STATE OF MINNESOTA

Office of the State Auditor

Rebecca Otto
State Auditor

HUBBARD COUNTY
PARK RAPIDS, MINNESOTA

YEAR ENDED DECEMBER 31, 2015

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

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

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HUBBARD COUNTY
PARK RAPIDS, MINNESOTA

Year Ended December 31, 2015

Audit Practice Division
Office of the State Auditor
State of Minnesota

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HUBBARD COUNTY
PARK RAPIDS, MINNESOTA

TABLE OF CONTENTS

	Exhibit	Page
Introductory Section		
Organization		1
Financial Section		
Independent Auditor's Report		2
Management's Discussion and Analysis		6
Basic Financial Statements		
Government-Wide Financial Statements		
Statement of Net Position	1	15
Statement of Activities	2	17
Fund Financial Statements		
Governmental Funds		
Balance Sheet	3	19
Reconciliation of Governmental Funds Balance Sheet to the Government-Wide Statement of Net Position--Governmental Activities	4	23
Statement of Revenues, Expenditures, and Changes in Fund Balances	5	24
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Government-Wide Statement of Activities--Governmental Activities	6	28
Proprietary Funds		
Statement of Fund Net Position	7	29
Statement of Revenues, Expenses, and Changes in Fund Net Position	8	31
Statement of Cash Flows	9	32
Fiduciary Funds		
Statement of Fiduciary Net Position	10	34
Statement of Changes in Fiduciary Net Position	11	35
Notes to the Financial Statements		36

HUBBARD COUNTY
PARK RAPIDS, MINNESOTA

TABLE OF CONTENTS

	Exhibit	Page
Financial Section (Continued)		
Required Supplementary Information		
Budgetary Comparison Schedules		
General Fund	A-1	95
Road and Bridge Special Revenue Fund	A-2	98
Social Services Special Revenue Fund	A-3	99
Forfeited Tax Sale Special Revenue Fund	A-4	100
Schedule of Funding Progress - Other Post-Employment Benefits	A-5	101
Schedule of Employer Contributions - Other Post-Employment Benefits	A-6	102
PERA General Employees Retirement Fund		
Schedule of Proportionate Share of Net Pension Liability	A-7	103
Schedule of Contributions	A-8	103
PERA Public Employees Police and Fire Fund		
Schedule of Proportionate Share of Net Pension Liability	A-9	104
Schedule of Contributions	A-10	104
PERA Public Employees Correctional Fund		
Schedule of Proportionate Share of Net Pension Liability	A-11	105
Schedule of Contributions	A-12	105
Notes to the Required Supplementary Information		106
Supplementary Information		
Nonmajor Governmental Funds		109
Combining Balance Sheet	B-1	110
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance	B-2	111
Budgetary Comparison Schedules		
Solid Waste Special Revenue Fund	B-3	112
Environmental Trust Permanent Fund	B-4	113
Agency Funds		114
Combining Statement of Changes in Assets and Liabilities - All Agency Funds	C-1	115

HUBBARD COUNTY
PARK RAPIDS, MINNESOTA

TABLE OF CONTENTS

	Exhibit	Page
Financial Section		
Supplementary Information (Continued)		
Schedules		
Schedule of Intergovernmental Revenue	D-1	117
Schedule of Expenditures of Federal Awards	D-2	119
Notes to the Schedule of Expenditures of Federal Awards		121
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 *Government Auditing Standards*		122
Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance		125
Schedule of Findings and Questioned Costs		128
Corrective Action Plan		144
Summary Schedule of Prior Audit Findings		151

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Introductory Section

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HUBBARD COUNTY
PARK RAPIDS, MINNESOTA

ORGANIZATION
DECEMBER 31, 2015

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	December 2016
Auditor/Treasurer	Kay Rave	December 2015
Coordinator	Debbie Thompson	Indefinite
Highway Engineer	David Olsonawski	May 2019
Land Commissioner	Mark Lohmeier	Indefinite
Social Services Director	Tom Sandberg[2]	Indefinite
Solid Waste Administrator	Jed Nordin	Indefinite
Veteran Services Officer	Greg Remus[3]	January 2019

[1]Matthew Dotta was replaced by Charlene Christenson on July 5, 2016.
[2]Tom Sandberg was replaced by Deb Vizecky on April 12, 2016.
[3]Greg Remus was replaced by Jerrold Bjerke on June 12, 2016.

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Financial Section

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REBECCA OTTO
STATE AUDITOR

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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, 2015, including the Heritage Community and Heritage Center Project Enterprise Funds as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Heritage Community Enterprise Fund, which is a major fund and 31 percent, negative 116 percent, and 97 percent, respectively, of the assets, net position, and revenues of 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 Community Enterprise Fund, 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 Equal Opportunity Employer

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

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

Opinions

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Hubbard County as of December 31, 2015, including the Heritage Community and Heritage Center Project Enterprise Funds as of September 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter - Change in Accounting Principle

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

Other Matters

Required Supplementary Information

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

we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Hubbard County's basic financial statements. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 23, 2018, 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 Enterprise Fund, which was audited by other auditors.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Hubbard County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (SEFA) as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) is presented for purposes of additional analysis and is not a required part of the basic financial statements. The SEFA is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional

procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the SEFA is fairly stated in all material respects in relation to the basic financial statements as a whole.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

May 23, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

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Hubbard County

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MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2015
(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, 2015. 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

During the current year, Hubbard County adopted the accounting principles discussed in further detail in the notes to the financial statements. Such accounting principles have been adopted prospectively and, therefore, comparative information in this section has not been restated to reflect the effect of the adoption of these accounting principles.

The total net position of governmental activities is $80,750,082, of which $65,659,575 is the net investment in capital assets, $5,925,711 is restricted for specific purposes, and $9,164,796 is unrestricted. The total net position of governmental activities increased by $4,283,832 for the year ended December 31, 2015, after restatements. Additional information about the restatement can be found in Note I.E. A large part of the increase is attributed to the new transportation sales tax and an increase in capital assets for the courthouse remodel.

The total net position of business-type activities is $906,538, of which $63,352 is the net investment in capital assets, $2,052,923 is restricted for specific purposes, and ($1,209,737) is unrestricted. The total net position of business-type activities increased by $766,473 for the year ended September 30, 2015, primarily as a result of transfers in from governmental funds.

At the close of 2015, the County's governmental funds reported combined ending fund balances of $22,145,662, an increase of $2,389,568 from the prior year after the restatements. Of the total fund balance amount, $764,450 is non-spendable, $5,488,018 is legally or contractually restricted, $11,384,319 is assigned for specific purposes, and $4,508,875 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 supplementary information in addition to the basic financial statements.

Government-Wide Financial Statements

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

The *Statement of Net Position* presents information on all of the County's assets 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, health, 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, Heritage Cottages, and Heritage Center Project.

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 Balances - 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 Balances 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 Funds, 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. Budgetary comparisons have been provided for these funds to demonstrate compliance with their budgets.

Proprietary Funds: Hubbard County maintains two enterprise funds. The Heritage Community accounts for the combined activities of the County's Heritage Living Center and Heritage Cottages facilities, which provide long-term health care, adult daycare, memory care, and assisted living senior housing services for the elderly. Financing is provided by user service charges. The Heritage Center Project Enterprise Fund is use to account for the proceeds of bonds issued for the renovating of the County Heritage Community property and buildings. 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 the Family Services Collaborative Investment Trust Fund and three agency funds. Investment trust funds are used to account for the investment activities of others that the County holds in a fiduciary capacity. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. In addition, the 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 36 of this report.

Other information - In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. The County also provides supplementary information including 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 $81,656,620 at the close of 2015. The largest portion of the County's net position (approximately 80 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 10 percent of the County's net position is restricted and 10 percent of the County's net position is unrestricted. The unrestricted net position amount of $7,955,059 as of December 31, 2015, may be used to meet the County's ongoing obligations to citizens.

The County's overall financial position decreased from last year. Total assets and deferred outflows of resources increased by $13,940,500 from the prior year, and total liabilities and deferred inflows of resources increased by $18,537,510 from the prior year, primarily as a result of the implementation of Governmental Accounting Standards Board pronouncements that recognize a net position liability. This resulted in a decreased net position of $4,597,010 from the prior year, after the restatement of net position.

Net Position

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2015	2014	2015	2014	2015	2014
Assets						
Current and other assets	$ 26,855,431	$ 26,073,238	$ 13,982,361	$ 2,516,044	$ 40,837,792	$ 28,589,282
Capital assets	74,957,028	73,840,017	3,323,352	4,338,855	78,280,380	78,178,872
Total Assets	$ 101,812,459	$ 99,913,255	$ 17,305,713	$ 6,854,899	$ 119,118,172	$ 106,768,154
Deferred outflows of resources	$ 1,328,078	$ -	$ 262,404	$ -	$ 1,590,482	$ -
Liabilities						
Long-term liabilities	$ 18,264,788	$ 12,190,371	$ 15,907,254	$ 3,720,868	$ 34,172,042	$ 15,911,239
Other liabilities	2,693,941	3,859,864	460,202	743,421	3,154,143	4,603,285
Total Liabilities	$ 20,958,729	$ 16,050,235	$ 16,367,456	$ 4,464,289	$ 37,326,185	$ 20,514,524
Deferred inflows of resources	$ 1,431,726	$ -	$ 294,123	$ -	$ 1,725,849	$ -
Net position						
Net investment in capital assets	$ 65,659,575	$ 57,503,654	$ 63,352	$ 599,174	$ 65,722,927	$ 58,102,828
Restricted	5,925,711	4,921,423	2,052,923	134,443	7,978,634	5,055,866
Unrestricted	9,164,796	21,437,943	(1,209,737)	1,656,993	7,955,059	23,094,936
Total Net Position, as Reported	$ 80,750,082	$ 83,863,020	$ 906,538	$ 2,390,610	$ 81,656,620	$ 86,253,630
Change in accounting principal*		(6,501,554)		(2,250,545)		(8,752,099)
Prior period adjustments**		(895,216)		-		(895,216)
Total Net Position, as Restated		$ 76,466,250		$ 140,065		$ 76,606,315

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

**Details of prior period adjustments can be found in Note I.E.

Changes in Net Position

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2015	2014	2015	2014	2015	2014
Revenues						
Program revenues						
Fees, charges, fines, and other	$ 8,583,113	$ 7,716,572	$ 6,189,782	$ 6,446,641	$ 14,772,895	$ 14,163,213
Operating grants and contributions	9,919,147	7,763,692	30,582	54,538	9,949,729	7,818,230
Capital grants and contributions	829,371	2,366,996	-	-	829,371	2,366,996
General revenues						
Property taxes	13,171,269	12,502,806	-	-	13,171,269	12,502,806
Transportation sales tax	399,287	-	-	-	399,287	-
Grants and contributions not restricted to specific programs	851,923	912,389	-	-	851,923	912,389
Payments in lieu of tax	986,293	964,536	-	-	986,293	964,536
Investment income	152,711	91,687	-	-	152,711	91,687
Miscellaneous	119,659	147,102	-	-	119,659	147,102
Transfers	-	-	1,000,000	-	1,000,000	-
Total Revenues	$ 35,012,773	$ 32,465,780	$ 7,220,364	$ 6,501,179	$ 42,233,137	$ 38,966,959
Expenses						
General government	$ 3,925,208	$ 4,536,630	$ -	$ -	$ 3,925,208	$ 4,536,630
Public safety	5,721,111	5,386,638	-	-	5,721,111	5,386,638
Highways and streets	7,808,881	6,341,538	-	-	7,808,881	6,341,538
Sanitation	2,630,364	2,779,320	-	-	2,630,364	2,779,320
Human services	8,300,975	8,347,122	-	-	8,300,975	8,347,122
Health	-	79,473	-	-	-	79,473
Culture and recreation	533,781	545,836	-	-	533,781	545,836
Conservation of natural resources	1,609,782	1,313,296	-	-	1,609,782	1,313,296
Interest	198,839	280,250	-	-	198,839	280,250
Heritage Community	-	-	6,143,977	6,369,157	6,143,977	6,369,157
Heritage Center Project	-	-	309,914	-	309,914	-
Total Expenses	$ 30,728,941	$ 29,610,103	$ 6,453,891	$ 6,369,157	$ 37,182,832	$ 35,979,260
Changes in Net Position	$ 4,283,832	$ 2,855,677	$ 766,473	$ 132,022	$ 5,050,305	$ 2,987,699
Net Position - January 1 (as restated)	76,466,250*	81,007,343	140,065*	2,258,588	76,606,315*	83,265,931
Net Position - December 31	$ 80,750,082	$ 83,863,020	$ 906,538	$ 2,390,610	$ 81,656,620	$ 86,253,630

*Amount includes a change in accounting principles and a prior period adjustment.

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 2015, the County's governmental funds reported combined ending fund balances of $22,145,662. Of this amount, approximately 3 percent constitutes non-spendable fund balance, 26 percent constitutes legally or contractually restricted fund balance, 51 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 $6,334,311. The General Fund's restricted fund balance was $1,825,436 and unassigned fund balance was $4,508,875. 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 2015. Unrestricted fund balance represents 37 percent of total General Fund expenditures, while total fund balance represents 52 percent of that same amount.

In 2015, the fund balance amount in the General Fund decreased by $63,893 after restatement.

The fund balance of the Road and Bridge Special Revenue Fund increased by $1,291,921 in 2015 as a result of a higher than anticipated intergovernmental receipts and transportation sales tax, which was new in 2015.

The fund balance of the Social Services Special Revenue Fund increased $458,440 from the prior year, before the restatement, due to increase funding for income maintenance administration and social services.

The fund balance of the Forfeited Tax Sale Special Revenue Fund increased $142,681 before the restatement. This increase was the result of increased land and timber sales.

Proprietary Funds

The Heritage Community Enterprise Fund operating income in 2015 was $24,614. The Heritage Center Project Enterprise Fund was created in 2015 to account for the proceeds of the debt issued for the purpose of renovating the County Heritage Community property and buildings. In 2015, the Heritage Center Project Enterprise Fund did not report any operating income or loss.

Total resident services and ancillary revenues decreased 5.8 percent from $6,422,426 in fiscal year 2014 to $6,050,256 in fiscal year 2015. Total revenue decreased 4.3 percent from $6,501,179 in fiscal year 2014 to $6,220,364 in fiscal year 2015. The decreased revenues were a result of decreases in both rates and occupancy. Resident service expenses decreased 2.9 percent from $6,206,556 in 2014 to $6,025,642 in 2015.

GENERAL FUND BUDGETARY HIGHLIGHTS

Actual revenues were more than overall final budgeted revenues by $1,473,820, with the largest positive variances in intergovernmental and miscellaneous revenues. Actual expenditures were more than overall final budgeted expenditures by $2,150,806, mainly as a result of unbudgeted spending of general governmental capital outlay and human services.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The County's investment in capital assets for its governmental activities as of December 31, 2015, and business-type activities as of September 30, 2015, amounted to $78,280,380 (net of accumulated depreciation). The total increase in the County's investment in capital assets for the current fiscal year was approximately less than one percent. This increase was mainly due to the ongoing courthouse remodeling project.

Capital Assets (Net of Depreciation)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2015	2014	2015	2014	2015	2014
Land	$ 853,045	$ 853,045	$ 117,299	$ 117,299	$ 970,344	$ 970,344
Construction in progress	6,878,189	5,616,151	-	-	6,878,189	5,616,151
Infrastructure	56,003,474	55,418,213	-	-	56,003,474	55,418,213
Building and improvements	8,764,064	9,371,516	2,886,327	3,111,870	11,650,391	12,483,386
Land improvements	192,667	182,486	27,692	30,579	220,359	213,065
Machinery and equipment	2,265,589	2,398,606	292,034	249,320	2,557,623	2,647,926
Total Capital Assets	$ 74,957,028	$ 73,840,017	$ 3,323,352	$ 3,509,068	$ 78,280,380	$ 77,349,085

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 $22,724,116, which is backed by the full faith and credit of the government.

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2015	2014	2015	2014	2015	2014
G.O. Bonds, net of discount	$ 3,445,664	$ 3,628,518	$ 3,316,187	$ 3,485,936	$ 6,761,851	$ 7,114,454
G.O. Refunding Bonds, net of premium	5,420,044	5,895,048	-	-	5,420,044	5,895,048
G.O. Nursing Home Revenue Bonds, net of discount	-	-	10,009,768	-	10,009,768	-
MN Public Facilities Authority loan	427,000	610,000	-	-	427,000	610,000
Capital leases	105,453	138,373	-	-	105,453	138,373
Total Long-Term Debt	$ 9,398,161	$ 10,271,939	$ 13,325,955	$ 3,485,936	$ 22,724,116	$ 13,757,875

The County's net increase in debt of $8,966,241 (65 percent) during the fiscal year was primarily due to the issuance of the G.O. Nursing Home Revenue Bonds.

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 2015, overall debt of the County is below the three percent debt limit.

Hubbard County's bond rating is "Aaa" 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 $12,632,134 in 2015. This amounts to 36.1 percent of the total governmental fund revenue received in 2015. This compares to intergovernmental revenues in 2014 of $12,210,931, or 36.8 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 7.7 percent as of December 31, 2015. This is higher than the statewide rate of 3.7 percent and the national average rate of 5.0 percent.

Hubbard County's population at July 1, 2015, was 20,655, an increase of 227 since 2010. This ranks Hubbard County 47 out of 87 in the State of Minnesota for population.

On December 1, 2015, Hubbard County set its 2016 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.

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BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

HUBBARD COUNTY
PARK RAPIDS, MINNESOTA

EXHIBIT 1

STATEMENT OF NET POSITION
DECEMBER 31, 2015
INCLUDING THE BUSINESS-TYPE INFORMATION
AS OF SEPTEMBER 30, 2015

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	$ 22,383,047	$ 2,805,227	$ 25,188,274
Taxes receivable - delinquent	525,858	-	525,858
Special assessments receivable - delinquent	171,997	-	171,997
Accounts receivable - net	119,792	684,600	804,392
Accrued interest receivable	30,952	-	30,952
Contracts receivable	1,667,196	-	1,667,196
Due from other governments	1,325,825	-	1,325,825
Internal balances	(143,931)	143,931	-
Prepaid items	-	73,381	73,381
Inventories	297,170	-	297,170
Leveraged loan receivable	-	10,091,000	10,091,000
Restricted assets			
Cash and cash equivalents			
Resident trust funds	-	4,526	4,526
Board designated - bond fund	-	99,201	99,201
Board designated - building fund	-	68,592	68,592
Tenant security deposits	-	11,903	11,903
Permanent fund principal	477,525	-	477,525
Capital assets			
Non-depreciable	7,731,234	117,299	7,848,533
Depreciable - net of accumulated depreciation	67,225,794	3,206,053	70,431,847
Total Assets	**$ 101,812,459**	**$ 17,305,713**	**$ 119,118,172**
Deferred Outflows of Resources			
Deferred pension outflows	**$ 1,328,078**	**$ 262,404**	**$ 1,590,482**

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

HUBBARD COUNTY
PARK RAPIDS, MINNESOTA

EXHIBIT 1
(Continued)

STATEMENT OF NET POSITION
DECEMBER 31, 2015
INCLUDING THE BUSINESS-TYPE INFORMATION
AS OF SEPTEMBER 30, 2015

	Governmental Activities	Business-Type Activities	Total
Liabilities			
Accounts payable	$ 841,481	$ 170,291	$ 1,011,772
Salaries payable	508,518	140,448	648,966
Due to related parties	-	113,873	113,873
Contracts payable	5,669	-	5,669
Due to other governments	1,256,857	-	1,256,857
Accrued interest payable	81,416	7,133	88,549
Unearned revenue	-	12,499	12,499
Current liabilities payable from restricted assets	-	15,958	15,958
Long-term liabilities			
Due within one year	1,377,139	246,728	1,623,867
Due in more than one year	9,224,562	13,310,955	22,535,517
Net pension liability	6,974,604	2,269,944	9,244,548
Net other post-employment benefits obligation	688,483	79,627	768,110
Total Liabilities	**$ 20,958,729**	**$ 16,367,456**	**$ 37,326,185**
Deferred Inflows of Resources			
Advanced County state-aid highway allotments	$ 415,188	$ -	$ 415,188
Deferred pension inflows	1,016,538	294,123	1,310,661
Total Deferred Inflows of Resources	**$ 1,431,726**	**$ 294,123**	**$ 1,725,849**
Net Position			
Net investment in capital assets	$ 65,659,575	$ 63,352	$ 65,722,927
Restricted for			
General government	665,950	-	665,950
Public safety	468,294	-	468,294
Highways and streets	1,100,223	-	1,100,223
Culture and recreation	473,243	-	473,243
Conservation of natural resources	1,606,385	-	1,606,385
Capital projects	-	1,953,722	1,953,722
Debt service	1,132,574	99,201	1,231,775
Permanent fund principal - nonexpendable	479,042	-	479,042
Unrestricted	9,164,796	(1,209,737)	7,955,059
Total Net Position	**$ 80,750,082**	**$ 906,538**	**$ 81,656,620**

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

HUBBARD COUNTY
PARK RAPIDS, MINNESOTA

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2015
INCLUDING THE BUSINESS-TYPE INFORMATION
FOR THE YEAR ENDED SEPTEMBER 30, 2015

Functions/Programs	Expenses	Fees, Charges, Fines, and Other
Governmental activities		
General government	$ 3,925,208	$ 849,586
Public safety	5,721,111	626,210
Highways and streets	7,808,881	916,461
Sanitation	2,630,364	3,170,879
Human services	8,300,975	1,086,063
Culture and recreation	533,781	168
Conservation of natural resources	1,609,782	1,933,746
Interest	198,839	-
Total governmental activities	**$ 30,728,941**	**$ 8,583,113**
Business-type activities		
Heritage Community	$ 6,143,977	$ 6,025,307
Heritage Center Project	309,914	164,475
Total business-type activities	**$ 6,453,891**	**$ 6,189,782**
Total	**$ 37,182,832**	**$ 14,772,895**
General revenues		
Property taxes		
Transportation sales 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, as restated (Note I.E.)		
Net Position - Ending		

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

Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
$ 100,676	$ -	$ (2,974,946)	$ -	$ (2,974,946)
592,516	-	(4,502,385)	-	(4,502,385)
4,231,069	829,371	(1,831,980)	-	(1,831,980)
69,692	-	610,207	-	610,207
4,416,553	-	(2,798,359)	-	(2,798,359)
248,808	-	(284,805)	-	(284,805)
259,833	-	583,797	-	583,797
-	-	(198,839)	-	(198,839)
$ 9,919,147	**$ 829,371**	**$ (11,397,310)**	**$ -**	**$ (11,397,310)**
$ 30,582	$ -	$ -	$ (88,088)	$ (88,088)
-	-	-	(145,439)	(145,439)
$ 30,582	**$ -**	**$ -**	**$ (233,527)**	**$ (233,527)**
$ 9,949,729	**$ 829,371**	**$ (11,397,310)**	**$ (233,527)**	**$ (11,630,837)**
		$ 13,171,269	$ -	$ 13,171,269
		399,287	-	399,287
		851,923	-	851,923
		986,293	-	986,293
		152,711	-	152,711
		119,659	-	119,659
		-	1,000,000	1,000,000
		$ 15,681,142	**$ 1,000,000**	**$ 16,681,142**
		$ 4,283,832	**$ 766,473**	**$ 5,050,305**
		76,466,250	**140,065**	**76,606,315**
		$ 80,750,082	**$ 906,538**	**$ 81,656,620**

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

HUBBARD COUNTY
PARK RAPIDS, MINNESOTA

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2015

	General	Road and Bridge
Assets		
Cash and cash equivalents	$ 5,969,104	$ 6,089,964
Taxes receivable - delinquent	237,276	131,312
Special assessments receivable - delinquent	-	-
Accounts receivable	55,369	11,989
Accrued interest receivable	27,438	-
Contracts receivable	-	-
Due from other funds	744,581	23,218
Due from other governments	369,726	324,398
Inventories	-	297,170
Permanent fund principal	-	-
Total Assets	**$ 7,403,494**	**$ 6,878,051**
Liabilities, Deferred Inflows of Resources, and Fund Balances		
Liabilities		
Accounts payable	$ 336,557	$ 45,472
Salaries payable	270,046	82,225
Contracts payable	-	5,669
Due to other funds	171,683	-
Due to other governments	53,621	49,631
Total Liabilities	**$ 831,907**	**$ 182,997**
Deferred Inflows of Resources		
Unavailable revenue - taxes	$ 237,276	$ 131,312
Unavailable revenue - special assessments	-	-
Unavailable revenue - County state-aid highway allotments	-	122,063
Unavailable revenue - land and timber sales	-	-
Advanced County state-aid highway allotments	-	415,188
Total Deferred Inflows of Resources	**$ 237,276**	**$ 668,563**

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

Social Services	Forfeited Tax Sale	Nonmajor Governmental Funds	Total Governmental Funds
$ 4,056,077	$ 3,152,024	$ 3,115,878	$ 22,383,047
122,275	-	34,995	525,858
-	-	171,997	171,997
4,084	-	48,350	119,792
-	-	3,514	30,952
-	1,667,196	-	1,667,196
-	-	-	767,799
631,581	-	120	1,325,825
-	-	-	297,170
-	-	477,525	477,525
$ 4,814,017	**$ 4,819,220**	**$ 3,852,379**	**$ 27,767,161**
$ 268,644	$ 17,533	$ 173,275	$ 841,481
120,879	19,434	15,934	508,518
-	-	-	5,669
-	731,649	8,398	911,730
35,155	1,109,629	8,821	1,256,857
$ 424,678	**$ 1,878,245**	**$ 206,428**	**$ 3,524,255**
$ 122,275	$ -	$ 34,995	$ 525,858
-	-	171,997	171,997
-	-	-	122,063
-	862,138	-	862,138
-	-	-	415,188
$ 122,275	**$ 862,138**	**$ 206,992**	**$ 2,097,244**

HUBBARD COUNTY
PARK RAPIDS, MINNESOTA

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2015

	General	Road and Bridge
Liabilities, Deferred Inflows of Resources, and Fund Balances (Continued)		
Fund Balances		
Nonspendable	$ -	$ 297,170
Restricted	1,825,436	803,053
Assigned	-	4,926,268
Unassigned	4,508,875	-
Total Fund Balances	**$ 6,334,311**	**$ 6,026,491**
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	**$ 7,403,494**	**$ 6,878,051**

EXHIBIT 3
(Continued)

Social Services	Forfeited Tax Sale	Nonmajor Governmental Funds	Total Governmental Funds
$ -	$ -	$ 467,280	$ 764,450
-	1,388,436	1,471,093	5,488,018
4,267,064	690,401	1,500,586	11,384,319
-	-	-	4,508,875
$ 4,267,064	**$ 2,078,837**	**$ 3,438,959**	**$ 22,145,662**
$ 4,814,017	**$ 4,819,220**	**$ 3,852,379**	**$ 27,767,161**

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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, 2015

Fund balance - total governmental funds (Exhibit 3)		**$ 22,145,662**
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.		74,957,028
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as deferred inflows of resources in the governmental funds.		1,682,056
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
Accrued interest payable	$ (81,416)	
Compensated absences	(1,203,540)	
Net other post-employment benefits obligation	(688,483)	
Unamortized premiums on general obligation bonds	(100,708)	
Capital leases	(105,453)	
Loan payable	(427,000)	
General obligation bonds	(8,765,000)	
Net pension liability	(6,974,604)	(18,346,204)
Deferred outflows of resources and deferred inflows of resources are created as a result of various differences related to pensions that are not recognized in the governmental funds.		
Deferred outflows related to pensions	$ 1,328,078	
Deferred inflows related to pensions	(1,016,538)	311,540
Net Position of Governmental Activities (Exhibit 1)		**$ 80,750,082**

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

HUBBARD COUNTY
PARK RAPIDS, MINNESOTA

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

	General	Road and Bridge
Revenues		
Taxes	$ 6,163,135	$ 3,485,945
Special assessments	-	-
Licenses and permits	153,207	-
Intergovernmental	3,546,381	5,161,789
Charges for services	818,355	809,737
Fines and forfeitures	41,115	-
Investment earnings	149,658	626
Gifts and contributions	25,284	-
Land and timber sales	-	-
Miscellaneous	641,641	106,724
Total Revenues	**$ 11,538,776**	**$ 9,564,821**
Expenditures		
Current		
General government	$ 3,883,482	$ -
Public safety	5,092,820	-
Highways and streets	-	7,435,813
Sanitation	-	-
Human services	943,200	-
Culture and recreation	519,892	-
Conservation of natural resources	530,399	-
Capital outlay		
General government	1,023,644	-
Public safety	317,249	-
Highways and streets	-	271,150
Sanitation	-	-
Culture and recreation	8,513	-
Conservation of natural resources	-	-
Intergovernmental		
Highways and streets	-	330,524
Debt service		
Principal retirement	-	215,920
Interest	-	19,493
Total Expenditures	**$ 12,319,199**	**$ 8,272,900**
Excess of Revenues Over (Under) Expenditures	**$ (780,423)**	**$ 1,291,921**

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

EXHIBIT 5

Social Services	Forfeited Tax Sale	Nonmajor Governmental Funds	Total Governmental Funds
$ 3,066,831	$ -	$ 893,816	$ 13,609,727
-	-	2,767,024	2,767,024
-	-	475	153,682
3,745,423	99,947	78,594	12,632,134
554,661	-	278,510	2,461,263
-	-	-	41,115
167	-	3,442	153,893
-	-	-	25,284
-	1,812,827	-	1,812,827
531,402	1,103	43,586	1,324,456
$ 7,898,484	**$ 1,913,877**	**$ 4,065,447**	**$ 34,981,405**
$ -	$ -	$ -	$ 3,883,482
-	-	-	5,092,820
-	-	-	7,435,813
-	-	2,572,830	2,572,830
7,440,044	-	-	8,383,244
-	-	-	519,892
-	1,012,584	33,492	1,576,475
-	-	-	1,023,644
-	-	-	317,249
-	-	-	271,150
-	-	113,562	113,562
-	-	-	8,513
-	28,332	-	28,332
-	-	-	330,524
-	-	650,000	865,920
-	-	194,412	213,905
$ 7,440,044	**$ 1,040,916**	**$ 3,564,296**	**$ 32,637,355**
$ 458,440	**$ 872,961**	**$ 501,151**	**$ 2,344,050**

HUBBARD COUNTY
PARK RAPIDS, MINNESOTA

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

	General	Road and Bridge
Other Financing Sources (Uses)		
Transfers in	$ 730,280	$ -
Transfers out	(13,750)	-
Total Other Financing Sources (Uses)	**$ 716,530**	**$ -**
Net Change in Fund Balances	**$ (63,893)**	**$ 1,291,921**
Fund Balances - January 1, as previously reported	$ 7,398,204	$ 4,689,052
Restatement (Note I.E.)	(1,000,000)	-
Fund Balances - January 1, as restated	**$ 6,398,204**	**$ 4,689,052**
Increase (decrease) in inventories	**$ -**	**$ 45,518**
Fund Balances - December 31	**$ 6,334,311**	**$ 6,026,491**

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

Social Services	Forfeited Tax Sale	Nonmajor Governmental Funds	Total Governmental Funds
$ -	$ -	$ 13,750	$ 744,030
-	(730,280)	-	(744,030)
$ -	**$ (730,280)**	**$ 13,750**	**$ -**
$ 458,440	**$ 142,681**	**$ 514,901**	**$ 2,344,050**
$ 3,569,849	$ 2,070,147	$ 2,924,058	$ 20,651,310
238,775	(133,991)	-	(895,216)
$ 3,808,624	**$ 1,936,156**	**$ 2,924,058**	**$ 19,756,094**
$ -	**$ -**	**$ -**	**$ 45,518**
$ 4,267,064	**$ 2,078,837**	**$ 3,438,959**	**$ 22,145,662**

HUBBARD COUNTY
PARK RAPIDS, MINNESOTA

EXHIBIT 6

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

Net change in fund balance - total governmental funds (Exhibit 5)		**$ 2,344,050**
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the statement of activities, only the gain or loss on the disposal of capital assets is reported; whereas, in the governmental funds, the proceeds from the sale increase financial resources. Therefore, the change in net position differs from the change in fund balance by the net book value of the assets disposed.		
Expenditures for general capital assets and infrastructure	$ 3,876,963	
Current year depreciation expense	(2,643,895)	
Net book value of assets disposed	(116,057)	1,117,011
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds but are deferred. The adjustment to revenues between the fund statements and the statement of activities is the change in revenues deferred as unavailable in the governmental fund statements.		
Change in deferred inflows of resources - unavailable revenue		31,368
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the resources of governmental funds. Neither transaction, however, has any effect on net position.		
Principal repayments		
Capital leases	$ 32,920	
General obligation bonds	650,000	
Loan payable	183,000	865,920
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	$ 7,208	
Compensated absences	70,452	
Inventories	45,518	
Net other post-employment benefits obligation	(44,043)	
Unamortized premiums on general obligation bonds	7,858	
Net pension liability, as restated	(101,866)	
Deferred pension outflows, as restated	956,894	
Deferred pension inflows	(1,016,538)	(74,517)
Net Change in Net Position of Governmental Activities (Exhibit 2)		**$ 4,283,832**

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

PROPRIETARY FUNDS

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HUBBARD COUNTY
PARK RAPIDS, MINNESOTA

EXHIBIT 7

STATEMENT OF FUND NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2015

	Business-Type Activities - Enterprise Funds		
	Heritage Community	Heritage Center Project	Total
Assets			
Current assets			
Cash and cash equivalents	$ 1,069,268	$ 1,735,959	$ 2,805,227
Accounts receivable - net of allowance for uncollectible accounts of $94,000	684,600	-	684,600
Due from other funds	20,332	136,531	156,863
Prepaid items	73,381	-	73,381
Total current assets	**$ 1,847,581**	**$ 1,872,490**	**$ 3,720,071**
Restricted assets			
Cash and cash equivalents			
Resident trust funds	$ 4,526	$ -	$ 4,526
Board designated - bond fund	99,201	-	99,201
Board designated - building fund	68,592	-	68,592
Tenant security deposits	11,903	-	11,903
Total restricted assets	**$ 184,222**	**$ -**	**$ 184,222**
Noncurrent assets			
Leveraged loan receivable	$ -	$ 10,091,000	$ 10,091,000
Capital assets			
Non-depreciable	117,299	-	117,299
Depreciable - net of accumulated depreciation	3,206,053	-	3,206,053
Total noncurrent assets	**$ 3,323,352**	**$ 10,091,000**	**$ 13,414,352**
Total Assets	**$ 5,355,155**	**$ 11,963,490**	**$ 17,318,645**
Deferred Outflows of Resources			
Deferred pension outflows	**$ 262,404**	**$ -**	**$ 262,404**

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

HUBBARD COUNTY
PARK RAPIDS, MINNESOTA

EXHIBIT 7
(Continued)

STATEMENT OF FUND NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2015

	Business-Type Activities - Enterprise Funds		
	Heritage Community	Heritage Center Project	Total
Liabilities			
Current liabilities			
Accounts payable	$ 170,291	$ -	$ 170,291
Salaries payable	140,448	-	140,448
Compensated absences payable	126,728	-	126,728
Due to related parties	113,873	-	113,873
Due to other funds	12,932	-	12,932
Accrued interest payable	7,133	-	7,133
Unearned revenue	12,499	-	12,499
General obligation bonds payable	120,000	-	120,000
Total current liabilities	**$ 703,904**	**$ -**	**$ 703,904**
Current liabilities payable from restricted assets			
Tenant security deposits payable	$ 11,432	$ -	$ 11,432
Resident trust funds payable	4,526	-	4,526
Total current liabilities payable from restricted assets	**$ 15,958**	**$ -**	**$ 15,958**
Noncurrent liabilities			
Compensated absences payable	$ 105,000	$ -	$ 105,000
General obligation bonds payable	3,196,187	10,009,768	13,205,955
Net pension liability	2,269,944	-	2,269,944
Net other post-employment benefits obligation	79,627	-	79,627
Total noncurrent liabilities	**$ 5,650,758**	**$ 10,009,768**	**$ 15,660,526**
Total Liabilities	**$ 6,370,620**	**$ 10,009,768**	**$ 16,380,388**
Deferred Inflows of Resources			
Deferred pension inflows	**$ 294,123**	**$ -**	**$ 294,123**
Net Position			
Net investment in capital assets	$ 63,352	$ -	$ 63,352
Restricted for capital projects	-	1,953,722	1,953,722
Restricted for debt service	99,201	-	99,201
Unrestricted	(1,209,737)	-	(1,209,737)
Total Net Position	**$ (1,047,184)**	**$ 1,953,722**	**$ 906,538**

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

HUBBARD COUNTY
PARK RAPIDS, MINNESOTA

EXHIBIT 8

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	Business-Type Activities - Enterprise Funds		
	Heritage Community	Heritage Center Project	Total
Operating Revenues			
Charges for services	$ 4,136,983	$ -	$ 4,136,983
Rental income	1,559,326	-	1,559,326
Food service	19,617	-	19,617
Intergovernmental	30,582	-	30,582
Miscellaneous	303,748	-	303,748
Total Operating Revenues	**$ 6,050,256**	**$ -**	**$ 6,050,256**
Operating Expenses			
Nursing services	$ 2,099,228	$ -	$ 2,099,228
Administration and fiscal services	764,714	-	764,714
Other care related	428,454	-	428,454
Dietary services	609,514	-	609,514
Laundry	169,128	-	169,128
Housekeeping services	105,731	-	105,731
Plant operations	350,447	-	350,447
Employee benefits	1,193,974	-	1,193,974
Depreciation and amortization	304,452	-	304,452
Total Operating Expenses	**$ 6,025,642**	**$ -**	**$ 6,025,642**
Operating Income (Loss)	**$ 24,614**	**$ -**	**$ 24,614**
Nonoperating Revenues (Expenses)			
Investment earnings	$ 5,633	$ 140,634	$ 146,267
Interest expense	(118,335)	(309,914)	(428,249)
Miscellaneous	-	23,841	23,841
Total Nonoperating Revenues (Expenses)	**$ (112,702)**	**$ (145,439)**	**$ (258,141)**
Income (Loss) Before Transfers	**$ (88,088)**	**$ (145,439)**	**$ (233,527)**
Transfers in	-	2,099,161	2,099,161
Transfers out	(1,099,161)	-	(1,099,161)
Change in Net Position	**$ (1,187,249)**	**$ 1,953,722**	**$ 766,473**
Net Position - October 1, as previously reported	$ 2,390,610	$ -	$ 2,390,610
Restatement (Note I.E.)	(2,250,545)	-	(2,250,545)
Net Position - October 1, as restated	**$ 140,065**	**$ -**	**$ 140,065**
Net Position - September 30	**$ (1,047,184)**	**$ 1,953,722**	**$ 906,538**

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

HUBBARD COUNTY
PARK RAPIDS, MINNESOTA

EXHIBIT 9

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2015
Increase (Decrease) in Cash and Cash Equivalents

	Business-Type Activities - Enterprise Funds		
	Heritage Community	Heritage Center Project	Total
Cash Flows from Operating Activities			
Receipts from residents, programs, counties, and other revenue	$ 5,784,356	$ -	$ 5,784,356
Payments to employees	(3,734,582)	-	(3,734,582)
Payments to suppliers	(1,256,173)	-	(1,256,173)
Net cash provided by (used in) operating activities	**$ 793,601**	**$ -**	**$ 793,601**
Cash Flows from Capital and Related Financing Activities			
Proceeds from issuance of debt	$ -	$ 10,004,133	$ 10,004,133
Principal paid on long-term debt	(165,000)	-	(165,000)
Interest paid on long-term debt	(134,423)	(440,810)	(575,233)
Transfer from other funds	-	2,099,161	2,099,161
Transfer to other funds	(1,099,161)	-	(1,099,161)
Purchase of capital assets	(125,070)	-	(125,070)
Net cash provided by (used in) capital and related financing activities	**$ (1,523,654)**	**$ 11,662,484**	**$ 10,138,830**
Cash Flows from Investing Activities			
Investment earnings received	$ 5,633	$ 140,634	$ 146,267
Deposits to bond fund and reinvested interest	170,902	23,841	194,743
Leveraged loan	-	(10,091,000)	(10,091,000)
Net cash provided by (used in) investing activities	**$ 176,535**	**$ (9,926,525)**	**$ (9,749,990)**
Net Increase (Decrease) in Cash and Cash Equivalents	**$ (553,518)**	**$ 1,735,959**	**$ 1,182,441**
Cash and Cash Equivalents - October 1	**1,622,786**	**-**	**1,622,786**
Cash and Cash Equivalents - September 30	**$ 1,069,268**	**$ 1,735,959**	**$ 2,805,227**
Reconciliation of Cash and Cash Equivalents to the Statement of Net Position			
Cash and Cash Equivalents - September 30	**$ 1,069,268**	**$ 1,735,959**	**$ 2,805,227**

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

HUBBARD COUNTY
PARK RAPIDS, MINNESOTA

EXHIBIT 9
(Continued)

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2015
Increase (Decrease) in Cash and Cash Equivalents

	Business-Type Activities - Enterprise Funds		
	Heritage Community	Heritage Center Project	Total
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities			
Operating income (loss)	**$ 24,614**	**$ -**	**$ 24,614**
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities			
Depreciation expense	$ 304,452	$ -	$ 304,452
Loss on disposal of assets	6,334	-	6,334
(Increase) decrease in accounts receivable	(263,438)	-	(263,438)
(Increase) decrease in due from related party	549,717	-	549,717
(Increase) decrease in prepaid items	3,570	-	3,570
Increase (decrease) in accounts payable	41,668	-	41,668
Increase (decrease) in salaries payable	34,007	-	34,007
Increase (decrease) in due to Hubbard County	(40)	-	(40)
Increase (decrease) in due to related party	64,145	-	64,145
Increase (decrease) in tenant security deposits payable	1,020	-	1,020
Increase (decrease) in other current liabilities	(23,566)	-	(23,566)
Increase (decrease) in net pension liability	51,118	-	51,118
Total adjustments	**$ 768,987**	**$ -**	**$ 768,987**
Net Cash Provided by (Used in) Operating Activities	**$ 793,601**	**$ -**	**$ 793,601**

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FIDUCIARY FUNDS

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HUBBARD COUNTY
PARK RAPIDS, MINNESOTA

EXHIBIT 10

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
DECEMBER 31, 2015

	Family Services Collaborative Investment Trust	Agency
Assets		
Cash and cash equivalents	**$ 35,040**	**$ 463,315**
Liabilities		
Due to other governments	**$ -**	**$ 463,315**
Net Position		
Net position, held in trust for pool participants	**$ 35,040**	

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

HUBBARD COUNTY
PARK RAPIDS, MINNESOTA

EXHIBIT 11

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015

	Family Services Collaborative Investment Trust
Additions	
Contributions from participants	$ 52,448
Investment earnings	140
Total Additions	**$ 52,588**
Deductions	
Distributions to participants	90,000
Change in Net Position	**$ (37,412)**
Net Position - January 1	**72,452**
Net Position - December 31	**$ 35,040**

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

I. 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.

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.

I. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Joint Ventures and Jointly-Governed Organizations

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

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) include the financial activities of the overall County government, except for the 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.

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

The statement of activities demonstrates the degree to which the direct expenses of each function of the County's governmental activities and different business-type activities are offset by program revenues. Direct expenses are those 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.

I. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

2. Fund Financial Statements

The fund financial statements provide information about the County's funds, including its fiduciary funds 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.

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.

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.

The Road and Bridge Special Revenue Fund is used to account for and report financial transactions of County highway operations. Financing is provided by annual tax levy; intergovernmental revenues; and charges for services restricted, committed, and assigned to various highways and streets purposes.

The Social Services Special Revenue Fund is used to account for and report financial services provided to persons receiving public assistance. Financing is provided by annual tax levy and intergovernmental revenues committed and assigned to various social services purposes.

I. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

The Forfeited Tax Sale Special Revenue Fund is used to account for and report proceeds from the sale or rental of lands forfeited to the State of Minnesota pursuant to Minn. Stat. ch. 282, and various forest and timber management grants. The net proceeds, after deducting allowable expenses, are restricted, committed, and assigned to various County funds and taxing districts. Titles to the tax-forfeited lands remain with the state until the lands are sold by the County.

The County reports the following major enterprise funds:

The Heritage Community Enterprise Fund is used to account 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.

The Heritage Center Project Enterprise Fund is used to account for the proceeds of $10,145,000 G.O. Nursing Home Revenue Bonds issued for the purpose of renovating the County Heritage Community property and buildings.

Additionally, the County reports the following fund types:

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

Debt service funds are used to account for and report the financial resources restricted to expenditure for principal, interest, and related costs.

Permanent funds are used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the County's programs.

I. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

Investment trust funds account for the external pooled and non-pooled investments held on behalf of external participants. The Statement of Fiduciary Net Position includes a column for the Family Services Collaborative Investment Trust Fund, which accounts for the deposits held for the Hubbard County Family Services Collaborative. The County acts as custodian of these funds.

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 agency capacity.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary fund, and fiduciary fund financial statements are reported using the economic resources measurement focus and the full accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. The County considers all revenues to be available if they are collected within 60 days after the end of the current period. 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.

As a general rule, the effect of internal activity has been eliminated from the government-wide financial statements.

I. Summary of Significant Accounting Policies (Continued)

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 funds are pooled and invested by the County Auditor/Treasurer for the purpose of increasing earnings. Pooled and fund investments, if any, are reported at their fair value at December 31, 2015, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds receive investment earnings based on state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2015 were $123,789. Total investment earnings for 2015 were $300,160.

3. Receivables and Payables

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. Unpaid taxes at December 31 become liens on the respective property and are classified in the financial statements as delinquent taxes receivable.

Special assessments receivable consist of delinquent special assessments payable in the years 2010 through 2015. Unpaid special assessments at December 31 are classified in the financial statements as delinquent special assessments.

I. Summary of Significant Accounting Policies

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

3. Receivables and Payables (Continued)

Activity 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."

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 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 US 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.

5. Inventories and Prepaid Items

All inventories are valued at cost using the weighted average method. Inventories in governmental funds are recorded as expenditures when purchased rather than when consumed. Inventories in proprietary funds and at the government-wide level are recorded as expenses when consumed.

Inventories, as reported in the governmental fund financial statements, are offset by nonspendable fund balance to indicate that they do not constitute available spendable resources.

I. Summary of Significant Accounting Policies

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

5. Inventories and Prepaid Items (Continued)

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

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; 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 government-wide financial statements. Capital assets have initial useful lives extending beyond two years and a dollar amount for capitalization per asset of $5,000, except all land and construction in progress 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 estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extended the life of the asset are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

I. Summary of Significant Accounting Policies

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

7. Capital Assets (Continued)

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

Assets	Years
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:

Assets	Years
Land improvements	5 - 15
Buildings and improvements	5 - 25
Machinery and equipment	5 - 20

8. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents 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.

I. Summary of Significant Accounting Policies

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

8. Deferred Outflows/Inflows of Resources (Continued)

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The County has three items: unavailable revenue, advanced allotments, 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. The County reports advanced allotments for state aid received by the County not yet appropriated by the State of Minnesota. Advanced allotments are reported in the governmental funds balance sheet and on the government-wide statement of net position. This amount is deferred and recognized when the time requirements have been met. Deferred pension inflows arise only under an accrual basis of accounting and, accordingly, are reported only in the statement of net position.

9. Compensated Absences

The liability for compensated absences reported in financial statements is calculated differently between certain departments during 2015. 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 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.

I. 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.

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 immediately expensed.

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.

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

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

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

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

Nonspendable - includes fund balance amounts that cannot be spent because it is either not in spendable form or is 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.

I. 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. The County Board has delegated the authority to assign and remove assignments of fund balance amounts for specified purposes to the County Auditor/Treasurer.

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, 2015.

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.

I. 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:

	Amount
Gross resident service revenues	$ 4,424,025
Adjustments and allowances	(185,228)
Provisions for uncollectible accounts	(101,814)
Net Resident Service Revenues	$ 4,136,983

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 Resources Utilization Groups (RUG) for purposes of establishing payment rates. Medicaid payment rates primarily consist of operating rates, a property-related rate, and certain pass-through costs. Annual operating rate increases are applied if funding is appropriated by the Minnesota Legislature.

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.

I. Summary of Significant Accounting Policies

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

14. Third-Party Reimbursement Agreements (Continued)

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.

15. Occupancy Percentages

During the year ended September 30, 2015, 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:

	Percentage
Total Occupancy (Based on 60 beds)	81.0%
Medicaid	53.3
Medicare	8.1

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

I. Summary of Significant Accounting Policies

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

16. Use of Estimates (Continued)

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.

E. Restatement of Fund Balance and Net Position

1. Change in Accounting Principles

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

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

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

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

I. Summary of Significant Accounting Policies

E. Restatement of Fund Balance and Net Position (Continued)

2. Prior Period Adjustment

The January 1, 2015, governmental activities and General Fund net position/fund balance were decreased by $1,000,000 to correct a prior year understatement of other financing uses in the General Fund.

The January 1, 2015, governmental activities and Social Services Special Revenue Fund net position/fund balance were increased by $238,775 to correct prior year payables that were overstated in the Social Services Special Revenue Fund.

The January 1, 2015, governmental activities and Forfeited Tax Sale Special Revenue Fund net position/fund balance were decreased by $133,991 to correct prior year receivables that were overstated in the Forfeited Tax Sale Special Revenue Fund.

The effect of the restatements on net position and fund balance is disclosed in Note I.E.3.

3. Restatement of Fund Balance/Net Position

Restatements of fund balance/net position are as follows:

	General Fund	Social Services Special Revenue Fund	Forfeited Tax Sale Special Revenue Fund	Governmental Activities	Heritage Community Enterprise Fund	Business-Type Activities
Fund Balance/Net Position - January 1, 2015, and October 1, 2014, as previously reported	$ 7,398,204	$ 3,569,849	$ 2,070,147	$ 83,863,020	$ 2,390,610	$ 2,390,610
Change in accounting principles	-	-	-	(6,501,554)	(2,250,545)	(2,250,545)
Prior period adjustment	(1,000,000)	238,775	(133,991)	(895,216)	-	-
Fund Balance/Net Position - January 1, 2015, and October 1, 2014, as restated	$ 6,398,204	$ 3,808,624	$ 1,936,156	$ 76,466,250	$ 140,065	$ 140,065

II. Stewardship, Compliance, and Accountability

A. Deficits in Equity Accounts

The Heritage Community Enterprise Fund had a deficit net position of $1,047,184 as of September 30, 2015. 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, 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, 2015, the County has $1,667,196 in contracts receivable from land leases and timber sales.

III. 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, 2015, are reported as follows:

Governmental funds	
Cash and cash equivalents	$ 22,383,047
Restricted assets	
Permanent fund principal	477,525
Proprietary funds	
Cash and pooled investments	1,093,110
Investments	1,712,117
Restricted assets	
Cash and cash equivalents	
Resident trust funds	4,526
Tenant security deposits	11,903
Board designated - bond fund	99,201
Board designated - building fund	68,592
Fiduciary funds	
Cash and cash equivalents	498,355
Total Cash and Cash Equivalents	$ 26,348,376

III. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Deposits	$	26,345,766
Cash on Hand		2,610
Total Deposits and Cash on Hand	$	26,348,376

Deposits

Minnesota Statutes §§ 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 § 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, 2015, the County's deposits were not exposed to custodial credit risk.

III. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2015, for the County's governmental activities and as of September 30, 2015, 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	$ 525,858	$ -
Special assessments	171,997	-
Accounts	119,792	-
Accrued interest	30,952	-
Contracts	1,667,196	-
Due from other governments	1,325,825	-
Total Governmental Activities	$ 3,841,620	$ -
Business-Type Activities		
Accounts - net of allowance for uncollectible accounts of $94,000	$ 684,600	$ -
Leveraged loan receivable	10,091,000	10,091,000
Total Business-Type Activities	$ 10,775,600	$ 10,091,000

III. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the governmental activities for the year ended December 31, 2015, and for the business-type activities for the year ended September 30, 2015, was as follows:

Governmental Activities

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not depreciated				
Land	$ 853,045	$ -	$ -	$ 853,045
Construction in progress	5,616,151	2,424,335	1,162,297	6,878,189
Total capital assets not depreciated	$ 6,469,196	$ 2,424,335	$ 1,162,297	$ 7,731,234
Capital assets depreciated				
Infrastructure	$ 72,444,022	$ 1,906,089	$ 671,257	$ 73,678,854
Buildings and improvements	16,634,656	-	-	16,634,656
Land improvements	612,101	16,901	-	629,002
Machinery and equipment	9,513,636	691,935	362,767	9,842,804
Total capital assets depreciated	$ 99,204,415	$ 2,614,925	$ 1,034,024	$ 100,785,316
Less: accumulated depreciation				
Infrastructure	$ 17,025,809	$ 1,256,870	$ 607,299	$ 17,675,380
Buildings and improvements	7,263,140	607,452	-	7,870,592
Land improvements	429,615	23,621	16,901	436,335
Machinery and equipment	7,115,030	755,952	293,767	7,577,215
Total accumulated depreciation	$ 31,833,594	$ 2,643,895	$ 917,967	$ 33,559,522
Total capital assets depreciated, net	$ 67,370,821	$ (28,970)	$ 116,057	$ 67,225,794
Governmental Activities Capital Assets, Net	$ 73,840,017	$ 2,395,365	$ 1,278,354	$ 74,957,028

III. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

Business-Type Activities

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not depreciated				
Construction in progress	$ 117,299	$ -	$ -	$ 117,299
Capital assets depreciated				
Buildings and improvements	$ 6,840,438	$ 13,747	$ 539,948	$ 6,314,237
Land improvements	186,000	8,230	3,447	190,783
Machinery and equipment	1,482,157	103,093	113,622	1,471,628
Total capital assets depreciated	$ 8,508,595	$ 125,070	$ 657,017	$ 7,976,648
Less: accumulated depreciation				
Buildings and improvements	$ 3,728,568	$ 233,156	$ 533,814	$ 3,427,910
Land improvements	155,421	10,917	3,247	163,091
Machinery and equipment	1,232,837	60,379	113,622	1,179,594
Total accumulated depreciation	$ 5,116,826	$ 304,452	$ 650,683	$ 4,770,595
Total capital assets depreciated, net	$ 3,391,769	$ (179,382)	$ 6,334	$ 3,206,053
Business-Type Activities, Capital Assets, Net	$ 3,509,068	$ (179,382)	$ 6,334	$ 3,323,352

Depreciation Expense

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

Governmental Activities	
General government	$ 52,851
Public safety	690,424
Highways and streets, including depreciation of infrastructure assets	1,693,323
Sanitation	106,811
Human services	39,782
Culture and recreation	21,554
Conservation of natural resources	39,150
Total Depreciation Expense - Governmental Activities	$ 2,643,895
Business-Type Activities	
Heritage Community	$ 304,452

III. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

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

Due To/From Other Funds

Receivable Fund	Payable Fund	Amount	
General Fund	Heritage Community Enterprise Fund	$ 12,932	Reimbursements
	Forfeited Tax Sale Special Revenue Fund	731,649	Forfeited tax sale reimbursements
Total Due to General Fund		$ 744,581	
Road and Bridge Special Revenue Fund	General Fund	$ 14,820	Reimbursements
	Solid Waste Special Revenue Fund	8,398	Charges for services
Total Due to Road and Bridge Special Revenue Fund		$ 23,218	
Heritage Community Enterprise Fund	General Fund	$ 20,332	Reimbursements
Heritage Center Project Enterprise Fund	General Fund	$ 136,531	Reimbursements
Total Due To/From Other Funds		$ 924,662	

The interfund receivables and payables are expected to be paid within one year of December 31, 2015.

Interfund Transfers

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

Transfer to General Fund from Forfeited Tax Sale Special Revenue Fund	$ 730,280	Forfeited tax sale proceeds
Transfer to Solid Waste Special Revenue Fund from General Fund	13,750	Matching grant funds
Transfer to Heritage Center Project Enterprise Fund from General Fund	1,000,000	Contributions
Transfer to Heritage Center Project Enterprise Fund from Heritage Community Enterprise Fund	1,099,161	Reimbursements
Total Interfund Transfers In	$ 2,843,191	
Transfer to Heritage Center Project Enterprise Fund from General Fund occurring between September 30 and December 31, 2014	(1,000,000)	
Total Interfund Transfers Out	$ 1,843,191	

III. 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. A new Paid Time Off (PTO) policy was adopted on August 1, 2012, to eventually replace the vacation and sick leave policies. All new employees will earn time off according to the PTO policy, and existing employees have a specific timeframe to convert vacation/sick leave to PTO. PTO accrual varies from 18 to 36 days per year. Vacation leave accrual varies from 10 to 20 days per year. Sick leave accrual is 12 days per year. Leave may be accumulated to a maximum of 60 days PTO, 32 days vacation, and 125 days sick leave 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 $640,597 at December 31, 2015, is available to employees in the event of illness-related absences and is not paid to them at termination.

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, 2015:

III. Detailed Notes on All Funds

C. Liabilities

Governmental Activities

Capital Leases (Continued)

Lease	Maturity	Installment	Payment Amount	Original	Balance
Governmental Activities					
2012 Challenger tractor	2017	Annual	$ 18,230	$ 102,242	$ 34,758
2013 John Deere tractor	2019	Annual	19,073	108,515	70,695
Less: Accumulated depreciation				(69,207)	-
Total Governmental Activities Capital Leases				$ 141,550	$ 105,453

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

Year Ending December 31	Governmental Activities
2016	$ 37,303
2017	37,304
2018	19,073
2019	19,073
Total minimum lease payments	$ 112,753
Less: amount representing interest	(7,300)
Present Value of Minimum Lease Payments	$ 105,453

Business-Type Activities

Operating Leases

On December 31, 2014, Hubbard County entered into operating leases to facilitate the construction and reconstruction project of the Heritage Community with Heritage Center, LLC. Heritage Center, LLC, leases its leasehold interest in the leased property to the County, and the County leases the leased property from Heritage

III. Detailed Notes on All Funds

C. Liabilities

Business-Type Activities

Operating Leases (Continued)

Center, LLC. The term of the leases expire on December 31, 2049, with the option to extend or terminate at alternative dates as described in the lease documents. The first payment of $65,000 is due on October 1, 2016, with remaining payments as follows:

Year Ending December 31	Lease Payment
2016	$ 65,000
2017 - 2021	860,000
2022 - 2026	3,140,000
2027 - 2031	3,160,000
2032 - 2036	3,190,000
2037 - 2041	3,215,000
2042 - 2049	3,250,000
Total	$ 16,880,000

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, 2015. 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 $5,365,000, including bond premium of $55,044, as of December 31, 2015.

III. Detailed Notes on All Funds

C. Liabilities

Long-Term Debt

Governmental Activities

General Obligation Bonds (Continued)

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 $3,400,000, including bond premium of $45,664, as of December 31, 2015.

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 $427,000 as of December 31, 2015.

III. Detailed Notes on All Funds

C. Liabilities

Long-Term Debt

Governmental Activities (Continued)

Debt Service Requirements

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

Year Ending December 31	General Obligation Correctional Facility Refunding Bonds, Series 2012	
	Principal	Interest
2016	$ 475,000	$ 104,050
2017	490,000	94,400
2018	505,000	84,450
2019	515,000	74,250
2020	530,000	63,800
2021 - 2025	2,850,000	152,250
Subtotal	$ 5,365,000	$ 573,200
Bond premium	55,044	-
Total	$ 5,420,044	$ 573,200

Year Ended December 31	General Obligation Capital Improvement Plan Bonds, Series 2013		Minnesota Public Facilities Authority Loan	
	Principal	Interest	Principal	Interest
2016	$ 180,000	$ 76,862	$ 187,000	$ 10,577
2017	185,000	73,212	192,000	5,945
2018	190,000	69,462	48,000	1,550
2019	195,000	65,613	-	-
2020	195,000	61,713	-	-
2021 - 2025	1,050,000	247,312	-	-
2026 - 2030	1,155,000	120,195	-	-
2031	250,000	3,750	-	-
Subtotal	$ 3,400,000	$ 718,119	$ 427,000	$ 18,072
Bond premium	45,664	-	-	-
Total	$ 3,445,664	$ 718,119	$ 427,000	$ 18,072

III. 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, 2015, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General Obligation Correctional Facility Refunding Bonds, Series 2012	$ 5,835,000	$ -	$ 470,000	$ 5,365,000	$ 475,000
Add: Bond premium	60,048	-	5,004	55,044	-
General Obligation Capital Improvement Plan Bonds, Series 2013	3,580,000	-	180,000	3,400,000	180,000
Add: Bond premium	48,518	-	2,854	45,664	-
Minnesota Public Facilities Authority loan	610,000	-	183,000	427,000	187,000
Capital leases	138,373	-	32,920	105,453	33,969
Compensated absences	1,273,992	640,240	710,692	1,203,540	501,170
Governmental Activities Long-Term Liabilities	$ 11,545,931	$ 640,240	$ 1,584,470	$ 10,601,701	$ 1,377,139

Other post-employment benefits and pension liabilities 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. 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 $1,685,000 as of September 30, 2015.

III. 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 3.0 percent to 5.5 percent through October 2034. The balance due on these bonds is $1,575,000 as of September 30, 2015.

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, 2015.

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rates (%)	Original Issue Amounts	Outstanding Balance September 30, 2015
General Obligation Bonds					
2014 G.O. Housing Development Revenue Bonds	2027	$110,000 - $160,000	2.0 - 3.0	$ 1,795,000	$ 1,685,000
2014 G.O. Nursing Home Revenue Bonds	2039	$250,000 - $715,000	1.5 - 4.5	10,145,000	10,145,000
2008 G.O. Housing Development Revenue Bonds	2034	$45,000 - $125,000	3.0 - 5.5	1,825,000	1,575,000
Total General Obligation Bonds				$ 13,765,000	$ 13,405,000

III. 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, 2015, are as follows:

Year Ending September 30	General Obligation Bonds	
	Principal	Interest
2016	$ 120,000	$ 465,270
2017	180,000	499,819
2018	435,000	494,982
2019	440,000	486,187
2020	445,000	476,182
2021 - 2025	2,710,000	2,184,995
2026 - 2030	3,045,000	1,665,611
2031 - 2035	3,345,000	1,039,273
2036 - 2039	2,685,000	308,475
Total	$ 13,405,000	$ 7,620,794

Changes in Long-Term Liabilities

Long-term liability activity for the business-type activities for the year ended September 30, 2015, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
2014 General Obligation Revenue Bonds	$ 1,795,000	$ -	$ 110,000	$ 1,685,000	$ 120,000
Add: Bond premium	60,936	-	4,749	56,187	-
2014 General Obligation Nursing Home Revenue Bonds	-	10,145,000	-	10,145,000	-
Less: bond discounts	-	(140,867)	(5,635)	(135,232)	-
2008 General Obligation Revenue Bonds	1,630,000	-	55,000	1,575,000	-
Compensated absences	233,170	-	1,442	231,728	126,728
Business-Type Activities Long-Term Liabilities	$ 3,719,106	$ 10,004,133	$ 165,556	$ 13,557,683	$ 246,728

III. Detailed Notes on All Funds (Continued)

D. Fund Balances

Fund balances at year-end December 31, 2015, were as follows:

	General	Road and Bridge	Social Services	Forfeited Tax Sale	Other Governmental Funds	Total Governmental Funds
Nonspendable for						
Inventories	$ -	$ 297,170	$ -	$ -	$ -	$ 297,170
Endowments	-	-	-	-	467,280	467,280
Total nonspendable	$ -	$ 297,170	$ -	$ -	$ 467,280	$ 764,450
Restricted for						
AIS prevention	$ 124,623	$ -	$ -	$ -	$ -	$ 124,623
Attorney forfeitures	23,457	-	-	-	-	23,457
Attorney pretrial diversion program	1,631	-	-	-	-	1,631
Boat and water safety	90,163	-	-	-	-	90,163
Conceal and carry permits	54,661	-	-	-	-	54,661
County State-Aid Highway allotment	-	11,130	-	-	-	11,130
Debt service	-	-	-	-	1,132,574	1,132,574
Drug education	5,577	-	-	-	-	5,577
DWI assessment	10,356	-	-	-	-	10,356
DWI forfeitures	9,193	-	-	-	-	9,193
Equipment purchase	-	309,360	-	-	-	309,360
Enhanced 911	245,628	-	-	-	-	245,628
Forest development	-	-	-	1,293,501	-	1,293,501
Fuel facility	-	83,027	-	-	-	83,027
Government forfeitures	17,593	-	-	-	-	17,593
Law library	1,427	-	-	-	-	1,427
Memorial forest	-	-	-	94,935	-	94,935
Missing heirs	8,144	-	-	-	-	8,144
Natural resources	93,326	-	-	-	13,759	107,085
Parks and recreation	473,243	-	-	-	-	473,243
Probation	43,990	-	-	-	-	43,990
Recorder's equipment	327,943	-	-	-	-	327,943
Recorder's technology	285,755	-	-	-	-	285,755
Sheriff's contingent fund	8,726	-	-	-	-	8,726
Solid waste operations	-	-	-	-	324,760	324,760
Transit	-	399,536	-	-	-	399,536
Total restricted	$ 1,825,436	$ 803,053	$ -	$ 1,388,436	$ 1,471,093	$ 5,488,018
Assigned to						
Forfeited land sales	$ -	$ -	$ -	$ 690,401	$ -	$ 690,401
Highways and streets	-	4,926,268	-	-	-	4,926,268
Human services	-	-	4,267,064	-	-	4,267,064
Sanitation	-	-	-	-	1,500,586	1,500,586
Total assigned	$ -	$ 4,926,268	$ 4,267,064	$ 690,401	$ 1,500,586	$ 11,384,319
Unassigned	$ 4,508,875	$ -	$ -	$ -	$ -	$ 4,508,875
Total Fund Balances	$ 6,334,311	$ 6,026,491	$ 4,267,064	$ 2,078,837	$ 3,438,959	$ 22,145,662

IV. Other Post-Employment 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 post-employment benefit is funded on a pay-as-you-go basis, usually paying retiree benefits out of the General Fund. For governmental activities in 2015, there were approximately 158 participants in the plan, with 6 retirees. For the Heritage Community, there were 61 participants in the plan, with no retirees.

IV. Other Post-Employment 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 other post-employment benefit (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 2015, the County paid benefits of $32,054 and calculated a liability of $130,810, 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 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, 2015	Business-Type Activities September 30, 2015	Total
ARC	$ 154,195	$ 25,463	$ 179,658
Interest on net OPEB obligation	21,671	2,821	24,492
Adjustments to ARC	(30,214)	(3,876)	(34,090)
Annual OPEB cost (expense)	$ 145,652	$ 24,408	$ 170,060
Contributions made	(101,609)	(7,479)	(109,088)
Increase in net OPEB obligation	$ 44,043	$ 16,929	$ 60,972
Net OPEB Obligation - Beginning of Year	644,440	62,698	707,138
Net OPEB Obligation - End of Year	$ 688,483	$ 79,627	$ 768,110

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

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2013	$ 162,141	$ 78,931	48.7%	$ 426,925
2014	172,417	55,068	31.9	544,274
2015	170,060	109,088	64.1	768,110

IV. Other Post-Employment 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 an 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, 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.

IV. Other Post-Employment 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, 2015, was 22 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 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, 2015, was 23 years.

V. 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 Fund, the Public Employees Police and Fire Fund, and the Local Government Correctional Service Retirement Fund (the Public Employees Correctional Fund), which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with Minn. Stat. chs. 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

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

V. Pension Plans

A. Defined Benefit Pension Plans

1. Plan Description (Continued)

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

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

2. Benefits Provided

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

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

V. Pension Plans

A. Defined Benefit Pension Plans

2. Benefits Provided (Continued)

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

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

3. Contributions

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

V. Pension Plans

A. Defined Benefit Pension Plans

3. Contributions (Continued)

respectively, of their annual covered salary in 2015. Public Employees Police and Fire Fund members were required to contribute 10.80 percent of their annual covered salary in 2015. Public Employees Correctional Fund members were required to contribute 5.83 percent of their annual covered salary in 2015.

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

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

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

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

General Employees Retirement Fund	$ 655,012
Public Employees Police and Fire Fund	195,192
Public Employees Correctional Fund	123,408

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

V. Pension Plans

A. Defined Benefit Pension Plans (Continued)

4. Pension Costs

General Employees Retirement Fund

At December 31, 2015, Hubbard County reported a liability of $7,659,764 for its proportionate share of the GERF's net pension liability, of which $2,269,944 was the Heritage Community's portion as of September 30, 2015. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. 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, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, Hubbard County's proportionate share was 0.1479 percent, which was a decrease of 0.1660 percent from its proportion measured as of June 30, 2014. The County recognized pension expense of $818,228 for its proportionate share of the General Employees Retirement Fund's pension expense, of which $255,226 was the Heritage Community's expense.

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

	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	$ -	$ 271,738	$ -	$ 114,444	$ -	$ 386,182
Difference between projected and actual investment earnings	510,229	-	214,885	-	725,114	-
Changes in proportion	-	461,529	-	179,679	-	641,208
Contributions paid to PERA subsequent to the measurement date	235,260	-	47,519	-	282,779	-
Total	$ 745,489	$ 733,267	$ 262,404	$ 294,123	$ 1,007,893	$ 1,027,390

V. Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs

General Employees Retirement Fund (Continued)

The $282,779 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	Governmental Activities Pension Expense Amount	Business-Type Activities Pension Expense Amount	Total Pension Expense Amount
2016	$ (116,865)	$ (44,320)	$ (161,185)
2017	(116,865)	(44,320)	(161,185)
2018	(116,865)	(44,320)	(161,185)
2019	127,557	53,722	181,279

Public Employees Police and Fire Fund

At December 31, 2015, Hubbard County reported a liability of $1,465,742 for its proportionate share of the Public Employees Police and Fire Fund's (PEPFF) net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. 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, 2014, through June 30, 2015, relative to the total employer contributions received from all PERA's participating employers. At June 30, 2015, Hubbard County's proportion was 0.129 percent, which was an increase of 0.007 percent from its proportion measured as of June 30, 2014. The County recognized pension expense of $265,182 for its proportionate share of the Public Employees Police and Fire Fund's pension expense.

V. Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs

Public Employees Police and Fire Fund (Continued)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ -	$ 237,695
Difference between projected and actual investment earnings	255,381	-
Changes in proportion	63,002	-
Contributions paid to PERA subsequent to the measurement date	100,871	-
Total	$ 419,254	$ 237,695

The $100,871 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	Pension Expense Amount
2016	$ 28,907
2017	28,907
2018	28,907
2019	28,907
2020	(34,940)

V. Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs (Continued)

Public Employees Correctional Fund

At December 31, 2015, the County reported a liability of $119,042 for its proportionate share of the Public Employees Correctional Fund's (PECF) net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the County's proportion was 0.77 percent, which was an increase of 0.05 percent from its proportion measured as of June 30, 2014. The County recognized pension expense of $129,410 for its proportionate share of the Public Employees Correctional Fund's pension expense.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ -	$ 45,576
Difference between projected and actual investment earnings	99,230	-
Changes in proportion	2,829	-
Contributions paid to PERA subsequent to the measurement date	61,276	-
Total	$ 163,335	$ 45,576

V. Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs

Public Employees Correctional Fund (Continued)

The $61,276 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	Pension Expense Amount
2016	$ 10,559
2017	10,559
2018	10,559
2019	24,806

Total Pension Expense

The total pension expense for all plans recognized by the County for the year ended December 31, 2015, was $1,212,820.

5. Actuarial Assumptions

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

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

V. Pension Plans

A. Defined Benefit Pension Plans

5. Actuarial Assumptions (Continued)

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

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

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

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

V. Pension Plans

A. Defined Benefit Pension Plans

5. Actuarial Assumptions (Continued)

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

6. Discount Rate

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

7. Pension Liability Sensitivity

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

	1% Decrease in Discount Rate (6.9%)	Discount Rate (7.9%)	1% Increase in Discount Rate (8.9%)
Proportionate share of the GERF net pension liability			
Governmental activities	$ 8,474,712	$ 5,389,820	$ 2,842,172
Business-Type activities	3,569,158	2,269,944	1,196,992
Total GERF liability	$ 12,043,870	$ 7,659,764	$ 4,039,164

V. Pension Plans

A. Defined Benefit Pension Plans

7. Pension Liability Sensitivity (Continued)

	1% Decrease in Discount Rate (6.9%)	Discount Rate (7.9%)	1% Increase in Discount Rate (8.9%)
Proportionate share of the PEPFF net pension liability	$ 2,856,746	$ 1,465,742	$ 316,530
Proportionate share of the PECF net pension liability (asset)	$ 829,028	$ 119,042	$ (449,233)

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.

9. Subsequent Changes

Subsequent to 2015, Hubbard County's net pension liability for each plan increased substantially. The increase in the net pension liability is offset by deferred outflows of resources, deferred inflows of resources, and pension expense.

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.

V. 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, 2015, were:

	Employee	Employer
Contribution amount	$ 2,866	$ 2,866
Percentage of covered payroll	5%	5%

VI. 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, in connection with the normal conduct of its affairs, may be involved in various claims, judgments, and litigation.

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 $500,000 in future tax revenue.

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

B. Management Agreement

Heritage Community is managed by Ecumen. All three facilities are under a three-year agreement which expires June 2016. 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 $242,640 for the year ended September 30, 2015.

Certain employees of Ecumen perform services for Heritage Community. Heritage Community had unpaid amounts pertaining to the above transactions presented as Due to Related Parties on the statements at September 30, 2015.

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 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.

D. Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. The County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Intergovernmental Trust (MCIT) to cover workers' compensation and property and casualty liabilities. To cover other risk, the County

VI. Summary of Significant Contingencies and Other Items

D. Risk Management (Continued)

carries commercial insurance. 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 Worker's Compensation Division of MCIT is self-sustaining based on the contributions charged, so total contributions plus compounded earnings on contributions equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at $490,000 per claim in 2015 and $500,000 per claim in 2016. Should 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.

E. Joint Ventures

Homeland Security Emergency Management Region 3 Emergency Managers Joint Powers Board

The Homeland Security Emergency Management (HSEM) Region 3 Emergency Managers Joint Powers Board was formed in 2007 under the authority of the Joint Powers Act, pursuant to Minn. Stat. § 471.59 and Minn. Stat. ch. 12. Members include Becker, Beltrami, Clay, Clearwater, Hubbard, Kittson, Lake of the Woods, Mahnomen, Marshall, Norman, Pennington, Polk, Red Lake, and Roseau Counties. The purpose of the HSEM Region 3 Emergency Managers Joint Powers Board is to engage in planning, training, and/or the purchase of equipment in order to better respond to emergencies and natural and other disasters within HSEM Region 3; specifically within the jurisdictional boundaries of the member counties.

Control is vested in the HSEM Region 3 Emergency Managers Joint Powers Board, which is composed of one representative from each member county, appointed by their respective governing bodies as provided in the HSEM Region 3 Emergency Managers Board's Joint Powers Agreement.

VI. Summary of Significant Contingencies and Other Items

E. Joint Ventures

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

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

Hubbard County Family Services Collaborative

The Hubbard County Family Services Collaborative was established in 1998 under the authority of the Minn. Stat. §§ 121.8355 (now 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. Upon termination of the Collaborative, all property and remaining funds shall be divided among the remaining members. Distribution shall be determined on the basis of the proportionate contribution paid pursuant to the agreement of the Collaborative members.

Financing is provided by state grants and appropriations from its members. Hubbard County Social Services, in an agent capacity, reports the cash transactions of the Hubbard County Family Services Collaborative as an agency fund and as an investment trust fund on the County's financial statements. During 2015, Hubbard County contributed $48,628 to the Collaborative.

VI. Summary of Significant Contingencies and Other Items

E. Joint Ventures (Continued)

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 2015, Hubbard County contributed $1,500 to the Board. Cass County maintains the accounting records of the Board. Complete financial information can be obtained from the Mississippi Headwaters Board, Cass County Courthouse, 4th Street and Minnesota Avenue, Walker, Minnesota 56484.

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.

In the event of dissolution of the North Country Health Service Board of Health, 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.

VI. Summary of Significant Contingencies and Other Items

E. Joint Ventures

North Country Community Health Service (Continued)

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, 2015. 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 Emergency Communications Board

The Northwest Emergency Communications Board was formed in 2007 under the authority of the Joint Powers Act, pursuant to Minn. Stat. §§ 403.39 and 471.59. Members include Becker, Beltrami, Clearwater, Clay, Hubbard, Kittson, Lake of the Woods, Mahnomen, Marshall, Norman, Pennington, Polk, Red Lake, and Roseau Counties and the City of Moorhead. The purpose of the Northwest Emergency Communications Board is to provide regional administration for the installation, operation, and maintenance of local and regional enhancements to the Statewide Public Safety Radio and Communication System (ARMER).

Control is vested in the Northwest Emergency Communications Board, which is composed of one County Commissioner from each member county and one City Council member from the member city appointed by their respective governing bodies, and one representative appointed by the Tribal Council from each participating tribal entity, as provided in the Northwest Emergency Communications Board's Joint Powers Agreement.

The Northwest Emergency Communications Board has no long-term debt. Financing is provided by annual contributions from members, reflective of the extent of participation and use of services. Hubbard County contributed $2,500 to the Northwest Emergency Communications Board for the year ended December 31, 2015. Complete financial information can be obtained from Headwaters Regional Development Commission, P. O. Box 906, Bemidji, Minnesota 56619.

VI. Summary of Significant Contingencies and Other Items

E. Joint Ventures (Continued)

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 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 Northwest Service Cooperative's purpose is to meet or exceed the needs of participating members by developing and delivering high quality, cost-effective services and programs that will support the activities of its members. The NWSC charges sufficient rates so that the participating members experience no financial benefit or burden.

The NWSC is governed by a Board of Directors consisting of school board members elected at large by their peers, one County representative, with a maximum of three at-large appointees and three ex-officio superintendents. Hubbard County contributed $250 to the Cooperative for the year ended December 31, 2015. Complete financial information can be obtained from the Northwest Service Cooperative, 114 First Street West, Thief River Falls, Minnesota 56701.

Northwestern Counties Data Processing Security Association

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

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

VI. Summary of Significant Contingencies and Other Items

E. Joint Ventures

Northwestern Counties Data Processing Security Association (Continued)

The Northwestern Counties Data Processing Security Association has no long-term debt. Financing is provided by state grants and appropriations from member counties when needed. Hubbard County did not contribute to the Association for the year ended December 31, 2015. Clearwater County, in an agent capacity, reports the cash transactions of the Association as an agency fund on its financial statements. Complete financial information can be obtained from the Clearwater County Auditor/Treasurer's Office, 212 Main Avenue North Bagley, Minnesota 56621.

Northwestern Minnesota Juvenile Center

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

Control of the Center is vested in the Northwestern Minnesota Juvenile Center Joint Powers Board, which is composed of at least one member appointed by each participating county, as provided in the Center's bylaws. At present, there are 13 directors: Beltrami, Cass, Hubbard, Pennington, and Roseau Counties have two directors each; the other member counties have one director each. In the event of dissolution, the net assets of the Center shall be divided among the member counties in the same proportion as their respective financial responsibilities.

Financing is provided by state and federal grants, charges for services, and appropriations from member counties. 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, P. O. Box 247, Bemidji, Minnesota 56601.

VI. Summary of Significant Contingencies and Other Items

E. Joint Ventures (Continued)

Paul Bunyan Task Force

The Paul Bunyan Task Force was established July 16, 1992, under the authority of the Joint Powers Act, pursuant to Minn. Stat. § 471.59. Members in 2015 include Beltrami, Clearwater, Hubbard, and Mahnomen Counties, the Cities of Bemidji and Park Rapids, the Bureau of Indian Affairs, the Leech Lake Reservation, and the White Earth Reservation. The purpose of the Paul Bunyan Task Force is to assist member organizations in the investigation and prosecution of persons in violation of Minnesota statutes.

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

The Paul Bunyan Task Force has no long-term debt. Financing is provided by the proceeds from forfeitures and seizures pursuant to Minn. Stat. § 609.531. The City of Bemidji, in an agent capacity, reports the cash transactions of the 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 County-Based Purchasing Initiative

The PrimeWest County-Based Purchasing Initiative Joint Powers Board was established in December 1998 by a joint powers agreement among 13 counties, including Beltrami, Big Stone, Clearwater, Douglas, Grant, Hubbard, McLeod, Meeker, Pipestone, Pope, Renville, Stevens, and Traverse, under the authority of Minn. Stat. § 471.59.

The purpose of this agreement is to plan and administer a multi-county, county-based purchasing program for medical assistance and general assistance medical care services and other health care programs as authorized by Minn. Stat. § 256B.692.

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

VI. Summary of Significant Contingencies and Other Items

E. Joint Ventures

PrimeWest County-Based Purchasing Initiative (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. Hubbard County contributed $44,388 for joint purchasing in 2015. Complete financial information can be obtained from its administrative office at PrimeWest County-Based Purchasing Initiative, 2209 Jefferson Street, Suite 101, Alexandria, Minnesota 56308.

F. Jointly-Governed Organizations

Kitchigami Regional Library

The Kitchigami Regional Library was formed pursuant to Minn. Stat. § 134.20, effective 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 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, 2015.

Minnesota Counties Computer Cooperative

The Minnesota Counties Computer Cooperative was formed in 1979 pursuant to Minn. Stat. § 471.59 and includes 24 counties. Control of the Cooperative is vested in the Joint Data Processing Board, which is composed of one representative and one alternate appointed by each member county. The purpose is to provide for the establishment, operation, and maintenance of data processing systems, facilities, and management information systems. Hubbard County paid $79,405 to the Minnesota Counties Computer Cooperative for the year ended December 31, 2015.

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

G. Segment Information

The County issued revenue bonds to finance the Heritage Manor and Heritage Cottages facilities. The activity of both are reported in the Heritage Community Fund. Summary financial information for each facility is presented below. Heritage Manor provides assisted living senior housing services. Heritage Cottages provides housing with memory care services for seniors.

Condensed Statement of Net Position	Heritage Manor	Heritage Cottages
Assets		
Current assets	$ 637,795	$ 585,991
Restricted assets	108,938	2,166
Capital assets	1,002,233	1,594,766
Total Assets	$ 1,748,966	$ 2,182,923
Liabilities		
Interfund payables	$ 5,008	$ -
Current liabilities payable from restricted assets	11,432	-
Other current liabilities	199,819	45,376
Noncurrent liabilities	1,621,187	1,575,000
Total Liabilities	$ 1,837,446	$ 1,620,376
Net Position		
Net investment in capital assets	$ (682,767)	$ 19,766
Restricted	97,035	2,166
Unrestricted	497,252	540,615
Total Net Positions	$ (88,480)	$ 562,547

VI. Summary of Significant Contingencies and Other Items

G. Segment Information (Continued)

Condensed Statement of Revenues, Expenses, and Changes in Net Position	Heritage Manor	Heritage Cottages
Operating Revenues		
Rental income	$ 702,015	$ 857,311
Miscellaneous	2,329	3,265
Total Operating Revenues	$ 704,344	$ 860,576
Depreciation expense	(100,659)	(77,965)
Other operating expenses	(497,491)	(616,635)
Operating Income (Loss)	$ 106,194	$ 165,976
Nonoperating Revenues (Expenses)		
Investment earnings	$ 2,706	$ 2,584
Interest expense	(39,762)	(78,573)
Total Operating Revenues (Expenses)	$ (37,056)	$ (75,989)
Transfers out	$ (328,270)	$ (344,167)
Change in Net Position	$ (259,132)	$ (254,180)
Beginning Net Position	170,652	816,727
Ending Net Position	$ (88,480)	$ 562,547

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REQUIRED SUPPLEMENTARY INFORMATION

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HUBBARD COUNTY
PARK RAPIDS, MINNESOTA

EXHIBIT A-1

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

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 6,193,132	$ 6,193,132	$ 6,163,135	$ (29,997)
Licenses and permits	93,083	93,083	153,207	60,124
Intergovernmental	2,553,854	2,553,854	3,546,381	992,527
Charges for services	833,627	833,627	818,355	(15,272)
Fines and forfeits	25,600	25,600	41,115	15,515
Investment earnings	90,000	90,000	149,658	59,658
Gifts and contributions	15,500	15,500	25,284	9,784
Miscellaneous	260,160	260,160	641,641	381,481
Total Revenues	**$ 10,064,956**	**$ 10,064,956**	**$ 11,538,776**	**$ 1,473,820**
Expenditures				
Current				
General government				
Commissioners	$ 248,989	$ 248,989	$ 255,014	$ (6,025)
District court	92,000	92,000	97,620	(5,620)
Law library	16,500	16,500	13,748	2,752
Coordinator	306,354	306,354	345,097	(38,743)
County auditor/treasurer	409,641	409,641	411,783	(2,142)
Professional services	35,725	35,725	33,230	2,495
Elections	11,780	11,780	11,460	320
Purchasing	15,000	15,000	11,931	3,069
Data processing	310,903	310,903	246,511	64,392
Attorney	567,945	567,945	511,782	56,163
GIS/LIS	1,079,362	1,079,362	957,756	121,606
Recorder	101,000	101,000	100,878	122
Surveyor	207,406	207,406	188,528	18,878
Motor pool	43,335	43,335	16,583	26,752
Buildings and grounds	566,691	566,691	350,046	216,645
Veterans service officer	151,296	151,296	148,109	3,187
Insurance	117,000	117,000	106,721	10,279
Other general government	46,124	46,124	76,685	(30,561)
Total general government	**$ 4,327,051**	**$ 4,327,051**	**$ 3,883,482**	**$ 443,569**

The notes to the required supplementary information are an integral part of this schedule.

HUBBARD COUNTY
PARK RAPIDS, MINNESOTA

EXHIBIT A-1
(Continued)

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

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Expenditures				
Current (Continued)				
Public safety				
Sheriff	$ 1,918,203	$ 1,918,203	$ 2,091,458	$ (173,255)
Boat and water safety	90,320	90,320	72,283	18,037
Emergency services	42,411	42,411	33,921	8,490
Coroner	53,000	53,000	45,890	7,110
Enhanced 911	72,527	72,527	33,433	39,094
Community corrections	2,209,797	2,209,797	2,230,199	(20,402)
Building and grounds	317,853	317,853	256,942	60,911
Jail canteen	-	-	103,678	(103,678)
Sentence to serve	139,690	139,690	121,425	18,265
Victim assistance	-	-	65,830	(65,830)
Probation and parole	71,301	71,301	37,761	33,540
Total public safety	**$ 4,915,102**	**$ 4,915,102**	**$ 5,092,820**	**$ (177,718)**
Human services				
Mahube Community Council	**$ -**	**$ -**	**$ 943,200**	**$ (943,200)**
Culture and recreation				
Historical society	$ 10,500	$ 10,500	$ 10,500	$ -
Parks	248,717	248,717	101,368	147,349
Regional library	200,000	200,000	200,000	-
Snowmobile and ski trails	171,700	171,700	208,024	(36,324)
Total culture and recreation	**$ 630,917**	**$ 630,917**	**$ 519,892**	**$ 111,025**
Conservation of natural resources				
County extension	$ 128,875	$ 128,875	$ 120,669	$ 8,206
Agricultural society	30,000	30,000	30,000	-
Aquatic invasive species	35,000	35,000	271,782	(236,782)
Local water	8,566	8,566	8,566	-
Soil and water conservation	22,000	22,000	22,000	-
Natural resources grant	65,382	65,382	77,382	(12,000)
Total conservation of natural resources	**$ 289,823**	**$ 289,823**	**$ 530,399**	**$ (240,576)**

HUBBARD COUNTY
PARK RAPIDS, MINNESOTA

EXHIBIT A-1
(Continued)

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

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Expenditures (Continued)				
Capital outlay				
General government	$ -	$ -	$ 1,023,644	$ (1,023,644)
Public safety	5,000	5,000	317,249	(312,249)
Culture and recreation	500	500	8,513	(8,013)
Total capital outlay	**$ 5,500**	**$ 5,500**	**$ 1,349,406**	**$ (1,343,906)**
Total Expenditures	**$ 10,168,393**	**$ 10,168,393**	**$ 12,319,199**	**$ (2,150,806)**
Excess of Revenues Over (Under) Expenditures	**$ (103,437)**	**$ (103,437)**	**$ (780,423)**	**$ (676,986)**
Other Financing Sources (Uses)				
Transfers in	$ 320,000	$ 320,000	$ 730,280	$ 410,280
Transfers out	(13,750)	(13,750)	(13,750)	-
Total Other Financing Sources (Uses)	**$ 306,250**	**$ 306,250**	**$ 716,530**	**$ 410,280**
Net Change in Fund Balance	**$ 202,813**	**$ 202,813**	**$ (63,893)**	**$ (266,706)**
Fund Balance - January 1, as restated (Note I.E.)	**6,398,204**	**6,398,204**	**6,398,204**	**-**
Fund Balance - December 31	**$ 6,601,017**	**$ 6,601,017**	**$ 6,334,311**	**$ (266,706)**

The notes to the required supplementary information are an integral part of this schedule.

HUBBARD COUNTY
PARK RAPIDS, MINNESOTA

EXHIBIT A-2

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

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 3,538,300	$ 3,538,300	$ 3,485,945	$ (52,355)
Intergovernmental	3,001,000	3,001,000	5,161,789	2,160,789
Charges for services	-	-	809,737	809,737
Investment earnings	-	-	626	626
Miscellaneous	1,271,500	1,271,500	106,724	(1,164,776)
Total Revenues	**$ 7,810,800**	**$ 7,810,800**	**$ 9,564,821**	**$ 1,754,021**
Expenditures				
Current				
Highways and streets				
Administration	$ 634,403	$ 634,403	$ 624,183	$ 10,220
Maintenance	2,851,796	2,851,796	2,587,591	264,205
Construction	2,245,152	2,245,152	3,162,169	(917,017)
Equipment maintenance and shop	863,483	863,483	919,539	(56,056)
Fuel facility	11,444	11,444	86,383	(74,939)
Intergovernmental	22,147	22,147	18,611	3,536
Materials for resale	1,251,474	1,251,474	32,017	1,219,457
Other highways and streets	5,500	5,500	5,320	180
Total highways and streets	**$ 7,885,399**	**$ 7,885,399**	**$ 7,435,813**	**$ 449,586**
Capital outlay				
Highways and streets	**$ 274,000**	**$ 274,000**	**$ 271,150**	**$ 2,850**
Intergovernmental				
Highways and streets	**$ 313,000**	**$ 313,000**	**$ 330,524**	**$ (17,524)**
Debt service				
Principal retirement	$ 183,000	$ 183,000	$ 215,920	$ (32,920)
Interest	15,100	15,100	19,493	(4,393)
Total debt service	**$ 198,100**	**$ 198,100**	**$ 235,413**	**$ (37,313)**
Total Expenditures	**$ 8,670,499**	**$ 8,670,499**	**$ 8,272,900**	**$ 397,599**
Net Change in Fund Balance	**$ (859,699)**	**$ (859,699)**	**$ 1,291,921**	**$ 2,151,620**
Fund Balance - January 1	**4,689,052**	**4,689,052**	**4,689,052**	**-**
Increase (decrease) in inventories	**-**	**-**	**45,518**	**45,518**
Fund Balance - December 31	**$ 3,829,353**	**$ 3,829,353**	**$ 6,026,491**	**$ 2,197,138**

The notes to the required supplementary information are an integral part of this schedule.

HUBBARD COUNTY
PARK RAPIDS, MINNESOTA

EXHIBIT A-3

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

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 2,757,300	$ 2,757,300	$ 3,066,831	$ 309,531
Intergovernmental	3,132,999	3,132,999	3,745,423	612,424
Charges for services	387,450	387,450	554,661	167,211
Investment earnings	-	-	167	167
Miscellaneous	332,070	332,070	531,402	199,332
Total Revenues	**$ 6,609,819**	**$ 6,609,819**	**$ 7,898,484**	**$ 1,288,665**
Expenditures				
Current				
Human services				
Income maintenance	$ 2,098,070	$ 2,098,070	$ 1,856,128	$ 241,942
Social services	5,604,431	5,604,431	5,092,491	511,940
Transportation	-	-	491,425	(491,425)
Total Expenditures	**$ 7,702,501**	**$ 7,702,501**	**$ 7,440,044**	**$ 262,457**
Net Change in Fund Balance	**$ (1,092,682)**	**$ (1,092,682)**	**$ 458,440**	**$ 1,551,122**
Fund Balance - January 1, as restated (Note I.E.)	**3,808,624**	**3,808,624**	**3,808,624**	**-**
Fund Balance - December 31	**$ 2,715,942**	**$ 2,715,942**	**$ 4,267,064**	**$ 1,551,122**

The notes to the required supplementary information are an integral part of this schedule.

HUBBARD COUNTY
PARK RAPIDS, MINNESOTA

EXHIBIT A-4

BUDGETARY COMPARISON SCHEDULE
FORFEITED TAX SALE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2015

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Intergovernmental	$ 111,556	$ 111,556	$ 99,947	$ (11,609)
Land and timber sales	1,902,100	1,902,100	1,812,827	(89,273)
Miscellaneous	6,000	6,000	1,103	(4,897)
Total Revenues	**$ 2,019,656**	**$ 2,019,656**	**$ 1,913,877**	**$ (105,779)**
Expenditures				
Current				
Conservation of natural resources				
Forfeited land	$ 651,608	$ 651,608	$ 615,787	$ 35,821
Access road	23,500	23,500	23,501	(1)
Forest development	205,000	205,000	289,142	(84,142)
Miscellaneous	44,470	44,470	84,154	(39,684)
Total conservation of natural resources	**$ 924,578**	**$ 924,578**	**$ 1,012,584**	**$ (88,006)**
Capital outlay				
Conservation of natural resources	27,000	27,000	28,332	(1,332)
Total Expenditures	**$ 951,578**	**$ 951,578**	**$ 1,040,916**	**$ (89,338)**
Excess of Revenues Over (Under) Expenditures	**$ 1,068,078**	**$ 1,068,078**	**$ 872,961**	**$ (195,117)**
Other Financing Sources (Uses)				
Transfers out	-	-	(730,280)	(730,280)
Net Change in Fund Balance	**$ 1,068,078**	**$ 1,068,078**	**$ 142,681**	**$ (925,397)**
Fund Balance - January 1, as restated (Note I.E.)	**1,936,156**	**1,936,156**	**1,936,156**	**-**
Fund Balance - December 31	**$ 3,004,234**	**$ 3,004,234**	**$ 2,078,837**	**$ (925,397)**

The notes to the required supplementary information are an integral part of this schedule.

HUBBARD COUNTY
PARK RAPIDS, MINNESOTA

EXHIBIT A-5

SCHEDULE OF FUNDING PROGRESS
OTHER POST-EMPLOYMENT BENEFITS
DECEMBER 31, 2015

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
January 1, 2008	$ -	$ 864,765	$ 864,765	0.0%	$ 8,228,951	10.5%
January 1, 2011	-	1,158,781	1,158,781	0.0	9,225,647	12.6
January 1, 2014	-	1,203,508	1,203,508	0.0	9,619,227	12.5

See Note IV, Other Post-Employment Benefits, for more information.

HUBBARD COUNTY
PARK RAPIDS, MINNESOTA

EXHIBIT A-6

SCHEDULE OF EMPLOYER CONTRIBUTIONS
OTHER POST-EMPLOYMENT BENEFITS
DECEMBER 31, 2015

Fiscal Year Ended	Annual OPEB Cost	Annual Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2013	$ 162,141	$ 78,931	48.7%	$ 426,925
2014	172,417	55,068	31.9	544,274
2015	170,060	109,088	64.1	768,110

See Note IV, Other Post-Employment Benefits, for more information.

HUBBARD COUNTY
PARK RAPIDS, MINNESOTA

EXHIBIT A-7

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

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	Covered Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.1478%	$ 7,659,764	$ 9,012,354	84.99%	78.20%

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

HUBBARD COUNTY
PARK RAPIDS, MINNESOTA

EXHIBIT A-8

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

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b - a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
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-9

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

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	Covered Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.129%	$ 1,465,742	$ 1,177,598	124.47%	86.60%

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

HUBBARD COUNTY
PARK RAPIDS, MINNESOTA

EXHIBIT A-10

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

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b - a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
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-11

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

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	Covered Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.77%	$ 119,042	$ 1,382,657	8.61%	96.90%

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-12

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

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b - a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
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.

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HUBBARD COUNTY
PARK RAPIDS, MINNESOTA

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

I. 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, 2015:

	Expenditures	Final Budget	Excess
General Fund			
Current			
General government			
Commissioners	$ 255,014	$ 248,989	$ 6,025
District court	97,620	92,000	5,620
Coordinator	345,097	306,354	38,743
County Auditor/Treasurer	411,783	409,641	2,142
Other general government	76,685	46,124	30,561
Public safety			
Sheriff	2,091,458	1,918,203	173,255
Community corrections	2,230,199	2,209,797	20,402
Jail canteen	103,678	-	103,678
Victim assistance	65,830	-	65,830

I. Budgetary Information

B. Excess of Expenditures Over Budget (Continued)

	Expenditures	Budget	Excess
General Fund			
Current (Continued)			
Human services			
Mahube Community Council	943,200	-	943,200
Culture and recreation			
Snowmobile and ski trails	208,024	171,700	36,324
Conservation of natural resources			
Aquatic invasive species	271,782	35,000	236,782
Natural resources grant	77,382	65,382	12,000
Capital outlay			
General government	1,023,644	-	1,023,644
Public safety	317,249	5,000	312,249
Culture and recreation	8,513	500	8,013
Road and Bridge Special Revenue Fund			
Current			
Highways and streets			
Construction	3,162,169	2,245,152	917,017
Equipment maintenance and shop	919,539	863,483	56,056
Fuel facility	86,383	11,444	74,939
Intergovernmental			
Highways and streets	330,524	313,000	17,524
Debt service			
Principal retirement	215,920	183,000	32,920
Interest	19,493	15,100	4,393
Social Services Special Revenue Fund			
Current			
Human services			
Transportation	491,425	-	491,425
Forfeited Tax Sale Special Revenue Fund			
Current			
Conservation of natural resources			
Access road	23,501	23,500	1
Forest development	289,142	205,000	84,142
Miscellaneous	84,154	44,470	39,684
Capital outlay			
Conservation of natural resources	28,332	27,000	1,332

II. Other Post-Employment 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 IV, Other Post-Employment 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 IV, Other Post-Employment Benefits.

III. Net Pension Liability

The information presented in the required supplementary schedules was used in the actuarial valuation for purposes of determining the actuarially determined contribution rates. The assumptions and methods used for this actuarial valuation were recommended by Public Employees Retirement Association and adopted by the County Commissioners.

For more information, refer to Exhibits A-7 through A-12 of this section and the Notes to the Financial Statements.

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SUPPLEMENTARY INFORMATION

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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.

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HUBBARD COUNTY
PARK RAPIDS, MINNESOTA

EXHIBIT B-1

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2015

	Solid Waste Special Revenue Fund	Building Bonds Debt Service Fund	Environmental Trust Permanent Fund	Total
Assets				
Cash and cash equivalents	$ 1,983,304	$ 1,132,574	$ -	$ 3,115,878
Taxes receivable - delinquent	-	34,995	-	34,995
Special assessments receivable - delinquent	171,997	-	-	171,997
Accounts receivable	48,350	-	-	48,350
Accrued interest receivable	-	-	3,514	3,514
Due from other governments	120	-	-	120
Permanent fund principal	-	-	477,525	477,525
Total Assets	**$ 2,203,771**	**$ 1,167,569**	**$ 481,039**	**$ 3,852,379**
Liabilities, Deferred Inflows of Resources, and Fund Balances				
Liabilities				
Accounts payable	$ 173,275	$ -	$ -	$ 173,275
Salaries payable	15,934	-	-	15,934
Due to other funds	8,398	-	-	8,398
Due to other governments	8,821	-	-	8,821
Total Liabilities	**$ 206,428**	**$ -**	**$ -**	**$ 206,428**
Deferred Inflows of Resources				
Unavailable revenue - taxes	$ -	$ 34,995	$ -	$ 34,995
Unavailable revenue - special assessments	171,997	-	-	171,997
Total Deferred Inflows of Resources	**$ 171,997**	**$ 34,995**	**$ -**	**$ 206,992**
Fund Balances				
Nonspendable	$ -	$ -	$ 467,280	$ 467,280
Restricted	324,760	1,132,574	13,759	1,471,093
Assigned	1,500,586	-	-	1,500,586
Total Fund Balances	**$ 1,825,346**	**$ 1,132,574**	**$ 481,039**	**$ 3,438,959**
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	**$ 2,203,771**	**$ 1,167,569**	**$ 481,039**	**$ 3,852,379**

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, 2015

	Solid Waste Special Revenue Fund	Building Bonds Debt Service Fund	Environmental Trust Permanent Fund	Total
Revenues				
Taxes	$ -	$ 893,816	$ -	$ 893,816
Special assessments	2,767,024	-	-	2,767,024
Licenses and permits	475	-	-	475
Intergovernmental	70,516	8,078	-	78,594
Charges for services	278,510	-	-	278,510
Investment earnings	-	2,260	1,182	3,442
Miscellaneous	9,732	-	33,854	43,586
Total Revenues	**$ 3,126,257**	**$ 904,154**	**$ 35,036**	**$ 4,065,447**
Expenditures				
Current				
Sanitation	$ 2,572,830	$ -	$ -	$ 2,572,830
Conservation of natural resources	-	-	33,492	33,492
Capital outlay				
Sanitation	113,562	-	-	113,562
Debt service				
Principal retirement	-	650,000	-	650,000
Interest	-	194,412	-	194,412
Total Expenditures	**$ 2,686,392**	**$ 844,412**	**$ 33,492**	**$ 3,564,296**
Excess of Revenues Over (Under) Expenditures	**$ 439,865**	**$ 59,742**	**$ 1,544**	**$ 501,151**
Other Financing Sources (Uses)				
Transfers in	13,750	-	-	13,750
Net Change in Fund Balance	**$ 453,615**	**$ 59,742**	**$ 1,544**	**$ 514,901**
Fund Balance - January 1	**1,371,731**	**1,072,832**	**479,495**	**2,924,058**
Fund Balance - December 31	**$ 1,825,346**	**$ 1,132,574**	**$ 481,039**	**$ 3,438,959**

HUBBARD COUNTY
PARK RAPIDS, MINNESOTA

EXHIBIT B-3

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

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Special assessments	$ 3,000,000	$ 3,000,000	$ 2,767,024	$ (232,976)
Licenses and permits	400	400	475	75
Intergovernmental	71,655	71,655	70,516	(1,139)
Charges for services	115,000	115,000	278,510	163,510
Miscellaneous	1,000	1,000	9,732	8,732
Total Revenues	**$ 3,188,055**	**$ 3,188,055**	**$ 3,126,257**	**$ (61,798)**
Expenditures				
Current				
Sanitation				
Solid waste	$ 1,921,624	$ 1,921,624	$ 1,737,123	$ 184,501
Recycling	1,022,729	1,022,729	808,464	214,265
Demolition landfill	20,000	20,000	27,243	(7,243)
Total sanitation	**$ 2,964,353**	**$ 2,964,353**	**$ 2,572,830**	**$ 391,523**
Capital outlay				
Sanitation	240,000	240,000	113,562	126,438
Total Expenditures	**$ 3,204,353**	**$ 3,204,353**	**$ 2,686,392**	**$ 517,961**
Excess of Revenues Over (Under) Expenditures	**$ (16,298)**	**$ (16,298)**	**$ 439,865**	**$ 456,163**
Other Financing Sources (Uses)				
Transfers in	17,914	17,914	13,750	(4,164)
Net Change in Fund Balance	**$ 1,616**	**$ 1,616**	**$ 453,615**	**$ 451,999**
Fund Balance - January 1	**1,371,731**	**1,371,731**	**1,371,731**	**-**
Fund Balance - December 31	**$ 1,373,347**	**$ 1,373,347**	**$ 1,825,346**	**$ 451,999**

HUBBARD COUNTY
PARK RAPIDS, MINNESOTA

EXHIBIT B-4

BUDGETARY COMPARISON SCHEDULE
ENVIRONMENTAL TRUST PERMANENT FUND
FOR THE YEAR ENDED DECEMBER 31, 2015

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Investment earnings	$ 4,000	$ 4,000	$ 1,182	$ (2,818)
Miscellaneous	20,000	20,000	33,854	13,854
Total Revenues	**$ 24,000**	**$ 24,000**	**$ 35,036**	**$ 11,036**
Expenditures				
Current				
Conservation of natural resources				
Natural resources	27,380	27,380	33,492	(6,112)
Net Change in Fund Balance	**$ (3,380)**	**$ (3,380)**	**$ 1,544**	**$ 4,924**
Fund Balance - January 1	**479,495**	**479,495**	**479,495**	**-**
Fund Balance - December 31	**$ 476,115**	**$ 476,115**	**$ 481,039**	**$ 4,924**

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.

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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, 2015

	Balance January 1	Additions	Deductions	Balance December 31
HUBBARD COUNTY FAMIILY SERVICES COLLABORATIVE				
Assets				
Cash and cash equivalents	$ 9,669	$ 52,333	$ 52,448	$ 9,554
Liabilities				
Due to other governments	$ 9,669	$ 52,333	$ 52,448	$ 9,554
STATE REVENUE				
Assets				
Cash and cash equivalents	$ 78,537	$ 815,227	$ 833,764	$ 60,000
Liabilities				
Due to other governments	$ 78,537	$ 815,227	$ 833,764	$ 60,000
TAX COLLECTION				
Assets				
Cash and cash equivalents	$ 931,082	$ 37,557,665	$ 38,094,986	$ 393,761
Liabilities				
Due to other governments	$ 931,082	$ 37,557,665	$ 38,094,986	$ 393,761

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, 2015

	Balance January 1	Additions	Deductions	Balance December 31
TOTAL ALL AGENCY FUNDS				
Assets				
Cash and cash equivalents	**$ 1,019,288**	**$ 38,425,225**	**$ 38,981,198**	**$ 463,315**
Liabilities				
Due to other governments	**$ 1,019,288**	**$ 38,425,225**	**$ 38,981,198**	**$ 463,315**

SCHEDULES

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HUBBARD COUNTY
PARK RAPIDS, MINNESOTA

EXHIBIT D-1

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

	Total Governmental Funds
Appropriations and Shared Revenue	
State	
Highway users tax	$ 4,418,407
County program aid	703,955
Market value credit	115,402
PERA rate reimbursement	32,566
Police aid	149,543
Aquatic invasive species	249,245
Enhanced-911	94,633
Total appropriations and shared revenue	**$ 5,763,751**
Reimbursement for Services	
State	
Minnesota Department of Human Services	**$ 902,573**
Payments	
Local	
Local contributions	$ 17,029
Payments in lieu of taxes	986,293
Total payments	**$ 1,003,322**
Grants	
State	
Minnesota Department/Board of	
Corrections	$ 180,878
Public Safety	42,000
Transportation	315,951
Natural Resources	181,271
Human Services	1,513,048
Water and Soil Resources	92,587
Veterans Affairs	10,000
Peace Officer Standards and Training Board	8,329
Pollution Control Agency	69,692
Total state	**$ 2,413,756**

HUBBARD COUNTY
PARK RAPIDS, MINNESOTA

EXHIBIT D-1
(Continued)

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

	Total Governmental Funds
Grants (Continued)	
Federal	
Department of	
Agriculture	$ 197,749
Transportation	772,141
Health and Human Services	1,517,935
Homeland Security	60,907
Total federal	**$ 2,548,732**
Total state and federal grants	**$ 4,962,488**
Total Intergovernmental Revenue	**$ 12,632,134**

This schedule does not include the intergovernmental revenue detail for the Heritage Community Enterprise Fund.

HUBBARD COUNTY
PARK RAPIDS, MINNESOTA

EXHIBIT D-2

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

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	15152MN10152514	**$ 197,749**
U.S. Department of Transportation			
Passed Through Minnesota Department of Transportation			
Highway Planning and Construction Cluster			
Highway Planning and Construction	20.205	00029	$ 636,334
Formula Grants for Rural Areas	20.509	Not Provided	108,047
Passed Through Minnesota Department of Public Safety			
Highway Safety Cluster			
State and Community Highway Safety	20.600	F-ENFRC15-2015-HUBBARCO-0873	395
State and Community Highway Safety	20.600	F-ENFRC15-2015-HUBBARCO-1322	3,726
(Total State and Community Highway Safety 20.600 $4,121)			
National Priority Safety Programs	20.616	F-ENFRC15-2015-HUBBARCO-0873	3,683
National Priority Safety Programs	20.616	F-ENFRC15-2015-HUBBARCO-1104	6,825
(Total National Priority Safety Programs 20.616 $10,508)			
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	F-ENFRC15-2015-HUBBARCO-0873	5,697
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	F-ENFRC15-2015-HUBBARCO-1104	1,359
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	F-ENFRC15-2015-HUBBARCO-1322	6,075
(Total Minimum Penalties for Repeat Offenders for Driving While Intoxicated 20.608 $13,131)			
Total U.S. Department of Transportation			**$ 772,141**
U.S. Department of Health and Human Services			
Passed Through Minnesota Department of Human Services			
Promoting Safe and Stable Families	93.556	1401MNFPSS	$ 10,677
TANF Cluster			
Temporary Assistance for Needy Families	93.558	1502MNTANF	155,012
Child Support Enforcement	93.563	1504MN4005	309,004
Refugee and Entrant Assistance - State-Administered Programs	93.566	1501MNRCMA	332
CCDF Cluster			
Child Care and Development Block Grant	93.575	G1501MNCCDF	14,314
Community-Based Child Abuse Prevention Grants	93.590	1302MNFRPG	16,190
Stephanie Tubbs Jones Child Welfare Services Program	93.645	1401MNCWSS	7,038
Foster Care - Title IV-E	93.658	1501MNFOST	230,628
Social Services Block Grant	93.667	1501MNSOSR	125,246
Chafee Foster Care Independence Program	93.674	1401MN1420	4,695
Children's Health Insurance Program	93.767	1405MN5021	90
Medicaid Cluster			
Medical Assistance Program	93.778	1505MN5ADM	643,469
Block Grants for Prevention and Treatment of Substance Abuse	93.959	14B1MNSAPT	1,240
Total U.S. Department of Health and Human Services			**$ 1,517,935**

The notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

EXHIBIT D-2
(Continued)

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

Federal Grantor Pass-Through Agency Program or Cluster Title	Federal CFDA Number	Pass-Through Grant Numbers	Expenditures
U.S. Department of Homeland Security			
Passed Through Minnesota Department of Natural Resources			
Boating Safety Financial Assistance	97.012	Not provided	$ 49,627
Passed Through Minnesota Department of Public Safety			
Emergency Management Performance Grants	97.042	A-EMPG-2015-HUBBARCO-0030	11,280
Total U.S. Department of Homeland Security			**$ 60,907**
Total Federal Awards			**$ 2,548,732**

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

Totals by Cluster	
Total expenditures for SNAP Cluster	$ 197,749
Total expenditures for Highway Planning and Construction Cluster	636,334
Total expenditures for Highway Safety Cluster	14,629
Total expenditures for TANF Cluster	155,012
Total expenditures for CCDF Cluster	14,314
Total expenditures for Medicaid Cluster	643,469

HUBBARD COUNTY
PARK RAPIDS, MINNESOTA

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

I. 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 I to the financial statements.

II. 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, 2015. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of Hubbard County, it is not intended to and does not present the financial position, changes in net position, or cash flows of Hubbard County.

III. 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.

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Management and Compliance Section

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

Independent Auditor's Report

Board of County Commissioners
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, 2015, including the Heritage Community and Heritage Center Project Enterprise Funds as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated May 23, 2018. Our report includes a reference to other auditors who audited the financial statements of 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.

An Equal Opportunity Employer

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

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2015-001 and 2015-002 to be material weaknesses and items 1996-002, 2007-001, 2007-003, and 2015-003 through 2015-005 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 items 2015-011 and 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/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

May 23, 2018

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

Independent Auditor's Report

Board of County Commissioners
Hubbard County
Park Rapids, Minnesota

Report on Compliance for the 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 the County's major federal program for the year ended December 31, 2015. Hubbard County's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

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

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

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

Basis for Qualified Opinion on Medicaid Cluster (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. 93.778 Medicaid Cluster as described in finding number 2015-006 for Uniform Guidance Written Procurement Policies and Procedures; finding number 2015-007 for Eligibility; finding number 2015-009 for Identification of Federal Awards; and finding number 2015-010 for Procurement, Suspension, and Debarrment. Compliance with such requirements is necessary, in our opinion, for the County to comply with the requirements applicable to that program.

Qualified Opinion on Medicaid Cluster (CFDA No. 93.778)

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion 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 Medicaid Cluster for the year ended December 31, 2015.

Other Matters

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 2015-008. Our opinion on the 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. Hubbard 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 the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph 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. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2015-006, 2015-007, 2015-009, and 2015-010 to be material weaknesses.

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. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2015-008 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. Hubbard County's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Purpose of This Report

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

May 23, 2018

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HUBBARD COUNTY
PARK RAPIDS, MINNESOTA

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

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Internal control over financial reporting:
- Material weaknesses identified? **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 the major federal program: **Qualified**

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

The major federal program is:

Medicaid Cluster CFDA No. 93.778

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

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

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

INTERNAL CONTROL

PREVIOUSLY REPORTED 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.

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.

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 2007-003

Cash Reconciliation

Criteria: Reconciliations are control activities that involve the comparison of records or balances from different sources. Effective reconciliations properly account for any differences between the records or balances. This includes investigating why the differences exist and resolving them in a timely manner. Documentation resolving any differences should be retained.

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. At December 31, 2015, the difference was $36,109. Of this amount, $21,682 was subsequently identified as cash collections and miscellaneous corrections that were not recorded in the general ledger during the year. The cause of the remaining difference was not identified.

Context: Resolving differences identified in the reconciliation process helps ensure the cash records are complete and accurate.

Effect: There is an increased risk that errors or irregularities will not be detected and corrected in a timely manner when differences identified during the reconciliation process are not resolved.

Cause: County staff indicated that, although they were aware of the difference between the general ledger and the Treasurer's cash balance, staff did not have adequate time to devote to resolving the issue.

Recommendation: We recommend that differences between the general ledger cash balance and the Treasurer's cash balance be investigated and appropriately corrected in a timely manner.

View of Responsible Official: Acknowledged

ITEMS ARISING THIS YEAR

Finding Number 2015-001

Prior Period Adjustments

Criteria: A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements of the financial statements on a timely basis. Auditing standards identify one indication of a material weakness in internal control is the restatement of previously issued financial statements to reflect the correction of a material misstatement due to error.

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

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

Effect: Prior period adjustments were needed to restate January 1, 2015, net position/fund balance as follows:

- Net position of the governmental activities and fund balance in the General Fund were decreased by $1,000,000 as a result of not recording the transfer to the Heritage Center Project Enterprise Fund in the prior year.

- Net position of the governmental activities and fund balance in the Social Services Special Revenue Fund were increased by $238,775 as a result of human services expenditures being recorded twice in the prior year.

- Net position of the governmental activities and fund balance in the Forfeited Tax Sale Special Revenue Fund were decreased by $133,991 for 2015 land and timber sales revenue that was recorded in the prior year.

Cause: Transfers, expenditures, and revenue, were reported incorrectly in the County's 2014 financial statements.

Recommendation: We recommend County staff improve their 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 fairly present the County's financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP).

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. The County provided its originally prepared 2015 financial report as the County's official record, along with its general ledger and other supporting schedules used in the preparation of that report.

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 needed to be recorded for December 31, 2015:

- An adjustment of $415,188 was required in the Road and Bridge Special Revenue Fund to reduce the liability and increase deferred inflows of resources for activity relating to the advance of highway allotments.

- The Forfeited Tax Sale Special Revenue Fund required an adjustment of $560,603 to reduce land and timber sales revenue and forfeited land expenditures for activity that was due to other taxing districts.

- An adjustment of $472,664 was required in the Forfeited Tax Sale Special Revenue Fund to decrease deferred inflows of resources and increase payables for the portion of contracts receivable that belong to other taxing districts.

- The Heritage Center Project Enterprise Fund receivable and interest expense were reduced by $113,873 for activity that should not be accounted for in the fund.

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, 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.

Context: The General Fund, special revenue funds, and permanent fund included commitments of $4,579,676, $5,592,194, and $1,997, 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, and survey remonumentation. The amount of solid waste operations that should have been restricted in the Solid Waste Special Revenue Fund was $324,760. The $467,280 endowment in the Environmental Trust Permanent Fund should have been reported as nonspendable fund balance.

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

Finding Number 2015-004

Journal Entry Approval

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

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

Context: Support is submitted for journal entries.

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

Cause: The County has no requirement or formal process to document review and approval of Social Service Department journal entries.

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

View of Responsible Official: Acknowledged

Finding Number 2015-005

Financial Statement Disclosures

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

Condition: The following presentations and disclosures in the originally prepared 2015 financial report provided by the County for this audit were not reported correctly:

- The Family Services Collaborative Investment Trust Fund does not meet the requirements of an investment trust fund since there is no formal agreement to provide interest. It should be included with the Hubbard County Family Services Collaborative Agency Fund. The County chose to not make this correction.

- Infrastructure additions and deletions were overstated by $810,647.

- The useful lives of capital assets as reported did not reflect the County's policy.

- Termination benefits, which qualify as part of other post-employment benefits (OPEB), were not provided to the actuary when determining the net OPEB obligation and were reported separately in the financial report instead of as part of OPEB.

- Intergovernmental revenue was not properly reported in the schedule of intergovernmental revenue. Reimbursements for services were understated by $63,407; state grants were understated by $687,225; and federal grants were overstated by $750,632.

- The County retained one CPA firm to audit the Heritage Community Enterprise Fund and another firm to audit the rest of the County. The opinion reported in the separate audit of Heritage Community was on one opinion unit. However, when included in the overall County report, it was originally presented as three opinion units, creating unaudited information in the financial report. That presentation would have required that additional audit work be performed for which the County had not retained services.

Context: The financial report provided by the County for this audit was originally prepared/audited by another auditor.

Effect: The indicated presentations and disclosures in the previously issued financial report for the year ended December 31, 2015, are not in compliance with GAAP.

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

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

View of Responsible Official: Acknowledged

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

ITEMS ARISING THIS YEAR

Finding Number 2015-006

Uniform Guidance Written Procurement Policies and Procedures

Program: U.S. Department of Health and Human Services' Medicaid Cluster (CFDA No. 93.778), Award No. 1505MN5ADM, 2015

Pass-Through Agency: Minnesota Department of Human Services

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 to 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 program; 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

Finding Number 2015-007

Eligibility

Program: U.S. Department of Health and Human Services' Medicaid Cluster (CFDA No. 93.778), Award No. 1505MN5ADM, 2015

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 9 case files, the asset 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.

The sample size was based on guidance from chapter 11 of the 2017 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 2015-008

Reporting

Program: U.S. Department of Health and Human Services' Medicaid Cluster (CFDA No. 93.778), Award No. 1505MN5ADM, 2015

Pass-Through Agency: Minnesota Department of Human Services

Criteria: The Income Maintenance Quarterly Expense Reports (DHS-2550) should be completed in accordance with the report instructions issued by the Minnesota Department of Human Services.

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.

During 2015, $16,607 of the Transit Department's costs were allocated to the County income maintenance department and reported as direct charges for the MA Program on the DHS-2550 reports. Based on the DHS Income Maintenance Agency Quarterly Claim and Payment Report, the federal funds participation rate for these would be 50 percent, resulting in excess MA funds of $8,304.

Questioned Costs: Not applicable.

Context: Human service agencies are required to submit the quarterly DHS-2550 reports to DHS to calculate federal administrative reimbursements. DHS uses the submitted DHS-2550 in conjunction with the Income Maintenance Random Moment Study (IMRMS) 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 2017 AICPA Audit Guide, *Government Auditing Standards and Single Audits.*

Effect: Errors on the DHS-2550 reports can result in the County receiving either more or less federal funding than can be justified based on the actual underlying activity.

Cause: The County was not aware that these costs were being reported incorrectly.

Recommendation: We recommend that the quarterly DHS-2550 be completed in accordance the DHS guidance. Because the report instructions do not specifically address these types of costs, we recommend the County consult with DHS to ensure that any method used to report these types of costs is appropriate.

View of Responsible Official: Acknowledged

Finding Number 2015-009

Identification of Federal Awards

Program: U.S. Department of Health and Human Services' Medicaid Cluster (CFDA No. 93.778), Award No. 1505MN5ADM, 2015

Pass-Through Agency: Minnesota Department of Human Services

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

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

Questioned Costs: Not applicable.

Context: The County provided a SEFA for 2015 that reported total federal expenditures for the Medical Assistance Program of $1,274,651. After audit adjustments, the program expenditures were $643,469, a decrease of $631,182.

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

Cause: The County included activity that was reimbursement for services according to Minnesota Department of Human Services' guidance.

Recommendation: We recommend the County 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.

View of Responsible Official: Acknowledged

Finding Number 2015-010

Procurement, Suspension, and Debarment

Program: U.S. Department of Health and Human Services' Medicaid Cluster (CFDA No. 93.778), Award No. 1505MN5ADM, 2015

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 over full and open competition as provided in Title 2 U.S. *Code of Federal Regulations* § 200.319; verifying debarment, suspension, and exclusions as provided in Title 2 U.S. *Code of Federal Regulations* §§ 180.300, 200.213, 200.318(h); and procurement by micro-purchases as provided in Title 2 U.S. *Code of Federal Regulations* § 200.320(a).

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 equitability distribute the purchase among qualified suppliers.

Questioned Costs: None

Context: Six of 36 procurement transactions over $3,000 were tested for compliance with federal regulations, including 2 of the 7 purchases over $25,000. Twelve out of 106 micro purchases were tested for compliance with federal regulations.

The sample size was based on guidance from chapter 11 of the 2017 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, and full and open competition in accordance with federal regulations. The County should verify vendors are not debarred or suspended or that other exclusions apply. We also recommend the County distribute its micro-purchases amongst qualified suppliers to the extent practical.

View of Responsible Official: Acknowledged

IV. OTHER FINDINGS AND RECOMMENDATIONS

MINNESOTA LEGAL COMPLIANCE

ITEMS ARISING THIS YEAR

Finding Number 2015-011

Contract Compliance

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

Condition: The County was not in compliance with Minn. Stat. § 471.345, subd. 4, which states, "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.

Context: Five of 16 purchases between $25,000 and $100,000 subject to contracting laws were tested for compliance.

Effect: Noncompliance with Minn. Stat. § 471.345.

Cause: For the purchase by the Recorder's Office, the County indicated that the choice was made not to seek additional quotes after consideration of previous experience with the selected vendor, the additional costs that would have been incurred obtaining additional quotes, and time constraints on the availability of the equipment being purchased. For the Natural Resource Management Department purchase, the County indicated that an attempt was made to get a second quote from another vendor; however, this was not documented.

Recommendation: We recommend the County ensure that all employees and officials involved with contracting for the County are aware of and follow applicable legal requirements. Documentation should be maintained in situations when it is not possible to obtain two or more quotes.

View of Responsible Official: Acknowledged

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

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REPRESENTATION OF HUBBARD COUNTY
PARK RAPIDS, MINNESOTA

CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED DECEMBER 31, 2015

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: 2007-003
Finding Title: Cash Reconciliation

Name of Contact Person Responsible for Corrective Action:

Kay Rave, Hubbard County Auditor/Treasurer

Corrective Action Planned:

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.

Bank reconciliations are completed every month with differences researched and reconciled in a timely manner.

Anticipated Completion Date:

Completed in 2016.

Finding Number: 2015-001
Finding Title: Prior Period Adjustments

Name of Contact Person Responsible for Corrective Action:

Kay Rave, Hubbard County Auditor/Treasurer

Corrective Action Planned:

The 2016 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.

Anticipated Completion Date:

2018

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: 2015-004
Finding Title: Journal Entry Approval

Name of Contact Person Responsible for Corrective Action:

Deb Vizecky, Social Service Director

Corrective Action Planned:

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.

Anticipated Completion Date:

2018

Finding Number: 2015-005
Finding Title: Financial Statement Disclosures

Name of Contact Person Responsible for Corrective Action:

Kay Rave, Hubbard County Auditor/Treasurer

Corrective Action Planned:

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.

The Hubbard County Engineer will review the Infrastructure Policy as it pertains to roads with appropriate officials and will revise if necessary.

Anticipated Completion Date:

2018

Finding Number: 2015-006
Finding Title: Uniform Guidance Written Procurement Policies and Procedures
Program: Medicaid Cluster (CFDA No. 93.778)

Name of Contact Person Responsible for Corrective Action:

Kay Rave, Hubbard County Auditor/Treasurer 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:

2018

Finding Number: 2015-007
Finding Title: Eligibility
Program: Medicaid Cluster (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. In addition, consideration will be given to providing additional training to program personnel.

Anticipated Completion Date:

2018

Finding Number: 2015-008
Finding Title: Reporting
Program: Medicaid Cluster (CFDA No. 93.778)

Name of Contact Person Responsible for Corrective Action:

Deb Vizecky, Social Services Director

Corrective Action Planned:

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.

Anticipated Completion Date:

2018

Finding Number: 2015-009
Finding Title: Identification of Federal Awards
Program: Medicaid Cluster (CFDA No. 93.778)

Name of Contact Person Responsible for Corrective Action:

Deb Vizecky, Social Services Director

Corrective Action Planned:

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.

Anticipated Completion Date:

2018

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

Name of Contact Person Responsible for Corrective Action:

Deb Vizecky, Social Services Director

Corrective Action Planned:

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.

Anticipated Completion Date:

2018

Finding Number: 2015-011
Finding Title: Contract Compliance

Name of Contact Person Responsible for Corrective Action:

Kay Rave, Hubbard County Auditor/Treasurer

Corrective Action Planned:

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 Counties Procurement Policy adopted in 2017 and revised in 2018. Documentation will be maintained when it is not possible to obtain two or more quotes.

Anticipated Completion Date:

2018

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

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Hubbard County

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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, 2015

Finding Number: 1996-002
Finding Title: Segregation of Duties

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

Summary of Corrective Action Previously Reported: Although there is a limited number of staff in most offices, Hubbard County attempts to maintain segregation of duties by delegating accounting duties to various employees as much as possible. The County will continue to work to comply with the internal control policies to ensure accounting control.

Status: Not Corrected. Funding is not available to hire additional employees.
Was corrective action taken significantly different than the action previously reported?
Yes _____ No X

Finding Number: 2007-001
Finding Title: Internal Controls

Summary of Condition: Management must implement internal controls over financial reporting and safeguarding of assets, and continue to be aware of their responsibility and to maintain suitable skills, knowledge, and expertise to sufficiently review, understand, and approve the County's financial statements, including notes.

Summary of Corrective Action Previously Reported: Hubbard County has an asset program which monitors and tracks all assets in the County. We work closely with all departments in maintaining the system. All equipment and related items are tagged and all assets over $5,000 are tracked and monitored annually.

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: Audit Adjustments

Summary of Condition: Adjustments to the general ledger were necessary to balance with the actual amount of pooled cash on hand.

Summary of Corrective Action Previously Reported: County Auditor/Treasurer staff has spent as much time as possible in solving the differences in the cash balance and general ledger balances. There have been several items which have been discovered to be causing the differences. The most prominent discovery has been that the reporting being used did not include all the accounts that were necessary to balance. This is an ongoing project that we feel will be concluded in the near future. We have reviewed our processes in detail and can find no problems with the procedures being used.

Status: Not Corrected. In 2016 the County adjusted for the difference in the cash balance and general ledger balances.

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