance Medical Care as authorized by Minn. Stat. § 256B.692. County-based purchasing is the local control alternative favored for improved coordination of services to prepaid Medical Assistance programs in complying with Minnesota Department of Health requirements as set forth in Minn. Stat. chs. 62D and 62N.

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

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

E. Joint Ventures

PrimeWest Health (Continued)

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

Financing is provided by Medical Assistance and General Assistance Medical Care payments from the Minnesota Department of Human Services, initial start-up loans from the member counties, and by proportional contributions from member counties, if necessary, to cover operational costs. Hubbard County contributed \$48,894 in 2016.

Complete financial information can be obtained from its administrative office at PrimeWest Health, 3905 Dakota Street, Suite 101, Alexandria, Minnesota 56308.

F. Jointly-Governed Organizations

Region Three – Northwest Minnesota Homeland Security Emergency Management Organization

The Region Three – Northwest Minnesota Homeland Security Emergency Management Organization (NWMHSEM) 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 NWMHSEM region. Control is vested in the Board, which is composed of representatives appointed by each Board of County Commissioners. Hubbard County's responsibility does not extend beyond making this appointment.

Minnesota Counties Computer Cooperative

Under Minnesota Joint Powers Law, Minn. Stat. § 471.59, Minnesota counties have created the Minnesota Counties Computer Cooperative (MCCC) to jointly provide for the establishment, operation, and maintenance of data processing systems, facilities, and management information systems. During 2016, Hubbard County expended \$88,712 to the MCCC.

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

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

G. Segment Information

The County issued revenue bonds to finance the Heritage Living Center, Heritage Manor, and Heritage Cottages facilities. The activity is reported in the Heritage Community Enterprise Fund. Summary financial information for each facility is presented below. Heritage Living Center provides long-term health care to chronically ill or convalescent persons. Heritage Manor provides assisted living senior housing services. Heritage Cottages provides housing with memory care services for seniors.

<u>Condensed Statement of Net Position</u>	<u>Heritage Living Center</u>	<u>Heritage Manor</u>	<u>Heritage Cottages</u>
Assets			
Current assets	\$ 1,185,857	\$ 150,000	\$ 106,003
Interfund receivables	26,325	7,369	-
Restricted assets	4,809	110,454	2,116
Capital assets	611,495	908,889	1,518,240
Total Assets	\$ 1,828,486	\$ 1,176,712	\$ 1,626,359
Deferred Outflows of Resources			
Pension-related deferred outflows	\$ 1,505,893	\$ -	\$ -
Liabilities			
Current liabilities payable from restricted assets	\$ 3,762	\$ 12,298	\$ -
Interfund payables	106,432	-	26,325
Other current liabilities	480,708	213,653	35,091
Noncurrent liabilities	3,863,242	1,491,439	1,520,000
Total Liabilities	\$ 4,454,144	\$ 1,717,390	\$ 1,581,416
Deferred Inflows of Resources			
Pension-related deferred inflows	\$ 416,602	\$ -	\$ -
Net Position			
Net investment in capital assets	\$ 611,495	\$ (707,550)	\$ (1,760)
Restricted	-	97,769	2,116
Unrestricted	(2,147,862)	69,103	44,587
Total Net Positions	\$ (1,536,367)	\$ (540,678)	\$ 44,943

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

G. Segment Information (Continued)

<u>Condensed Statement of Revenues, Expenses, and Changes in Net Position</u>	<u>Heritage Living Center</u>	<u>Heritage Manor</u>	<u>Heritage Cottages</u>
Operating Revenues			
Charges for services	\$ 4,176,362	\$ -	\$ -
Rental income	-	714,259	892,180
Intergovernmental	25,800	-	-
Miscellaneous	374,268	1,508	1,820
	<u>\$ 4,576,430</u>	<u>\$ 715,767</u>	<u>\$ 894,000</u>
Total Operating Revenues			
Depreciation expense	(112,592)	(99,415)	(78,810)
Other operating expenses	(5,533,456)	(570,110)	(627,461)
	<u>\$ (1,069,618)</u>	<u>\$ 46,242</u>	<u>\$ 187,729</u>
Operating Income (Loss)			
Nonoperating Revenues (Expenses)			
Investment earnings	\$ 238	\$ 1,514	\$ 1,102
Miscellaneous	(2,500)	-	-
Interest expense	-	(37,755)	(76,235)
	<u>\$ (2,262)</u>	<u>\$ (36,241)</u>	<u>\$ (75,133)</u>
Total Nonoperating Revenues (Expenses)			
Transfers in (out)	\$ 1,056,764	\$ (462,199)	\$ (630,200)
Change in Net Position	\$ (15,116)	\$ (452,198)	\$ (517,604)
Beginning Net Position	(1,521,251)	(88,480)	562,547
Ending Net Position	<u>\$ (1,536,367)</u>	<u>\$ (540,678)</u>	<u>\$ 44,943</u>

This page was left blank intentionally.

REQUIRED SUPPLEMENTARY INFORMATION

This page was left blank intentionally.

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

EXHIBIT A-1

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 6,653,869	\$ 6,688,869	\$ 6,412,839	\$ (276,030)
Licenses and permits	115,869	115,869	159,658	43,789
Intergovernmental	2,528,638	2,502,173	3,586,752	1,084,579
Charges for services	1,104,010	1,199,578	1,223,664	24,086
Fines and forfeits	27,200	25,700	43,604	17,904
Investment earnings	297,731	297,731	239,835	(57,896)
Gifts and contributions	20,000	21,700	20,157	(1,543)
Miscellaneous	374,285	374,285	702,926	328,641
Total Revenues	\$ 11,121,602	\$ 11,225,905	\$ 12,389,435	\$ 1,163,530
Expenditures				
Current				
General government				
Commissioners	\$ 233,275	\$ 233,275	\$ 221,986	\$ 11,289
District court	98,000	98,000	138,233	(40,233)
Law library	16,500	16,500	7,274	9,226
Coordinator	350,113	350,113	371,960	(21,847)
County auditor/treasurer	429,960	429,960	430,409	(449)
Professional services	39,825	39,825	26,327	13,498
Elections	75,225	75,225	89,185	(13,960)
Purchasing	16,350	16,350	22,324	(5,974)
Data processing	325,299	325,299	270,304	54,995
Attorney	652,126	652,126	604,557	47,569
GIS/LIS	1,118,113	1,118,113	1,083,827	34,286
Recorder	105,000	105,000	104,158	842
Surveyor	191,840	191,840	187,845	3,995
Motor pool	45,869	45,869	56,178	(10,309)
Buildings and grounds	735,890	735,890	444,704	291,186
Veterans service officer	126,568	126,568	132,399	(5,831)
Insurance	193,930	193,930	181,829	12,101
Other general government	141,285	141,285	91,733	49,552
Total general government	\$ 4,895,168	\$ 4,895,168	\$ 4,465,232	\$ 429,936

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

**EXHIBIT A-1
(Continued)**

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Public safety				
Sheriff	\$ 2,221,701	\$ 2,221,701	\$ 2,353,422	\$ (131,721)
Boat and water safety	101,691	101,691	58,892	42,799
Emergency services	81,405	81,405	48,722	32,683
Coroner	49,000	49,000	63,015	(14,015)
Enhanced 911	72,739	72,739	191,838	(119,099)
Community corrections	2,295,220	2,295,220	2,463,809	(168,589)
Building and grounds	350,332	350,332	271,426	78,906
Jail canteen	-	-	107,614	(107,614)
Sentence to serve	128,941	127,441	144,461	(17,020)
Victim assistance	71,767	-	-	-
Probation and parole	71,300	71,300	40,407	30,893
Total public safety	\$ 5,444,096	\$ 5,370,829	\$ 5,743,606	\$ (372,777)
Human services				
Mahube Community Council	\$ -	\$ -	\$ 909,688	\$ (909,688)
Culture and recreation				
Historical society	\$ 10,500	\$ 10,500	\$ 23,000	\$ (12,500)
Parks	270,387	270,387	209,441	60,946
Regional library	200,000	200,000	200,000	-
Snowmobile and ski trails	171,700	171,700	140,683	31,017
Total culture and recreation	\$ 652,587	\$ 652,587	\$ 573,124	\$ 79,463
Conservation of natural resources				
County extension	\$ 137,220	\$ 138,720	\$ 140,642	\$ (1,922)
Agricultural society	34,500	34,500	34,500	-
Aquatic invasive species	283,266	420,578	340,296	80,282
Local water	8,566	8,566	8,566	-
Soil and water conservation	22,000	22,000	22,000	-
Natural resources grant	65,553	65,553	47,738	17,815
Total conservation of natural resources	\$ 551,105	\$ 689,917	\$ 593,742	\$ 96,175
Total Expenditures	\$ 11,542,956	\$ 11,608,501	\$ 12,285,392	\$ (676,891)
Excess of Revenues Over (Under)				
Expenditures	\$ (421,354)	\$ (382,596)	\$ 104,043	\$ 486,639

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

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

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Other Financing Sources (Uses)				
Transfers in	\$ 587,500	\$ 587,500	\$ 622,969	\$ 35,469
Transfers out	<u>(185,750)</u>	<u>(185,750)</u>	<u>(341,228)</u>	<u>(155,478)</u>
Total Other Financing Sources (Uses)	<u>\$ 401,750</u>	<u>\$ 401,750</u>	<u>\$ 281,741</u>	<u>\$ (120,009)</u>
Net Change in Fund Balance	\$ (19,604)	\$ 19,154	\$ 385,784	\$ 366,630
Fund Balance – January 1	<u>6,334,311</u>	<u>6,334,311</u>	<u>6,334,311</u>	<u>-</u>
Fund Balance – December 31	<u><u>\$ 6,314,707</u></u>	<u><u>\$ 6,353,465</u></u>	<u><u>\$ 6,720,095</u></u>	<u><u>\$ 366,630</u></u>

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

EXHIBIT A-2

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 3,988,300	\$ 3,988,300	\$ 4,021,695	\$ 33,395
Intergovernmental	5,051,600	5,051,600	4,485,777	(565,823)
Charges for services	-	-	960,229	960,229
Investment earnings	-	-	4,056	4,056
Miscellaneous	1,116,800	1,116,800	54,056	(1,062,744)
Total Revenues	\$ 10,156,700	\$ 10,156,700	\$ 9,525,813	\$ (630,887)
Expenditures				
Current				
Highways and streets				
Administration	\$ 641,603	\$ 641,603	\$ 632,676	\$ 8,927
Maintenance	2,887,690	2,887,690	2,739,771	147,919
Construction	3,943,013	3,943,013	3,761,785	181,228
Equipment maintenance and shop	1,085,187	1,085,187	1,262,371	(177,184)
Fuel facility	13,545	13,545	24,150	(10,605)
Materials for resale	1,098,116	1,098,116	39,839	1,058,277
Other highways and streets	26,222	26,222	32,768	(6,546)
Total highways and streets	\$ 9,695,376	\$ 9,695,376	\$ 8,493,360	\$ 1,202,016
Intergovernmental	\$ 330,500	\$ 330,500	\$ 342,741	\$ (12,241)
Debt service				
Principal	\$ 225,000	\$ 225,000	\$ 220,969	\$ 4,031
Interest	10,600	10,600	13,911	(3,311)
Total debt service	\$ 235,600	\$ 235,600	\$ 234,880	\$ 720
Total Expenditures	\$ 10,261,476	\$ 10,261,476	\$ 9,070,981	\$ 1,190,495
Net Change in Fund Balance	\$ (104,776)	\$ (104,776)	\$ 454,832	\$ 559,608
Fund Balance – January 1	6,026,491	6,026,491	6,026,491	-
Increase (decrease) in inventories	-	-	40,369	40,369
Fund Balance – December 31	\$ 5,921,715	\$ 5,921,715	\$ 6,521,692	\$ 599,977

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

EXHIBIT A-3

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 3,300,000	\$ 3,300,000	\$ 3,301,285	\$ 1,285
Intergovernmental	3,221,021	3,221,021	3,957,444	736,423
Charges for services	446,500	446,500	435,964	(10,536)
Investment earnings	-	-	382	382
Miscellaneous	298,263	298,263	499,704	201,441
Total Revenues	\$ 7,265,784	\$ 7,265,784	\$ 8,194,779	\$ 928,995
Expenditures				
Current				
Human services				
Income maintenance	\$ 2,014,500	\$ 2,014,500	\$ 1,808,796	\$ 205,704
Social services	5,621,946	5,621,946	4,976,010	645,936
Transportation	-	-	516,591	(516,591)
Total human services	\$ 7,636,446	\$ 7,636,446	\$ 7,301,397	\$ 335,049
Net Change in Fund Balance	\$ (370,662)	\$ (370,662)	\$ 893,382	\$ 1,264,044
Fund Balance – January 1	4,267,064	4,267,064	4,267,064	-
Fund Balance – December 31	\$ 3,896,402	\$ 3,896,402	\$ 5,160,446	\$ 1,264,044

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

EXHIBIT A-4

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$ 110,100	\$ 110,100	\$ 110,496	\$ 396
Land and timber sales	2,229,600	2,229,600	1,507,947	(721,653)
Miscellaneous	15,000	15,000	18,030	3,030
Total Revenues	<u>\$ 2,354,700</u>	<u>\$ 2,354,700</u>	<u>\$ 1,636,473</u>	<u>\$ (718,227)</u>
Expenditures				
Current				
Conservation of natural resources				
Forfeited land	\$ 777,827	\$ 777,827	\$ 788,459	\$ (10,632)
Access road	22,000	22,000	10,099	11,901
Forest development	270,000	270,000	429,284	(159,284)
Miscellaneous	44,500	44,500	30,825	13,675
Total Expenditures	<u>\$ 1,114,327</u>	<u>\$ 1,114,327</u>	<u>\$ 1,258,667</u>	<u>\$ (144,340)</u>
Excess of Revenues Over (Under) Expenditures	\$ 1,240,373	\$ 1,240,373	\$ 377,806	\$ (862,567)
Other Financing Sources (Uses)				
Transfers out	-	-	(622,969)	(622,969)
Net Change in Fund Balance	\$ 1,240,373	\$ 1,240,373	\$ (245,163)	\$ (1,485,536)
Fund Balance – January 1	<u>2,078,837</u>	<u>2,078,837</u>	<u>2,078,837</u>	<u>-</u>
Fund Balance – December 31	<u>\$ 3,319,210</u>	<u>\$ 3,319,210</u>	<u>\$ 1,833,674</u>	<u>\$ (1,485,536)</u>

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

EXHIBIT A-5

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
January 1, 2008	\$ -	\$ 864,765	\$ 864,765	0.00 %	\$ 8,228,951	10.51 %
January 1, 2011	-	1,158,781	1,158,781	0.00	9,225,647	12.56
January 1, 2014	-	1,203,508	1,203,508	0.00	9,619,227	12.51

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

EXHIBIT A-6

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

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	State's Proportionate Share of the Net Pension Liability Associated with Hubbard County (b)	Employer's Proportionate Share of the Net Pension Liability and the State's Related Share of the Net Pension Liability (Asset) (a + b)	Covered Payroll (c)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2016	0.1499 %	\$ 12,171,137	\$ 159,004	\$ 12,330,141	\$ 9,618,314	126.45 %	68.91 %
2015	0.1478	7,659,764	N/A	7,659,764	9,012,354	84.99	78.19

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

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

EXHIBIT A-7

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

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b - a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
2016	\$ 718,199	\$ 718,199	-	\$ 9,887,946	7.26 %
2015	655,012	655,012	-	9,097,536	7.20

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.

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

EXHIBIT A-8

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

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	Covered Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2016	0.133%	\$ 5,337,521	\$ 1,277,137	417.93%	63.88%
2015	0.129	1,465,742	1,177,598	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.

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

EXHIBIT A-9

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

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b - a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
2016	\$ 215,093	\$ 215,093	\$ -	\$ 1,327,734	16.20%
2015	195,192	195,192	-	1,204,889	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.

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

EXHIBIT A-10

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

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	Covered Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2016	0.79%	\$ 2,885,981	\$ 1,481,175	194.84%	58.16%
2015	0.77	119,042	1,382,657	8.61	96.95

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

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

EXHIBIT A-11

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

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b - a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
2016	\$ 131,469	\$ 131,469	\$ -	\$ 1,502,504	8.75%
2015	123,408	123,408	-	1,410,377	8.75

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

This page was left blank intentionally.

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

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

1. Budgetary Information

A. Budget Policy

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds, except the Building Bonds Debt Service Fund. All annual appropriations lapse at fiscal year-end.

In July, budget sheets are distributed to department managers and must be returned to the Auditor's Office by the end of July. In August, preliminary budgets are distributed to the Board, and budget hearings are scheduled from August to December. On or before September 15, proposed levies must be set by the County Board. A final budget must be prepared and adopted no later than December 31.

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

B. Excess of Expenditures Over Budget

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

	Expenditures	Final Budget	Excess
General Fund			
Current			
General government			
District court	\$ 138,233	\$ 98,000	\$ 40,233
Coordinator	371,960	350,113	21,847
County auditor/treasurer	430,409	429,960	449
Elections	89,185	75,225	13,960
Purchasing	22,324	16,350	5,974
Motor pool	56,178	45,869	10,309
Veterans service officer	132,399	126,568	5,831

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

1. Budgetary Information

B. Excess of Expenditures Over Budget (Continued)

	<u>Expenditures</u>	<u>Final Budget</u>	<u>Excess</u>
General Fund			
Current (Continued)			
Public safety			
Sheriff	2,353,422	2,221,701	131,721
Coroner	63,015	49,000	14,015
Enhanced 911	191,838	72,739	119,099
Community corrections	2,463,809	2,295,220	168,589
Jail canteen	107,614	-	107,614
Sentence to serve	144,461	127,441	17,020
Human services			
Mahube Community Council	909,688	-	909,688
Culture and recreation			
Historical society	23,000	10,500	12,500
Conservation of natural resources			
County extension	140,642	138,720	1,922
Road and Bridge Special Revenue Fund			
Current			
Highways and streets			
Equipment maintenance and shop	1,262,371	1,085,187	177,184
Fuel facility	24,150	13,545	10,605
Other highways and streets	32,768	26,222	6,546
Intergovernmental			
Highways and streets	342,741	330,500	12,241
Debt service			
Interest	13,911	10,600	3,311
Social Services Special Revenue Fund			
Current			
Human services			
Transportation	516,591	-	516,591
Forfeited Tax Sale Special Revenue Fund			
Current			
Conservation of natural resources			
Forfeited land	788,459	777,827	10,632
Forest development	429,284	270,000	159,284

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

2. Other Postemployment Benefits (OPEB)

Governmental Activities

Since the last actuarial valuation as of January 1, 2011, the following actuarial assumptions have been changed:

- The health care trend rates were changed to better anticipate short-term and long-term medical increases.
- The mortality assumptions were updated to include the RP-2014 tables, including the generational improvement scale, to include future mortality improvement. This change caused an increase in the liability.
- Starting claim costs were developed by age adjusting the premium information provided by Hubbard County.

There have been no changes to the plan provisions since the last actuarial valuation as of January 1, 2011. Currently, three years of actuarial data is available. For more information, refer to Exhibit A-5 of this section and the Notes to the Financial Statements, Section 4, Other Postemployment Benefits.

Business-Type Activities

Since the last actuarial valuation as of January 1, 2011, the health care trend rates were changed to better anticipate short-term and long-term medical increases, and there have been no changes to the plan provisions. Currently, three years of actuarial data is available. For more information, refer to Exhibit A-5 of this section and the Notes to the Financial Statements, Section 4, Other Postemployment Benefits.

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

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

General Employees Retirement Plan

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

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

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

General Employees Retirement Plan (Continued)

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

Public Employees Police and Fire Plan

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

Public Employees Correctional Plan

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

OTHER INFORMATION

This page was left blank intentionally.

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUND

The Solid Waste Special Revenue Fund is used to account for and report the provisions of solid waste and debris disposal for the residents of the County. Financing is provided by solid waste assessments and user service charges restricted and assigned to various sanitation purposes.

DEBT SERVICE FUND

The Building Bonds Debt Service Fund is used to account for and report the financial resources restricted for the payment of correctional facility and capital improvement plan bonds, interest, and related costs.

PERMANENT FUND

The Environmental Trust Permanent Fund is used to account for and report nonspendable and restricted net proceeds from the sale of land donated by the Department of Natural Resources pursuant to Minnesota statutes.

This page was left blank intentionally.

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

EXHIBIT B-1

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

	Solid Waste Special Revenue Fund	Building Bonds Debt Service Fund	Environmental Trust Permanent Fund	Total
<u>Assets</u>				
Cash and cash equivalents	\$ 2,408,878	\$ 1,193,968	\$ -	\$ 3,602,846
Taxes receivable – delinquent	-	30,883	-	30,883
Accounts receivable	198,820	-	-	198,820
Due from other governments	3,128	-	-	3,128
Permanent fund principal	-	-	483,359	483,359
Total Assets	\$ 2,610,826	\$ 1,224,851	\$ 483,359	\$ 4,319,036
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>				
Liabilities				
Accounts payable	\$ 54,428	\$ -	\$ -	\$ 54,428
Salaries payable	24,742	-	594	25,336
Due to other funds	5,978	-	-	5,978
Due to other governments	56,468	-	-	56,468
Total Liabilities	\$ 141,616	\$ -	\$ 594	\$ 142,210
Deferred Inflows of Resources				
Unavailable revenue – taxes	\$ -	\$ 23,816	\$ -	\$ 23,816
Unavailable revenue – charges for services	133,237	-	-	133,237
Total Deferred Inflows of Resources	\$ 133,237	\$ 23,816	\$ -	\$ 157,053
Fund Balances				
Nonspendable	\$ -	\$ -	\$ 467,280	\$ 467,280
Restricted	621,819	1,201,035	15,485	1,838,339
Assigned	1,714,154	-	-	1,714,154
Total Fund Balances	\$ 2,335,973	\$ 1,201,035	\$ 482,765	\$ 4,019,773
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 2,610,826	\$ 1,224,851	\$ 483,359	\$ 4,319,036

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

EXHIBIT B-2

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

	<u>Solid Waste Special Revenue Fund</u>	<u>Building Bonds Debt Service Fund</u>	<u>Environmental Trust Permanent Fund</u>	<u>Total</u>
Revenues				
Taxes	\$ -	\$ 898,151	\$ -	\$ 898,151
Licenses and permits	425	-	-	425
Intergovernmental	68,710	4,164	-	72,874
Charges for services	3,044,447	-	-	3,044,447
Investment earnings	-	2,509	5,279	7,788
Miscellaneous	25,776	-	15,067	40,843
Total Revenues	\$ 3,139,358	\$ 904,824	\$ 20,346	\$ 4,064,528
Expenditures				
Current				
Sanitation	\$ 2,645,664	\$ -	\$ -	\$ 2,645,664
Conservation of natural resources	-	-	18,620	18,620
Debt service				
Principal retirement	-	655,000	-	655,000
Interest	-	181,363	-	181,363
Total Expenditures	\$ 2,645,664	\$ 836,363	\$ 18,620	\$ 3,500,647
Excess of Revenues Over (Under) Expenditures	\$ 493,694	\$ 68,461	\$ 1,726	\$ 563,881
Other Financing Sources (Uses)				
Transfers in	16,933	-	-	16,933
Net Change in Fund Balance	\$ 510,627	\$ 68,461	\$ 1,726	\$ 580,814
Fund Balance – January 1	1,825,346	1,132,574	481,039	3,438,959
Fund Balance – December 31	\$ 2,335,973	\$ 1,201,035	\$ 482,765	\$ 4,019,773

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

EXHIBIT B-3

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Licenses and permits	\$ 450	\$ 450	\$ 425	\$ (25)
Intergovernmental	67,729	67,729	68,710	981
Charges for services	3,125,000	3,125,000	3,044,447	(80,553)
Miscellaneous	11,000	11,000	25,776	14,776
Total Revenues	\$ 3,204,179	\$ 3,204,179	\$ 3,139,358	\$ (64,821)
Expenditures				
Current				
Sanitation				
Solid waste	\$ 2,140,858	\$ 2,140,858	\$ 1,786,700	\$ 354,158
Recycling	1,045,181	1,045,181	838,878	206,303
Demolition landfill	25,000	25,000	20,086	4,914
Total Expenditures	\$ 3,211,039	\$ 3,211,039	\$ 2,645,664	\$ 565,375
Excess of Revenues Over (Under) Expenditures	\$ (6,860)	\$ (6,860)	\$ 493,694	\$ 500,554
Other Financing Sources (Uses)				
Transfers in	16,933	16,933	16,933	-
Net Change in Fund Balance	\$ 10,073	\$ 10,073	\$ 510,627	\$ 500,554
Fund Balance – January 1	1,825,346	1,825,346	1,825,346	-
Fund Balance – December 31	\$ 1,835,419	\$ 1,835,419	\$ 2,335,973	\$ 500,554

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

EXHIBIT B-4

**BUDGETARY COMPARISON SCHEDULE
ENVIRONMENTAL TRUST PERMANENT FUND
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Investment earnings	\$ 2	\$ 2	\$ 5,279	\$ 5,277
Miscellaneous	<u>30,000</u>	<u>30,000</u>	<u>15,067</u>	<u>(14,933)</u>
Total Revenues	\$ 30,002	\$ 30,002	\$ 20,346	\$ (9,656)
Expenditures				
Current				
Conservation of natural resources				
Natural resources	<u>31,510</u>	<u>31,510</u>	<u>18,620</u>	<u>12,890</u>
Net Change in Fund Balance	\$ (1,508)	\$ (1,508)	\$ 1,726	\$ 3,234
Fund Balance – January 1	<u>481,039</u>	<u>481,039</u>	<u>481,039</u>	<u>-</u>
Fund Balance – December 31	<u><u>\$ 479,531</u></u>	<u><u>\$ 479,531</u></u>	<u><u>\$ 482,765</u></u>	<u><u>\$ 3,234</u></u>

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

AGENCY FUNDS

The Hubbard County Family Services Collaborative Agency Fund is used to account for the receipts and disbursements of the Collaborative.

The State Revenue Agency Fund is used to account for the collection and payment of funds due to the State of Minnesota.

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

This page was left blank intentionally.

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

EXHIBIT C-1

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

	Balance January 1	Additions	Deductions	Balance December 31
<u>HUBBARD COUNTY FAMILY SERVICES COLLABORATIVE</u>				
<u>Assets</u>				
Cash and cash equivalents	<u>\$ 9,554</u>	<u>\$ 99,283</u>	<u>\$ 40,000</u>	<u>\$ 68,837</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 9,554</u>	<u>\$ 99,283</u>	<u>\$ 40,000</u>	<u>\$ 68,837</u>
 <u>STATE REVENUE</u>				
<u>Assets</u>				
Cash and cash equivalents	<u>\$ 60,000</u>	<u>\$ 812,717</u>	<u>\$ 809,379</u>	<u>\$ 63,338</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 60,000</u>	<u>\$ 812,717</u>	<u>\$ 809,379</u>	<u>\$ 63,338</u>
 <u>TAX COLLECTION</u>				
<u>Assets</u>				
Cash and cash equivalents	<u>\$ 393,761</u>	<u>\$ 38,704,675</u>	<u>\$ 38,643,533</u>	<u>\$ 454,903</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 393,761</u>	<u>\$ 38,704,675</u>	<u>\$ 38,643,533</u>	<u>\$ 454,903</u>

HUBBARD COUNTY
PARK RAPIDS, MINNESOTA

EXHIBIT C-1
(Continued)

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

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and cash equivalents	<u>\$ 463,315</u>	<u>\$ 39,616,675</u>	<u>\$ 39,492,912</u>	<u>\$ 587,078</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 463,315</u>	<u>\$ 39,616,675</u>	<u>\$ 39,492,912</u>	<u>\$ 587,078</u>

OTHER SCHEDULE

This page was left blank intentionally.

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

EXHIBIT D-1

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

	<u>Governmental Funds</u>
Appropriations and Shared Revenue	
State	
Highway users tax	\$ 3,986,171
Market value credit	117,860
PERA rate reimbursement	31,077
Police aid	152,973
County program aid	703,832
Enhanced 911	94,633
Select Committee on Recycling and the Environment (SCORE)	68,710
Aquatic invasive species aid	248,266
	<hr/>
Total appropriations and shared revenue	\$ 5,403,522
Reimbursement for Services	
State	
Minnesota Department of Human Services	\$ 875,685
Transportation	4,576
	<hr/>
Total reimbursement for services	\$ 880,261
Payments	
Local	
Payments in lieu of taxes	\$ 987,493
	<hr/>
Grants	
State	
Minnesota Department of Human Services	\$ 1,783,037
Natural Resources	228,122
Public Safety	24,509
Transportation	346,725
Veterans Affairs	10,000
Board of Water and Soil Resources	77,411
Historical Society	11,250
	<hr/>
Total state	\$ 2,481,054

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

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

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

	<u>Governmental Funds</u>
Grants (Continued)	
Federal	
Department of	
Agriculture	\$ 175,598
Justice	18,599
Health and Human Services	1,644,116
Homeland Security	33,229
Transportation	589,471
	<hr/>
Total federal	<u>\$ 2,461,013</u>
Total state and federal grants	<u>\$ 4,942,067</u>
Total Intergovernmental Revenue	<u><u>\$ 12,213,343</u></u>

This page was left blank intentionally.



JULIE BLAHA
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@osa.state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

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
Hubbard County
Park Rapids, 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 Hubbard County, Minnesota, as of and for the year ended December 31, 2016, including the Heritage Community Enterprise Fund as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated April 16, 2019. We have issued an adverse opinion on the discretely presented component unit because Hubbard County has not included financial data in its government-wide financial statements for the County's legally separate component unit as required by accounting principles generally accepted in the United States of America. Our report includes a reference to other auditors who audited the financial statements of the Heritage Living Center, Manor, and Cottages, included in the Heritage Community Enterprise Fund, as described in our report on the County's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2015-002 to be a material weakness and items 1996-002, 2007-001, and 2015-003 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hubbard 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 the County administers no tax increment financing districts.

In connection with our audit, nothing came to our attention that caused us to believe that Hubbard 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 2015-012.

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.

Hubbard County's Response to Findings

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

Purpose of This Report

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

/s/Julie Blaha

JULIE BLAHA
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

April 16, 2019

This page was left blank intentionally.



JULIE BLAHA
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Independent Auditor's Report

Board of County Commissioners
Hubbard County
Park Rapids, Minnesota

Report on Compliance for Each Major Federal Program

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

Hubbard County's basic financial statements do not include the operations of the Hubbard County Housing and Redevelopment Authority (HRA) component unit, which expended \$32,328 in federal awards during the year ended December 31, 2016, which are not included in the Schedule of Expenditures of Federal Awards. Our audit, described below, did not include the operations of the Hubbard County HRA because the HRA was audited by other auditors.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Hubbard 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 Hubbard 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.

Basis for Qualified Opinions on Highway Planning and Construction (CFDA No. 20.205) and Medical Assistance Program (CFDA No. 93.778)

As described in the accompanying Schedule of Findings and Questioned Costs, Hubbard County did not comply with requirements regarding CFDA No. 20.205, Highway Planning and Construction, as described in finding number 2015-006 for Uniform Guidance Written Procurement Policies and Procedures and did not comply with the requirements regarding CFDA No. 93.778, Medical Assistance Program, as described in finding number 2015-006 for Uniform Guidance Written Procurement Policies and Procedures; finding number 2015-007 for Eligibility; finding number 2015-010 for Procurement, Suspension, and Debarment; and finding number 2016-001 for Activities Allowed and Unallowed, Allowable Costs/Cost Principles, and Reporting. Compliance with such requirements is necessary, in our opinion, for the County to comply with the requirements applicable to those programs.

Qualified Opinions on Highway Planning and Construction (CFDA No. 20.205) and Medical Assistance Program (CFDA No. 93.778)

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

Other Matter

The results of our auditing procedures disclosed an other instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2016-002. Our opinion on each major federal program is not modified with respect to this matter.

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

Report on Internal Control Over Compliance

Management of Hubbard 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 identify certain deficiencies in internal control over compliance, described in the accompanying Schedule of Findings and Questioned Costs as items 2015-006, 2015-007, 2015-010, and 2016-001, that we consider to be material weaknesses, and deficiency 2016-002 that we consider to be a significant deficiency.

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

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

/s/Julie Blaha

JULIE BLAHA
STATE AUDITOR

April 16, 2019

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR



JULIE BLAHA
STATE AUDITOR

STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS IN ACCORDANCE WITH THE UNIFORM GUIDANCE

Independent Auditor's Report

Board of County Commissioners
Hubbard County
Park Rapids, Minnesota

We have audited the accompanying Schedule of Expenditures of Federal Awards (SEFA) of Hubbard County, Minnesota, for the year ended December 31, 2016.

Management's Responsibility for the SEFA

Management is responsible for the preparation and fair presentation of the SEFA 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 a SEFA that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on Hubbard County's SEFA based on our audit. We conducted our audit 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 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 the SEFA is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the SEFA. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the SEFA, 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 SEFA 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 principles used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the SEFA.

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

Opinion

In our opinion, the SEFA presents fairly, in all material respects, the expenditures of federal awards of Hubbard County for the year ended December 31, 2016, in accordance with accounting principles generally accepted in the United States of America.

/s/Julie Blaha

/s/Greg Hierlinger

JULIE BLAHA
STATE AUDITOR

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

April 16, 2019

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

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

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: **Adverse on the discretely presented component unit because Hubbard County did not include financial data for the County's legally separate component unit in its government-wide financial statements.**

The opinions on the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information are unmodified.

Internal control over financial reporting:

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

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

Federal Awards

Internal control over major programs:

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

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

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

The major federal programs are:

Highway Planning and Construction Cluster	CFDA No. 20.205
Medicaid Cluster	CFDA No. 93.778

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

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

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

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

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding Number 1996-002

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

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

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

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

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

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

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

View of Responsible Official: Acknowledged

Finding Number 2007-001

Documenting and Monitoring Internal Controls

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

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

Context: While internal controls may be established, it is not uncommon in operations the size of Hubbard County to fail to periodically review those controls. Monitoring of internal controls is necessary to ensure they are in place, appropriate, and operating effectively.

Effect: Changes may have taken place that reduce or negate the effectiveness of internal controls, which may go unnoticed without formal risk assessment and monitoring procedures in place.

Cause: Due to limited time and resources, the County has been unable to establish a formal process for assessing risk and monitoring controls.

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

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

Recommendation: We recommend that a formal plan be developed to assess risk and monitor the significant internal controls on a regular basis, no less than annually. The monitoring should be documented to show the results of the review, changes required, and who performed the work.

View of Responsible Official: Acknowledged

Finding Number 2015-002

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 entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Condition: Material audit adjustments were identified that resulted in significant changes to the County's financial statements.

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

Effect: The following audit adjustments were reviewed and approved by management and are reflected in the financial statements:

- The Road and Bridge Special Revenue Fund required an adjustment of \$669,225 to record the receivable and unavailable revenue relating to highway allotment activity.
- The Social Services Special Revenue Fund required an adjustment to increase due from other governments and related intergovernmental revenues by \$552,776 for items received within the 60-day accrual period.

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

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

- The Forfeited Tax Sale Special Revenue Fund required an adjustment to increase accounts payable by \$394,735 for the portion of contracts receivable that belongs to other taxing districts, increase timber permit revenues by \$215,953 for the portion of contracts receivable that belongs to the County and are available resources, and decrease unavailable revenue – deferred inflows of resources by \$610,688 for those resources that are either County resources that were received in the period of availability or will not be County resources.
- The Forfeited Tax Sale Special Revenue Fund required an adjustment of \$618,302 to reduce land and timber sales revenue and forfeited land expenditures for activity that was due to other taxing districts.

Cause: This activity was overlooked when financial statement information was prepared.

Recommendation: We recommend County staff implement procedures over financial reporting that include review of balances, disclosures, and supporting documentation by a qualified individual to ensure the information is complete and accurate so the County's financial statements are fairly presented in accordance with GAAP.

View of Responsible Official: Acknowledged

Finding Number 2015-003

Fund Balance Reporting

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

Condition: The County reported committed fund balances for various categories in the General Fund and special revenue funds for which County Board resolutions could not be located. In addition, the County had various restricted fund balances that were not identified with the correct restricted classification or for which the County had no documentation to support that the restrictions were externally imposed.

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

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

Context: The General Fund and special revenue funds included commitments of \$4,102,657 and \$4,821,167, respectively, for buildings, compensated absences, debt service, donations, employee flex program, employee group insurance, equipment, extension publications, future expenditures, jail canteen, out-of-home placement, road construction, survey remonumentation, and County cars. The amount of solid waste operations that should have been restricted in the Solid Waste Special Revenue Fund was \$621,819.

Effect: Significant reclassifications of fund balance were required in all of the funds to adjust committed, restricted, assigned, and unassigned fund balance to properly reflect the commitments and restrictions authorized by the County Board and allowed under GASB 54.

Cause: Several of the categories were carried over from designations of fund balance in pre-GASB 54 financial statements.

Recommendation: We recommend the County develop procedures to ensure all fund balance commitments and restrictions comply with GASB 54 requirements. Although the purpose of commitments are required to be approved by the Board prior to year-end, the amounts of the commitments can be determined at a later date.

View of Responsible Official: Acknowledged

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding Number 2015-006

Uniform Guidance Written Procurement Policies and Procedures

Programs: U.S. Department of Transportation's Highway Planning and Construction (CFDA No. 20.205), Award No. 00029, 2016; and U.S. Department of Health and Human Services' Medical Assistance Program (CFDA No. 93.778), Award No. 05-1605MN5ADM, 2016

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

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

Pass-Through Agencies: Minnesota Department of Transportation (CFDA No. 20.205) and Minnesota Department of Human Services (CFDA No. 93.778)

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

Condition: The County's written procurement policies did not have the required components of a procurement policy in accordance with Title 2 U.S. *Code of Federal Regulations* § 200.318, including provisions for written standards of conduct and suspension and debarment. The County did not enact the waiver offered by the Uniform Guidance for implementation of the new procurement standards.

Questioned Costs: Not applicable.

Context: This issue was discovered during the audit of the major federal programs; however, it impacts federal programs entity-wide. Written policies that reflect the specific components of federal regulations improve controls to ensure compliance with federal award requirements. The County did adopt procurement policies in December 2017 that include the Uniform Guidance components.

Effect: Written policies and procedures that are not updated to reflect the Uniform Guidance procurement requirements could increase the risk of noncompliance with federal program requirements.

Cause: The County was not aware of the changes to procurement requirements under the Uniform Guidance.

Recommendation: We recommend the County implement and adhere to written procurement policies addressing the specific components of the Uniform Guidance requirements. The County should also implement procedures to provide assurance that staff are aware of changes to federal award requirements.

View of Responsible Official: Acknowledged

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

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

Finding Number 2015-007

Eligibility

Program: U.S. Department of Health and Human Services' Medical Assistance Program (CFDA No. 93.778), Award No. 05-1605MN5ADM, 2016

Pass-Through Agency: Minnesota Department of Human Services

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

Condition: The Minnesota Department of Human Services (DHS) maintains the computer system, MAXIS, which is used by the County to support the eligibility determination process. In the case files reviewed for eligibility, not all documentation was available or updated in MAXIS to support participant eligibility. In a sample of 40 cases tested:

- For nine case files, the asset information was not verified and was not updated in the MAXIS system.
- For three case files, the asset information in MAXIS did not match the supporting documentation provided by the participant.
- For two case files, the income information in MAXIS did not match the supporting documentation provided by the participant.

There is also no documented process to perform periodic reviews of the Medical Assistance Program case files.

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

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

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

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

The sample size was based on guidance from chapter 11 of the AICPA Audit Guide, *Government Auditing Standards and Single Audits*.

Effect: The lack of updated information in MAXIS and verification of eligibility-determining factors increases the risk that a program participant will receive benefits when they are not eligible.

Cause: Program personnel entering case information into MAXIS did not ensure all required information was input or updated correctly.

Recommendation: We recommend the County implement additional review procedures to provide reasonable assurance that all necessary documentation to support eligibility determinations exists and is properly input or updated in MAXIS and issues are followed up on in a timely manner. In addition, consideration should be given to providing additional training to program personnel.

View of Responsible Official: Acknowledged

Finding Number 2015-010

Procurement, Suspension, and Debarment

Program: U.S. Department of Health and Human Services' Medical Assistance Program (CFDA No. 93.778), Award No. 05-1605MN5ADM, 2016

Pass-Through Agency: Minnesota Department of Human Services

Criteria: Federal regulations provided in Title 2 U.S. *Code of Federal Regulations* § 200.318(i) state that the non-federal entity must maintain records sufficient to detail the history of procurement. These records will include, but are not necessarily limited to, the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price. Non-federal entities must follow further federal guidance verifying debarment, suspension, and exclusions as provided in Title 2 U.S. *Code of Federal Regulations* §§ 180.300, 200.213, and 200.318(h).

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

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

Condition: Two procurement transactions were tested for compliance with federal regulations, and two instances were noted where the history of the procurement, including selection of the contract, was not documented. Additionally, for one item selected for testing, there was no verification performed by the County to determine whether vendors were debarred, suspended, or whether other exclusions existed.

Questioned Costs: None

Context: Two of six procurement transactions over \$3,000 were tested for compliance with federal regulations, including one of the three purchases over \$25,000.

The sample size was based on guidance from chapter 11 of the AICPA Audit Guide, *Government Auditing Standards and Single Audits*.

Effect: The County is not in compliance with federal regulations.

Cause: The County was unaware of these requirements.

Recommendation: We recommend the County document the history of procurement transactions, including contract selection. The County should verify vendors are not debarred or suspended or that other exclusions apply.

View of Responsible Official: Acknowledged

ITEMS ARISING THIS YEAR

Finding Number 2016-001

Activities Allowed and Unallowed, Allowable Costs/Cost Principles, and Reporting

Program: U.S. Department of Health and Human Services' Medical Assistance Program (CFDA No. 93.778), Award No. 05-1605MN5ADM, 2016

Pass-Through Agency: Minnesota Department of Human Services

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

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

Criteria: Title 2 U.S. *Code of Federal Regulations* § 200.303 states that the auditee must establish and maintain effective internal control over the federal award that provides reasonable assurance that the auditee is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award. The DHS provides guidance on the completion of the quarterly Social Services Fund Report (DHS-2556) in DHS Bulletin No. 17-32-17.

Condition: A \$100,000 payment to the Hubbard County Housing and Redevelopment Authority (HRA) was identified on the first quarter DHS-2556 Report. The County indicated it had received a grant for \$100,000 from PrimeWest Community Health, which was later passed on to the HRA. The DHS confirmed that the County acted as a pass-through grantor for the transaction; therefore, the payment was not allowable activity, and should not have been reported on the DHS-2556 Report.

Questioned Costs: \$100,000

Context: Human service agencies are required to submit the quarterly DHS-2556 reports to the DHS to calculate federal administrative reimbursements. The DHS uses the submitted DHS-2556 reports in conjunction with the Social Service Time Study (SSTS) to determine the allowable costs for reimbursements through various federal awards, including Medical Assistance.

The sample size was based on guidance from chapter 11 of the AICPA Audit Guide, *Government Auditing Standards and Single Audits*.

Effect: The County received reimbursement for unallowable costs.

Cause: The County was not aware this cost was reported incorrectly.

Recommendation: We recommend the County implement procedures to ensure that the DHS-2556 reports are reviewed for accuracy and completeness by an individual independent of the preparer. Evidence of the review should be retained.

View of Responsible Official: Acknowledged

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

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

Finding Number 2016-002

Report Submission

Programs: U.S. Department of Transportation's Highway Planning and Construction (CFDA No. 20.205), Award No. 00029, 2016; and U.S. Department of Health and Human Services' Medical Assistance Program (CFDA No. 93.778), Award No. 05-1605MN5ADM, 2016

Pass-Through Agencies: Minnesota Department of Transportation and Minnesota Department of Human Services

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

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

Questioned Costs: None

Context: The County's original audit for 2016, which was due to the Federal Audit Clearinghouse no later than September 30, 2017, was not submitted until December 22, 2017.

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

Cause: The original auditors did not complete the audit on a timely basis. The County subsequently hired other auditors to re-perform the audit for 2016. Since then, the U.S. Office of Inspector General deemed the original audit for 2016 to be unacceptable as it did not meet generally accepted auditing standards, generally accepted government auditing standards, and the requirements of the Uniform Guidance.

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

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

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

View of Responsible Official: Acknowledged

IV. OTHER FINDINGS AND RECOMMENDATIONS

MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding Number 2015-012

Bylaws of the Heritage Living Center Board

Criteria: The Heritage Living Center Board was established under Minn. Stat. §§ 376.55 through 376.60. Minn. Stat. § 376.58, subd. 1, states, “The county board of any county establishing a county nursing home and facility for supportive services may designate any board under the jurisdiction and control of the county board to supervise the nursing home and facility, and that board shall constitute the nursing home’s administrative board for that county.”

Condition: In 2007, the bylaws of the Heritage Living Center Board were amended to remove the County Board’s jurisdiction and control over the Heritage Living Center Board.

Context: Under the current bylaws, Hubbard County does not have jurisdiction and control over the Heritage Living Center Board, as required by the state statutes.

Effect: Noncompliance with the “under the jurisdiction and control” of the County Board requirement of Minn. Stat. § 376.58, subd. 1.

Cause: The County Board approved amendments to the bylaws of the Heritage Living Center Board that they did not realize were not in compliance with state statutes.

Recommendation: We recommend the Heritage Living Center Board bylaws be amended to recognize the jurisdiction and control of the County Board over the Heritage Living Center Board.

View of Responsible Official: Acknowledged

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

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

V. PREVIOUSLY REPORTED ITEMS RESOLVED

2007-003 Cash Reconciliation
2015-001 Prior Period Adjustments
2015-004 Journal Entry Approval
2015-005 Financial Statement Disclosures
2015-008 Reporting
2015-009 Identification of Federal Awards
2015-011 Contract Compliance



Hubbard County

301 Court Avenue
Park Rapids, MN 56470

Phone: 218.732.2310 Fax: 218.732.2318

REPRESENTATION OF HUBBARD COUNTY PARK RAPIDS, MINNESOTA

CORRECTIVE ACTION PLAN FOR THE YEAR ENDED DECEMBER 31, 2016

Finding Number: 1996-002

Finding Title: Segregation of Duties

Name of Contact Person Responsible for Corrective Action:

Kay Rave, Hubbard County Auditor/Treasurer

Corrective Action Planned:

Department heads will meet to discuss internal controls and review of segregation of duties; we will revise procedures and/or re-assign duties as we find improvements.

Anticipated Completion Date:

This is an ongoing task with no completion date.

Finding Number: 2007-001

Finding Title: Documenting and Monitoring Internal Controls

Name of Contact Person Responsible for Corrective Action:

Kay Rave, Hubbard County Auditor/Treasurer

Corrective Action Planned:

Department heads meet periodically to discuss and monitor internal controls; we revise procedures and/or re-assign duties as we find improvements. It is our goal to document internal controls and share with all department heads for consistency across departments.

Anticipated Completion Date:

This is an ongoing task with no completion date.

Finding Number: 2015-002

Finding Title: Audit Adjustments

Name of Contact Person Responsible for Corrective Action:

Rhonda Anstine, Highway Accountant

Corrective Action Planned:

County staff will implement procedures over financial reporting that include review of balances, disclosures, and supporting documentation by a qualified individual to ensure the information is complete and accurate so the County's financial statements are fairly presented in accordance with GAAP.

In 2018, there are no advance highway allotment dollars. Future advance dollars will be shown under "Deferred Inflows of Resources" in the financial statements.

Anticipated Completion Date:

2018

Finding Number: 2015-003

Finding Title: Fund Balance Reporting

Name of Contact Person Responsible for Corrective Action:

Rhonda Anstine, Highway Accountant

Corrective Action Planned:

County staff developed procedures to ensure all fund balance commitments and restrictions comply with GASB 54 requirements.

Anticipated Completion Date:

Staff began correcting this in December of 2017 and will continue on an annual basis.

Finding Number: 2015-006

Finding Title: Uniform Guidance Written Procurement Policies and Procedures

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

Name of Contact Person Responsible for Corrective Action:

Kay Rave, Hubbard County Auditor/Treasurer; Rhonda Anstine, Highway Accountant; and Deb Vizecky, Social Services Director

Corrective Action Planned:

In December of 2017, the County implemented a new comprehensive procurement policy addressing the specific components of the Uniform Guidance requirements. The County also began to implement procedures to provide assurance that staff are aware of changes to federal award requirements. The Procurement Policy is currently being revised by department heads to ensure that all departments can operate effectively within the requirements.

Anticipated Completion Date:

2019

Finding Number: 2015-007

Finding Title: Eligibility

Program: Medical Assistance Program (CFDA No. 93.778)

Name of Contact Person Responsible for Corrective Action:

Deb Vizecky, Social Services Director

Corrective Action Planned:

The County has implemented additional review procedures to provide reasonable assurance that all necessary documentation to support eligibility determinations exists and is properly input or updated in MAXIS and issues will be followed up on in a timely manner. The County has also implemented supervisor reviews and peer reviews. The County also provided additional training to the Eligibility workers that work in this area.

Anticipated Completion Date:

2018

Finding Number: 2015-010
Finding Title: Procurement, Suspension, and Debarment
Program: Medical Assistance Program (CFDA No. 93.778)

Name of Contact Person Responsible for Corrective Action:

All County Department Managers

Corrective Action Planned:

The County will verify vendors are not debarred or suspended or that other exclusions apply. Each Department Manager will keep a log of when they checked and the outcome. The County will distribute its micro-purchases among qualified suppliers to the extent practicable.

Anticipated Completion Date:

2019

Finding Number: 2016-001
Finding Title: Activities Allowed and Unallowed, Allowable Costs/Cost Principles, and Reporting
Program: Medical Assistance Program (CFDA No. 93.778)

Name of Contact Person Responsible for Corrective Action:

Deb Vizecky, Social Services Director

Corrective Action Planned:

This was a one-time pass through of grant monies. The Fiscal Supervisor was informed of it being coded incorrectly. We will monitor in the future.

Anticipated Completion Date:

2019

Finding Number: 2016-002
Finding Title: Report Submission
Program: Highway Planning and Construction (CFDA No. 20.205) and Medical Assistance Program (CFDA No. 93.778)

Name of Contact Person Responsible for Corrective Action:

Kay Rave, Hubbard County Auditor/Treasurer

Corrective Action Planned:

Hubbard County has engaged the OSA to provide audit services, thus ensuring data and reports will be submitted to the Federal Audit Clearinghouse in accordance with the Title 2 U.S. *Code of Federal Regulations* § 200.512.

Hubbard County staff are doing everything possible to ensure a timely audit.

Anticipated Completion Date:

Year ending December 31, 2018, will be submitted by the September 30, 2019, deadline.

Finding Number: 2015-012

Finding Title: Bylaws of the Heritage Living Center Board

Name of Contact Person Responsible for Corrective Action:

County Board

Corrective Action Planned:

The Hubbard County Board will work with the Heritage Living Center Board to amend the bylaws to recognize jurisdiction and control of the County Board over the Heritage Living Center Board.

Anticipated Completion Date:

2018

This page was left blank intentionally.



Hubbard County

301 Court Avenue
Park Rapids, MN 56470

Phone: 218.732.2310 Fax: 218.732.2318

REPRESENTATION OF HUBBARD COUNTY PARK RAPIDS, MINNESOTA

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

Finding Number: 1996-002

Finding Title: Segregation of Duties

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

Summary of Corrective Action Previously Reported: Department heads will meet to discuss internal controls and review of segregation of duties; we will revise procedures and/or re-assign duties as we find improvements.

Status: Not Corrected. Management is aware of the condition noted and continued to evaluate to ensure segregation of duties is in place where possible and feasible.

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

Yes _____ No X

Finding Number: 2007-001

Finding Title: Documenting and Monitoring Internal Controls

Summary of Condition: The County has documented policies over significant functions and controls; however, there are no formal risk assessment and monitoring procedures in place to determine if the internal controls established by County management are still effective or if changes are needed to maintain a sound internal control structure.

Summary of Corrective Action Previously Reported: Department heads meet periodically to discuss and monitor internal controls; we revise procedures and/or re-assign duties as we find improvements. It is our goal to document internal controls and share with all department heads for consistency across departments.

Status: Not Corrected. We are in the process of reviewing and formalizing our policies and procedures for internal controls and monitoring.

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

Finding Number: 2007-003

Finding Title: Cash Reconciliation

Summary of Condition: There have been unreconciled differences between the County's general ledger cash balance and the Treasurer's cash balance for a number of years.

Summary of Corrective Action Previously Reported: In 2016, staff researched and corrected differences to balance in the general ledger of the County. The County established internal control procedures for timely analysis and review of revenues and expenditures to ensure transactions are appropriately posted to the cash accounts and are reported in accordance with GAAP in the County's annual financial statement.

Status: Fully Corrected. Corrective action was taken.

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

Finding Number: 2015-001

Finding Title: Prior Period Adjustments

Summary of Condition: Prior period adjustments material to the County's financial statements, either individually or in the aggregate, were identified during the audit.

Summary of Corrective Action Previously Reported: The financial statement balances will be restated, and staff will review and improve financial statement closing procedures to include review of balances, disclosures, and supporting documentation by a qualified individual to ensure they have accurate and complete information necessary to accurately present the County's financial statements in accordance with GAAP.

Status: Fully Corrected. Corrective action was taken.

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

Finding Number: 2015-002
Finding Title: Audit Adjustments

Summary of Condition: Material audit adjustments were identified that resulted in significant changes to the County's financial statements.

Summary of Corrective Action Previously Reported: County staff will implement procedures over financial reporting that include review of balances, disclosures, and supporting documentation by a qualified individual to ensure the information is complete and accurate so the County's financial statements are fairly presented in accordance with GAAP.

Status: Not Corrected. Improvements to year end procedures and journal entries will continue to be reviewed to ensure the financial statements are accurate, complete, and fairly represented in accordance with generally accepted accounting principles.

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

Finding Number: 2015-003
Finding Title: Fund Balance Reporting

Summary of Condition: The County reported committed fund balances for various categories in the General Fund, special revenue funds, and permanent fund, for which County Board resolutions could not be located. In addition, the County had various restricted fund balances that were not identified with the correct restricted classification or for which the County had no documentation to support that the restrictions were externally imposed. For the permanent fund, the principal was reported as restricted when GASB 54 requires the classification to be nonspendable.

Summary of Corrective Action Previously Reported: County staff developed procedures to ensure all fund balance commitments and restrictions comply with GASB 54 requirements.

Status: Not Corrected. Due to time constraints, fund balance commitments were not approved by the Board during the audit year. They were approved in December 2017.

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

Finding Number: 2015-004
Finding Title: Journal Entry Approval

Summary of Condition: There was no documented review and approval for the Social Service Department journal entries entered in the general ledger system.

Summary of Corrective Action Previously Reported: Supervisory staff will implement internal controls to ensure that all journal entries are reviewed and approved by someone other than the person making the journal entry before being posted to the general ledger. The review and approval will be documented by a signature and date.

Status: Fully Corrected. Corrective action was taken.

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

Yes _____ No X

Finding Number: 2015-005

Finding Title: Financial Statement Disclosures

Summary of Condition: Presentations and disclosures in the originally prepared 2015 financial report provided by the County for the prior audit were not reported correctly.

Summary of Corrective Action Previously Reported: The County will develop and document a process to review the financial report before the report is issued. Documentation of the review will be maintained on file.

Status: Fully Corrected. Corrective action was taken.

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

Yes _____ No X

Finding Number: 2015-006

Finding Title: Uniform Guidance Written Procurement Policies and Procedures

Program: Medical Assistance Program (CFDA No. 93.778)

Summary of Condition: The County's written procurement policies did not have the required components of a procurement policy in accordance with Title 2 U.S. *Code of Federal Regulations* § 200.318, including provisions for written standards of conduct and suspension and debarment. The County did not enact the waiver offered by the Uniform Guidance for implementation of the new procurement standards.

Summary of Corrective Action Previously Reported: In December of 2017, the County implemented a new comprehensive Procurement Policy addressing the specific components of the Uniform Guidance requirements. The County also began to implement procedures to provide assurance that staff are aware of changes to federal award requirements. The Procurement Policy is currently being revised by department heads to ensure that all departments can operate effectively within the requirements.

Status: Not Corrected. Due to time constraints, a policy was not approved by the Board during the audit year. The policy was approved in December 2017.

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

Finding Number: 2015-007

Finding Title: Eligibility

Program: Medical Assistance Program (CFDA No. 93.778)

Summary of Condition: The Minnesota Department of Human Services (DHS) maintains the computer system, MAXIS, which is used by the County to support the eligibility determination process. In the case files reviewed for eligibility, not all documentation was available or updated in MAXIS to support participant eligibility.

Summary of Corrective Action Previously Reported: The County has implemented additional review procedures to provide reasonable assurance that all necessary documentation to support eligibility determinations exists and is properly input or updated in MAXIS and issues will be followed up on in a timely manner. In addition, consideration will be given to providing additional training to program personnel.

Status: Not Corrected. This was noted in 2018. Once it was noted in the audit, the Corrective Action Plan was implemented at that time. It would be our goal that this will no longer be a finding after 2018. We did review the findings with the Eligibility Worker Staff and we provided training to the personnel that work in this area.

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

Finding Number: 2015-008

Finding Title: Reporting

Program: Medical Assistance Program (CFDA No. 93.778)

Summary of Condition: In the DHS-2550 reports reviewed, reported expenditures included payroll and overhead costs allocated from the County Transit Department. The expenditures were reported as direct charges to the Medical Assistance (MA) Program. The County indicated that the allocation of these costs to the MA Program was based on the portion of transportation services scheduled by the Transit Director for MA participants and was intended to capture those costs for federal reimbursement. The instructions for the DHS-2550 report do not provide this type of allocation as an option for claiming such costs for federal reimbursement.

Summary of Corrective Action Previously Reported: The quarterly DHS-2550 will be completed in accordance with DHS guidance. The County has consulted with DHS to ensure that the method used to report all types of costs is appropriate.

Status: Fully Corrected. Corrective action was taken.

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

Yes _____ No X

Finding Number: 2015-009

Finding Title: Identification of Federal Awards

Program: Medical Assistance Program (CFDA No. 93.778)

Summary of Condition: The County did not properly identify the amount expended for the Medical Assistance Program.

Summary of Corrective Action Previously Reported: The County will review internal controls currently in place and design and implement procedures to improve internal controls over identifying the program expenditures of federal awards for SEFA reporting.

Status: Fully Corrected. Corrective action was taken.

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

Yes _____ No X

Finding Number: 2015-010

Finding Title: Procurement, Suspension, and Debarment

Program: Medical Assistance Program (CFDA No. 93.778)

Summary of Condition: Of six procurement transactions tested for compliance with federal regulations, five instances were noted where the history of the procurement, including selection of the contract, was not documented. In three of the instances, there was no documentation of full and open competition. Additionally, there was no verification performed by the County to determine whether vendors were debarred, suspended, or whether other exclusions existed in the two items selected for testing. Twelve micro-purchases were also tested. For one of these, consideration was not given to equitably distribute the purchase among qualified suppliers.

Summary of Corrective Action Previously Reported: The County will verify vendors are not debarred or suspended or that other exclusions apply. The County will distribute its micro-purchases among qualified suppliers to the extent practicable.

Status: Not Corrected. This finding was noted in 2018. Once it was noted in the audit the Corrective Action Plan was implemented at that time. It would be our goal that this will not longer be a finding after 2018.

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

Finding Number: 2015-011
Finding Title: Contract Compliance

Summary of Condition: The County was not in compliance with Minn. Stat. § 471.345, subd. 4, which states, “If the amount of the contract is estimated to exceed \$25,000 but not to exceed \$100,000, the contract may be made either upon sealed bids or by direct negotiation, by obtaining two or more quotations for the purchase or sale when possible...” Two instances were noted where contracts were awarded based on a single direct quote. One contract was for the purchase of data storage equipment for the Recorder’s Office, and the other contract was for herbicide application for the Natural Resource Management Department.

Summary of Corrective Action Previously Reported: The County will ensure that all employees and officials involved with contracting for the County are aware of and will follow applicable legal requirements as documented in the County’s Procurement Policy adopted in 2017 and revised in 2018. Documentation will be maintained when it is not possible to obtain two or more quotes.

Status: Fully Corrected. Corrective action was taken.
Was corrective action taken significantly different than the action previously reported?
Yes _____ No X

Finding Number: 2015-012
Finding Title: Bylaws of the Heritage Living Center Board

Summary of Condition: In 2007, the bylaws of the Heritage Living Center Board were amended to remove the County Board’s jurisdiction and control over the Heritage Living Center Board.

Summary of Corrective Action Previously Reported: The Hubbard County Board will work with the Heritage Living Center Board to amend the bylaws to recognize jurisdiction and control of the County Board over the Heritage Living Center Board.

Status: Not Corrected. Due to time constraints, the bylaws did not change during the audit year. The Board and County Attorney are working on an approach to correct the issue.

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

This page was left blank intentionally.

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

EXHIBIT E-1

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

Federal Grantor Pass-Through Agency Program or Cluster Title	Federal CFDA Number	Pass-Through Grant Numbers	Expenditures
U.S. Department of Agriculture			
Passed Through Minnesota Department of Human Services SNAP Cluster State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	16162MN101S2514	\$ 175,598
U.S. Department of Justice			
Passed Through Minnesota Department of Public Safety Crime Victim Assistance	16.575	F-CVS-2016-HUBBARAO-0235	\$ 9,293
Crime Victim Assistance (Total Crime Victim Assistance 16.575 \$18,599)	16.575	F-CVS-2016-HUBBARAO-0380	9,306
Total U.S. Department of Justice			\$ 18,599
U.S. Department of Transportation			
Passed Through Minnesota Department of Transportation Highway Planning and Construction Cluster Highway Planning and Construction	20.205	00029	\$ 463,911
Formula Grants for Rural Areas	20.509	Agr#07188	26,268
Formula Grants for Rural Areas (Total Formula Grants for Rural Areas 20.509 \$85,468)	20.509	Agr#1003385	59,200
Passed Through Minnesota Department of Public Safety Highway Safety Cluster State and Community Highway Safety	20.600	F-ENFRC16-2016-HUBBSO-1421	373
State and Community Highway Safety	20.600	F-ENFRC16-2016-HUBBSO-1761	913
State and Community Highway Safety	20.600	F-ENFRC16-2016-HUBBSO-1849	301
State and Community Highway Safety (Total State and Community Highway Safety 20.600 \$3,872)	20.600	F-ENFRC16-2016-HUBBSO-1963	2,285
National Priority Safety Programs	20.616	F-ENFRC16-2016-HUBBSO-1421	3,207
National Priority Safety Programs	20.616	F-ENFRC16-2016-HUBBSO-1761	3,693
National Priority Safety Programs (Total National Priority Safety Programs 20.616 \$25,984)	20.616	F-CMPTR16-2016-HUBBSO-1827	19,084
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	F-ENFRC16-2016-HUBBSO-1421	5,382
Minimum Penalties for Repeat Offenders for Driving While Intoxicated (Total Minimum Penalties for Repeat Offenders for Driving While Intoxicated 20.608 \$10,236)	20.608	F-ENFRC16-2016-HUBBSO-1963	4,854
Total U.S. Department of Transportation			\$ 589,471

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

**EXHIBIT E-1
(Continued)**

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

Federal Grantor Pass-Through Agency Program or Cluster Title	Federal CFDA Number	Pass-Through Grant Numbers	Expenditures
U.S. Department of Health and Human Services			
Passed Through Minnesota Department of Human Services			
Promoting Safe and Stable Families TANF Cluster	93.556	G-1601MNF PSS	\$ 11,167
Temporary Assistance for Needy Families	93.558	1502MNTANF	169,640
Child Support Enforcement	93.563	1604MNCSES	9,600
Child Support Enforcement (Total Child Support Enforcement 93.563 \$278,344)	93.563	1604MNCES T	268,744
Refugee and Entrant Assistance - State-Replacement Designee Administered Programs CCDF Cluster	93.566	1601MNR CMA	167
Child Care and Development Block Grant	93.575	G1601MNC CDF	12,120
Community-Based Child Abuse Prevention Grants	93.590	G-1502MNF RGP	7,918
Stephanie Tubbs Jones Child Welfare Services Program	93.645	G-1601MNC WSS	6,492
Foster Care Title IV-E	93.658	1601MNF OST	305,214
Social Services Block Grant	93.667	16-01MNS OSR	136,888
Chafee Foster Care Independence Program	93.674	G-1601MNC ILP	4,121
Medicaid Cluster			
Medical Assistance Program	93.778	05-1605MN5ADM	702,868
Medical Assistance Program (Total Medical Assistance Program 93.778 \$712,045)	93.778	05-1605MN5MAP	9,177
Total U.S. Department of Health and Human Services			\$ 1,644,116
U.S. Department of Homeland Security			
Passed Through Minnesota Department of Natural Resources			
Boating Safety Financial Assistance	97.012	Hubbard FBG-101816	\$ 6,375
Passed Through Minnesota Department of Public Safety			
Emergency Management Performance Grants	97.042	F-EMPG-2015-HUBBARCO-1346	5,299
Emergency Management Performance Grants	97.042	F-EMPG-2015-HUBBARCO-1645	11,790
Emergency Management Performance Grants	97.042	F-EMPG-2015-HUBBARCO-1792	6,026
Emergency Management Performance Grants (Total Emergency Management Performance Grants 97.042 \$26,854)	97.042	F-EMPG-2016-HUBBARCO-1996	3,739
Total U.S. Department of Homeland Security			\$ 33,229
Total Federal Awards			\$ 2,461,013

Hubbard County did not pass any federal awards through to subrecipients during the year ended December 31, 2016.

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

**EXHIBIT E-1
(Continued)**

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

Federal Grantor Pass-Through Agency Program or Cluster Title	Federal CFDA Number	Pass-Through Grant Numbers	Expenditures
Totals by Cluster			
Total expenditures for SNAP Cluster			\$ 175,598
Total expenditures for Highway Planning and Construction Cluster			463,911
Total expenditures for Highway Safety Cluster			29,856
Total expenditures for TANF Cluster			169,640
Total expenditures for CCDF Cluster			12,120
Total expenditures for Medicaid Cluster			712,045

This page was left blank intentionally.

**HUBBARD COUNTY
PARK RAPIDS, MINNESOTA**

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

1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by Hubbard County. The County's reporting entity is defined in Note 1 to the basic financial statements. The schedule does not include \$32,328 in federal awards expended by the Hubbard County Housing and Redevelopment Authority component unit, which was audited by other auditors.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Hubbard County under programs of the federal government for the year ended December 31, 2016. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of Hubbard County, it is not intended to and does not present the financial position, changes in net position, or cash flows of Hubbard 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. Hubbard County has elected to not use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.