STATE OF MINNESOTA

Office of the State Auditor

Julie Blaha
State Auditor

HUBBARD COUNTY
PARK RAPIDS, MINNESOTA

YEAR ENDED DECEMBER 31, 2017

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

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

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HUBBARD COUNTY
PARK RAPIDS, MINNESOTA

Year Ended December 31, 2017

Audit Practice Division
Office of the State Auditor
State of Minnesota

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HUBBARD COUNTY
PARK RAPIDS, MINNESOTA

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PARK RAPIDS, MINNESOTA

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PARK RAPIDS, MINNESOTA

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Introductory Section

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HUBBARD COUNTY
PARK RAPIDS, MINNESOTA

ORGANIZATION
DECEMBER 31, 2017

Office	Name	Term Expires
Commissioners		
1st District	Vern Massie	January 2019
2nd District	Charlene Christenson	January 2021
3rd District	Ed Smith	January 2019
4th District	Daniel Stacey	January 2021
5th District	Cal Johannsen	January 2019
Officers		
Elected		
Attorney	Jonathan Frieden	January 2019
Sheriff	Cory Aukes	January 2019
Appointed		
Assessor	Ginger Woodrum	Indefinite
Auditor/Treasurer	Kay Rave	Indefinite
Coordinator	Debbie Thompson	Indefinite
Highway Engineer	David Olsonawski	Indefinite
Land Commissioner	Mark Lohmeier	Indefinite
Recorder	Nicole Lueth	Indefinite
Social Services Director	Deb Vizecky	Indefinite
Solid Waste Administrator	Jed Nordin	Indefinite
Veteran Services Officer	Jerrold Bjerke	Indefinite

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Financial Section

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JULIE BLAHA
STATE AUDITOR

STATE OF MINNESOTA
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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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Hubbard County, Minnesota, as of and for the year ended December 31, 2017, including the Heritage Community Enterprise Fund as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Heritage Living Center, Manor, and Cottages, which statements reflect 26 percent and 98 percent, respectively, of the assets and revenues of both the Heritage Community Enterprise Fund, a major fund, and the business-type activities. Those statements were audited by other auditors, whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Heritage Living Center, Manor, and Cottages, is based solely on the report of the other auditors. We have applied audit procedures on the conversion adjustments to the financial statements of the Heritage Living Center, Manor, and Cottages, which conform those financial statements to accounting principles generally accepted in the United States of America. Our opinion, insofar as it relates to the amounts included for the Heritage Living Center, Manor, and Cottages, prior to these conversion adjustments, is based

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solely on the report of the other auditors. In addition, we did not audit the financial statements of the Hubbard County Housing and Redevelopment Authority (HRA), which represents the amounts shown as the discretely presented component unit. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Hubbard County HRA, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, based on our audit and the reports 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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Hubbard County as of December 31, 2017, including the Heritage Community Enterprise Fund as of September 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Required Supplementary Information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with

auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 June 11, 2019, on our consideration of Hubbard County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Hubbard County's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Hubbard County's internal control over financial reporting and compliance. It does not include the Heritage Community, which was audited by other auditors.

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

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

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

/s/Julie Blaha

JULIE BLAHA
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

June 11, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

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Hubbard County

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MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017
(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, 2017. The Management's Discussion and Analysis provides comparisons with the previous year and is designed to focus on the current year's activities, resulting changes, and currently known facts, and should be read in conjunction with the County's basic financial statements and the notes to the financial statements that follow this section.

FINANCIAL HIGHLIGHTS

The total net position of governmental activities is $85,753,098, of which $71,095,650 is the net investment in capital assets, $7,122,099 is restricted for specific purposes, and $7,535,349 is unrestricted. The total net position of governmental activities increased by $3,827,119 for the year ended December 31, 2017.

The total net position of business-type activities is ($485,256), of which ($168,968) is the net investment in capital assets, $2,127,004 is restricted for specific purposes, and ($2,443,292) is unrestricted. The total net position of business-type activities decreased by $407,223 for the year ended September 30, 2017.

At the close of 2017, the County's governmental funds reported combined ending fund balances of $24,559,985, an increase of $304,305 from the prior year. Of the total fund balance amount, $844,439 is nonspendable, $6,182,757 is legally or contractually restricted, $4,384,410 is committed, $12,433,017 is assigned for specific purposes, and $715,362 is noted as unassigned fund balance. Maintaining an adequate fund balance is necessary to provide County services throughout the year.

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Chairman
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OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

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

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

In the *Statement of Net Position* and the *Statement of Activities*, we divide the County into three 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, and Heritage Cottages.

- Component units – The County includes a separate legal entity in its report. The Hubbard County Housing and Redevelopment Authority (HRA) is reported in a separate column. Although legally separate, this "component unit" is important because the County appoints a voting majority of the HRA Board, and the County can impose its will on the HRA.

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

Fund Financial Statements

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

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

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

The County reports four governmental fund types: General, Special Revenue, Debt Service, and Permanent. Information is presented separately in the Governmental Funds Balance Sheet and in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance for the General Fund, the Road and Bridge Special Revenue Fund, the Social Services Special Revenue Fund, and the Forfeited Tax Sale Special Revenue Fund, all of which are considered to be major funds. Data from the Solid Waste Special Revenue Fund, the Building Bonds Debt Service Fund, and the Environmental Trust Permanent Fund are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in combining statements after the notes to the financial statements.

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

Proprietary Funds: Hubbard County maintains one enterprise fund. The Heritage Community Enterprise Fund accounts for the combined activities of the County's Heritage Living Center, Heritage Manor, and Heritage Cottages facilities, which provide long-term health care, adult day care, memory care, and assisted living senior housing services for the elderly. Financing is provided by user service charges. Proprietary funds provide the same type of information as the government-wide financial statements and are included in the Statement of Net Position and the Statement of Activities as business-type activities.

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

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found beginning on page 31 of this report.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Over time, net position serves as a useful indicator of the County's financial position. The County's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $85,267,842 at the close of 2017. The largest portion of the County's net position (approximately 83 percent) reflects its net investment in capital assets (i.e., land, permanent right-of-way, construction in progress, infrastructure, buildings and improvements, land improvements, and machinery and equipment). It should be noted that this amount is not available for future spending. Approximately 11 percent of the County's net position is restricted and 6 percent of the County's net position is unrestricted. The unrestricted net position amount of $5,092,057 as of December 31, 2017, may be used to meet the County's ongoing obligations to citizens.

The County's overall financial position increased from last year. Total assets and deferred outflows of resources decreased by $960,252 from the prior year, and total liabilities and deferred inflows of resources decreased by $4,380,148 from the prior year, primarily due to decreased deferred outflows and increased deferred inflows of resources related to pensions and a decreased net pension liability in the current year. This resulted in an increased net position of $3,419,896 from the prior year.

Net Position

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
Assets						
Current and other assets	$ 29,690,060	$ 29,355,685	$ 13,358,619	$ 13,429,647	$ 43,048,679	$ 42,785,332
Capital assets	78,796,328	74,964,188	2,782,723	3,038,624	81,579,051	78,002,812
Total Assets	$ 108,486,388	$ 104,319,873	$ 16,141,342	$ 16,468,271	$ 124,627,730	$ 120,788,144
Deferred outflows of resources	$ 5,778,820	$ 9,745,543	$ 672,778	$ 1,505,893	$ 6,451,598	$ 11,251,436
Liabilities						
Long-term liabilities	$ 20,578,469	$ 27,378,914	$ 16,188,003	$ 17,148,717	$ 36,766,472	$ 44,527,631
Other liabilities	2,654,708	3,125,693	575,487	486,878	3,230,195	3,612,571
Total Liabilities	$ 23,233,177	$ 30,504,607	$ 16,763,490	$ 17,635,595	$ 39,996,667	$ 48,140,202
Deferred inflows of resources	$ 5,278,933	$ 1,634,830	$ 535,886	$ 416,602	$ 5,814,819	$ 2,051,432
Net position						
Net investment in capital assets	$ 71,095,650	$ 66,398,075	$ (168,968)	$ (97,815)	$ 70,926,682	$ 66,300,260
Restricted	7,122,099	7,015,250	2,127,004	2,053,954	9,249,103	9,069,204
Unrestricted	7,535,349	8,512,654	(2,443,292)	(2,034,172)	5,092,057	6,478,482
Total Net Position	$ 85,753,098	$ 81,925,979	$ (485,256)	$ (78,033)	$ 85,267,842	$ 81,847,946

Changes in Net Position

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
Revenues						
Program revenues						
Fees, charges, fines, and other	$ 8,690,826	$ 8,344,636	$ 6,428,387	$ 6,160,397	$ 15,119,213	$ 14,505,033
Operating grants and contributions	10,442,063	10,445,386	6,599	25,800	10,448,662	10,471,186
Capital grants and contributions	1,102,255	520,005	-	-	1,102,255	520,005
General revenues						
Property taxes	14,049,932	13,533,862	-	-	14,049,932	13,533,862
Transportation sales tax	984,779	911,649	-	-	984,779	911,649
Mortgage registry and deed tax	26,933	22,082	-	-	26,933	22,082
Grants and contributions not restricted to specific programs	1,000,577	852,769	-	-	1,000,577	852,769
Payments in lieu of tax	807,317	987,493	-	-	807,317	987,493
Investment earnings	233,792	304,993	144,603	8,835	378,395	313,828
Miscellaneous	394,283	300,338	9,560	-	403,843	300,338
Total Revenues	$ 37,732,757	$ 36,223,213	$ 6,589,149	$ 6,195,032	$ 44,321,906	$ 42,418,245
Expenses						
General government	$ 4,970,976	$ 5,620,267	$ -	$ -	$ 4,970,976	$ 5,620,267
Public safety	7,457,387	7,656,195	-	-	7,457,387	7,656,195
Highways and streets	7,486,217	8,493,919	-	-	7,486,217	8,493,919
Sanitation	2,974,083	2,742,959	-	-	2,974,083	2,742,959
Human services	8,257,796	7,605,009	-	-	8,257,796	7,605,009
Health	27,930	-	-	-	27,930	-
Culture and recreation	501,446	488,976	-	-	501,446	488,976
Conservation of natural resources	1,870,557	1,934,915	-	-	1,870,557	1,934,915
Interest	159,246	180,781	-	-	159,246	180,781
Heritage Community	-	-	7,196,372	7,143,968	7,196,372	7,143,968
Total Expenses	$ 33,705,638	$ 34,723,021	$ 7,196,372	$ 7,143,968	$ 40,902,010	$ 41,866,989
Changes in Net Position Before Transfers	$ 4,027,119	$ 1,500,192	$ (607,223)	$ (948,936)	$ 3,419,896	$ 551,256
Transfers	(200,000)	(324,295)	200,000	(35,635)	-	(359,930)
Changes in Net Position	$ 3,827,119	$ 1,175,897	$ (407,223)	$ (984,571)	$ 3,419,896	$ 191,326
Net Position – January 1	81,925,979	80,750,082	(78,033)	906,538	81,847,946	81,656,620
Net Position – December 31	$ 85,753,098	$ 81,925,979	$ (485,256)	$ (78,033)	$ 85,267,842	$ 81,847,946

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 2017, the County's governmental funds reported combined ending fund balances of $24,559,985. Of this amount, approximately 3 percent constitutes nonspendable fund balance, 25 percent constitutes legally or contractually restricted fund balance, 18 percent constitutes committed fund balance, 51 percent constitutes specifically assigned fund balance, and 3 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 $6,734,288. The General Fund's restricted fund balance was $1,823,703, committed fund balance was $4,195,223, and unassigned fund balance was $715,362. 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 2017. Unrestricted fund balance represents 38 percent of total General Fund expenditures, while total fund balance represents 52 percent of that same amount.

In 2017, the fund balance amount in the General Fund increased by $14,193.

The fund balance of the Road and Bridge Special Revenue Fund decreased by $225,238 in 2017 due to the timing difference between when intergovernmental revenue is received versus when it is spent.

The fund balance of the Social Services Special Revenue Fund increased $494,398 from the prior year due to increased funding for income maintenance administration and social services.

The fund balance of the Forfeited Tax Sale Special Revenue Fund decreased $76,460. This decrease was the result of increased forfeiture expenditures.

Proprietary Fund

The Heritage Community Enterprise Fund operating loss in 2017 was $262,166.

Total resident services and ancillary revenues increased four percent, from $6,186,197 in fiscal year 2016 to $6,434,986 in fiscal year 2017. Total revenue increased six percent, from $6,195,032 in fiscal year 2016 to $6,589,149 in fiscal year 2017. The increased revenues were a result of increased capacity and an increase in investment earnings in 2017. Resident service expenses increased one percent, from $6,637,491 in 2016 to $6,697,152 in 2017.

GENERAL FUND BUDGETARY HIGHLIGHTS

Actual revenues were more than overall final budgeted revenues by $336,605, with the largest positive variances in intergovernmental, charges for services, and miscellaneous revenues. Actual expenditures were less than overall final budgeted expenditures by $131,730.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The County's investment in capital assets for its governmental activities as of December 31, 2017, and business-type activities as of September 30, 2017, amounted to $81,579,051 (net of accumulated depreciation). The total increase in the County's investment in capital assets for the current fiscal year was 4.6 percent.

Capital Assets (Net of Depreciation)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
Land	$ 862,945	$ 861,745	$ 117,299	$ 117,299	$ 980,244	$ 979,044
Permanent right-of-way	3,677,733	3,626,900	-	-	3,677,733	3,626,900
Construction in progress	4,460,216	2,008,235	-	-	4,460,216	2,008,235
Infrastructure	53,208,139	51,801,291	-	-	53,208,139	51,801,291
Buildings and improvements	13,476,782	14,124,371	2,461,034	2,665,867	15,937,816	16,790,238
Land improvements	138,870	154,629	20,229	23,143	159,099	177,772
Machinery and equipment	2,971,643	2,387,017	184,161	232,315	3,155,804	2,619,332
Total Capital Assets	$ 78,796,328	$ 74,964,188	$ 2,782,723	$ 3,038,624	$ 81,579,051	$ 78,002,812

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

Long-Term Debt

At the end of the current fiscal year, the County had total debt outstanding of $20,540,720, which is backed by the full faith and credit of the government.

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
G.O. Bonds, net of premium	$ 3,074,956	$ 3,262,810	$ 2,951,691	$ 3,136,439	$ 6,026,647	$ 6,399,249
G.O. Refunding Bonds, net of premium	4,445,036	4,940,040	-	-	4,445,036	4,940,040
G.O. Nursing Home Revenue Bonds, net of discount	-	-	10,021,037	10,015,402	10,021,037	10,015,402
MN Public Facilities Authority loan	48,000	240,000	-	-	48,000	240,000
Capital leases	-	71,484	-	-	-	71,484
Total Long-Term Debt	$ 7,567,992	$ 8,514,334	$ 12,972,728	$ 13,151,841	$ 20,540,720	$ 21,666,175

The County's net decrease in debt of $1,125,455 (5.2 percent) during the fiscal year was due to the payment of debt.

Minnesota statutes limit the amount of debt that a county may have to three percent of its total market value, excluding revenue bonds. At the end of 2017, overall debt of the County is below the three percent debt limit.

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

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The County depends on financial resources flowing from, or associated with, both the federal government and the State of Minnesota. Because of this dependency, the County is subject to changes in specific flows of intergovernmental revenues based on modifications to federal and state laws and federal and state appropriations. Revenue from intergovernmental sources, which includes federal and state revenues, totaled $13,871,848 in 2017. This amounts to 36.8 percent of the total governmental fund revenue received in 2017. This compares to intergovernmental revenues in 2016 of $12,213,343, or 34.1 percent of the total governmental fund revenue received.

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

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

The average 2017 unemployment rate for Hubbard County was 5.5 percent in 2017. This is higher than the statewide average rate of 3.4 percent and the national average rate of 4.4 percent.

Hubbard County's population at July 1, 2017, was 21,034, an increase of 606 since 2010 (the last statewide census).

On December 6, 2017, Hubbard County set its 2018 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, 2017
INCLUDING THE BUSINESS-TYPE INFORMATION
AS OF SEPTEMBER 30, 2017

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Hubbard County Housing and Redevelopment Authority
Assets				
Cash and pooled investments	$ 25,050,392	$ 2,559,393	$ 27,609,785	$ 360,317
Taxes receivable – delinquent	438,582	-	438,582	6,151
Accounts receivable – net	224,824	415,739	640,563	3,036
Accrued interest receivable	130,007	-	130,007	-
Contracts receivable	1,164,219	-	1,164,219	302,339
Due from other governments	1,822,435	-	1,822,435	-
Internal balances	-	(9,817)	(9,817)	-
Prepaid items	-	119,087	119,087	-
Inventories	377,159	-	377,159	-
Leveraged loan receivable	-	10,091,000	10,091,000	-
Restricted assets				
Cash and pooled investments				
Resident trust funds	-	3,860	3,860	-
Board-designated – bond fund	-	100,601	100,601	-
Board-designated – building fund	-	66,141	66,141	-
Tenant security deposits	-	12,615	12,615	9,303
Permanent fund principal	482,442	-	482,442	-
Capital assets				
Non-depreciable	9,000,894	117,299	9,118,193	219,940
Depreciable – net of accumulated depreciation	69,795,434	2,665,424	72,460,858	931,006
Total Assets	**$ 108,486,388**	**$ 16,141,342**	**$ 124,627,730**	**$ 1,832,092**
Deferred Outflows of Resources				
Deferred pension outflows	**$ 5,778,820**	**$ 672,778**	**$ 6,451,598**	**$ -**

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

EXHIBIT 1
(Continued)

STATEMENT OF NET POSITION
DECEMBER 31, 2017
INCLUDING THE BUSINESS-TYPE INFORMATION
AS OF SEPTEMBER 30, 2017

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Hubbard County Housing and Redevelopment Authority
Liabilities				
Accounts payable	$ 916,755	$ 287,902	$ 1,204,657	$ 30,788
Salaries payable	680,223	178,013	858,236	-
Due to related parties	-	87,088	87,088	-
Contracts payable	132,686	-	132,686	-
Due to other governments	857,592	-	857,592	-
Deposits	-	-	-	9,303
Accrued interest payable	67,452	6,317	73,769	-
Unearned revenue	-	-	-	5,965
Current liabilities payable from restricted assets	-	16,167	16,167	-
Long-term liabilities				
Due within one year	1,393,938	527,851	1,921,789	21,193
Due in more than one year	7,624,872	12,694,720	20,319,592	856,056
Net pension liability	10,895,351	2,866,386	13,761,737	-
Net other postemployment benefits obligation	664,308	99,046	763,354	-
Total Liabilities	**$ 23,233,177**	**$ 16,763,490**	**$ 39,996,667**	**$ 923,305**
Deferred Inflows of Resources				
Prepaid property taxes	$ 457,013	$ -	$ 457,013	$ -
Deferred pension inflows	4,821,920	535,886	5,357,806	-
Total Deferred Inflows of Resources	**$ 5,278,933**	**$ 535,886**	**$ 5,814,819**	**$ -**
Net Position				
Net investment in capital assets	$ 71,095,650	$ (168,968)	$ 70,926,682	$ 273,698
Restricted for				
General government	766,536	-	766,536	-
Public safety	241,967	-	241,967	-
Highways and streets	2,201,532	-	2,201,532	-
Sanitation	394,621	-	394,621	-
Culture and recreation	481,169	-	481,169	-
Conservation of natural resources	1,376,488	-	1,376,488	-
Capital projects	-	2,026,403	2,026,403	-
Debt service	1,192,506	100,601	1,293,107	-
Permanent fund principal	467,280	-	467,280	-
Unrestricted	7,535,349	(2,443,292)	5,092,057	635,089
Total Net Position	**$ 85,753,098**	**$ (485,256)**	**$ 85,267,842**	**$ 908,787**

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, 2017
INCLUDING THE BUSINESS-TYPE INFORMATION
FOR THE YEAR ENDED SEPTEMBER 30, 2017

Functions/Programs	Expenses	Program Revenues: Fees, Charges, Fines, and Other	Program Revenues: Operating Grants and Contributions
Primary government			
Governmental activities			
General government	$ 4,970,976	$ 790,247	$ 203,068
Public safety	7,457,387	996,978	397,538
Highways and streets	7,486,217	1,534,390	4,657,512
Sanitation	2,974,083	3,074,421	68,711
Human services	8,257,796	946,068	4,554,906
Health	27,930	-	-
Culture and recreation	501,446	10,068	140,323
Conservation of natural resources	1,870,557	1,338,654	420,005
Interest	159,246	-	-
Total governmental activities	**$ 33,705,638**	**$ 8,690,826**	**$ 10,442,063**
Business-type activities			
Heritage Community	7,196,372	6,428,387	6,599
Total Primary Government	**$ 40,902,010**	**$ 15,119,213**	**$ 10,448,662**
Component unit			
Hubbard County Housing and Redevelopment Authority	**$ 318,033**	**$ 81,455**	**$ 34,878**
General Revenues			
Property taxes			
Transportation sales tax			
Mortgage registry and deed tax			
Grants and contributions not restricted to specific programs			
Payments in lieu of tax			
Investment earnings			
Miscellaneous			
Transfers			
Total general revenues and transfers			
Change in net position			
Net Position – Beginning			
Net Position – Ending			

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

Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position Primary Government Governmental Activities	Business-Type Activities	Total	Component Unit Hubbard County Housing and Redevelopment Authority
$ -	$ (3,977,661)	$ -	$ (3,977,661)	
-	(6,062,871)	-	(6,062,871)	
1,102,255	(192,060)	-	(192,060)	
-	169,049	-	169,049	
-	(2,756,822)	-	(2,756,822)	
-	(27,930)	-	(27,930)	
-	(351,055)	-	(351,055)	
-	(111,898)	-	(111,898)	
-	(159,246)	-	(159,246)	
$ 1,102,255	**$ (13,470,494)**	**$ -**	**$ (13,470,494)**	
-	-	(761,386)	(761,386)	
$ 1,102,255	**$ (13,470,494)**	**$ (761,386)**	**$ (14,231,880)**	
$ -				**$ (201,700)**
	$ 14,049,932	$ -	$ 14,049,932	$ 227,083
	984,779	-	984,779	-
	26,933	-	26,933	-
	1,000,577	-	1,000,577	-
	807,317	-	807,317	-
	233,792	144,603	378,395	4,353
	394,283	9,560	403,843	-
	(200,000)	200,000	-	-
	$ 17,297,613	**$ 354,163**	**$ 17,651,776**	**$ 231,436**
	$ 3,827,119	**$ (407,223)**	**$ 3,419,896**	**$ 29,736**
	81,925,979	**(78,033)**	**81,847,946**	**879,051**
	$ 85,753,098	**$ (485,256)**	**$ 85,267,842**	**$ 908,787**

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

HUBBARD COUNTY
PARK RAPIDS, MINNESOTA

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2017

	General	Road and Bridge
Assets		
Cash and pooled investments	$ 7,151,143	$ 6,056,919
Taxes receivable – delinquent	210,839	99,032
Accounts receivable	4,979	21,202
Accrued interest receivable	130,007	-
Contracts receivable	-	-
Due from other funds	387,894	25,713
Due from other governments	388,455	908,545
Inventories	-	377,159
Permanent fund principal	-	-
Total Assets	**$ 8,273,317**	**$ 7,488,570**
Liabilities, Deferred Inflows of Resources, and Fund Balances		
Liabilities		
Accounts payable	$ 575,772	$ 81,001
Salaries payable	377,714	88,986
Contracts payable	-	132,686
Due to other funds	12,388	-
Due to other governments	62,624	11,128
Total Liabilities	**$ 1,028,498**	**$ 313,801**
Deferred Inflows of Resources		
Unavailable revenue – taxes	$ 160,382	$ 75,332
Unavailable revenue – charges for services	-	-
Unavailable revenue – County state-aid highway allotments	-	713,498
Unavailable revenue – land and timber sales	-	-
Unavailable revenue – interest	105,657	-
Unavailable revenue – grants	-	-
Prepaid property taxes	244,492	89,485
Total Deferred Inflows of Resources	**$ 510,531**	**$ 878,315**
Fund Balances		
Nonspendable	$ -	$ 377,159
Restricted	1,823,703	1,488,034
Committed	4,195,223	124,886
Assigned	-	4,306,375
Unassigned	715,362	-
Total Fund Balances	**$ 6,734,288**	**$ 6,296,454**
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	**$ 8,273,317**	**$ 7,488,570**

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

Social Services	Forfeited Tax Sale	Nonmajor Governmental Funds	Total Governmental Funds
$ 5,738,574	$ 2,381,390	$ 3,722,366	$ 25,050,392
100,138	-	28,573	438,582
726	3,542	194,375	224,824
-	-	-	130,007
-	1,164,219	-	1,164,219
-	-	-	413,607
525,250	-	185	1,822,435
-	-	-	377,159
-	-	482,442	482,442
$ 6,364,688	**$ 3,549,151**	**$ 4,427,941**	**$ 30,103,667**
$ 199,024	$ 800	$ 60,158	$ 916,755
159,340	28,070	26,113	680,223
-	-	-	132,686
13,882	382,922	4,415	413,607
37,888	697,553	48,399	857,592
$ 410,134	**$ 1,109,345**	**$ 139,085**	**$ 3,000,863**
$ 76,174	$ -	$ 21,735	$ 333,623
-	-	121,179	121,179
-	-	-	713,498
-	682,592	-	682,592
-	-	-	105,657
129,257	-	-	129,257
94,279	-	28,757	457,013
$ 299,710	**$ 682,592**	**$ 171,671**	**$ 2,542,819**
$ -	$ -	$ 467,280	$ 844,439
-	1,187,239	1,683,781	6,182,757
32,562	31,229	510	4,384,410
5,622,282	538,746	1,965,614	12,433,017
-	-	-	715,362
$ 5,654,844	**$ 1,757,214**	**$ 4,117,185**	**$ 24,559,985**
$ 6,364,688	**$ 3,549,151**	**$ 4,427,941**	**$ 30,103,667**

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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, 2017

Fund balance – total governmental funds (Exhibit 3)		**$ 24,559,985**
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.		78,796,328
Deferred outflows of resources resulting from pension obligations are not available resources and, therefore, are not reported in governmental funds.		5,778,820
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as deferred inflows of resources – unavailable revenue in the governmental funds.		2,085,806
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
Bonds payable	$ (7,435,000)	
Unamortized premiums on bonds	(84,992)	
Loans payable	(48,000)	
Compensated absences	(1,450,818)	
Net other postemployment benefits obligation	(664,308)	
Net pension liability	(10,895,351)	
Accrued interest payable	(67,452)	(20,645,921)
Deferred inflows of resources resulting from pension obligations are not due and payable in the current period and, therefore, are not reported in the governmental funds.		(4,821,920)
Net Position of Governmental Activities (Exhibit 1)		**$ 85,753,098**

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 BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017

	General	Road and Bridge
Revenues		
Taxes	$ 7,116,000	$ 3,978,522
Licenses and permits	165,525	-
Intergovernmental	3,329,946	6,610,620
Charges for services	1,374,485	748,509
Fines and forfeitures	40,369	-
Investment earnings	164,820	6,992
Gifts and contributions	40,995	-
Land and timber sales	-	-
Miscellaneous	698,214	78,143
Total Revenues	**$ 12,930,354**	**$ 11,422,786**
Expenditures		
Current		
General government	$ 4,778,571	$ -
Public safety	6,257,193	-
Highways and streets	-	11,078,652
Sanitation	-	-
Human services	737,650	-
Public health	27,930	-
Culture and recreation	611,553	-
Conservation of natural resources	663,177	-
Intergovernmental		
Highways and streets	-	339,563
Debt service		
Principal	-	263,484
Interest	-	5,945
Total Expenditures	**$ 13,076,074**	**$ 11,687,644**
Excess of Revenues Over (Under) Expenditures	**$ (145,720)**	**$ (264,858)**
Other Financing Sources (Uses)		
Transfers in	$ 376,846	$ -
Transfers out	(216,933)	-
Total Other Financing Sources (Uses)	**$ 159,913**	**$ -**
Net Change in Fund Balance	**$ 14,193**	**$ (264,858)**
Fund Balance – January 1	**6,720,095**	**6,521,692**
Increase (decrease) in inventories	**-**	**39,620**
Fund Balance – December 31	**$ 6,734,288**	**$ 6,296,454**

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

Social Services	Forfeited Tax Sale	Nonmajor Governmental Funds	Total Governmental Funds
$ 3,096,211	$ -	$ 896,769	$ 15,087,502
-	-	425	165,950
3,721,386	137,215	72,681	13,871,848
504,546	-	3,076,551	5,704,091
-	-	-	40,369
799	-	8,456	181,067
-	-	-	40,995
-	1,345,966	-	1,345,966
441,522	4,352	21,453	1,243,684
$ 7,764,464	**$ 1,487,533**	**$ 4,076,335**	**$ 37,681,472**
$ -	$ -	$ -	$ 4,778,571
-	-	-	6,257,193
-	-	-	11,078,652
-	-	3,135,293	3,135,293
7,270,066	-	-	8,007,716
-	-	-	27,930
-	-	-	611,553
-	1,187,147	17,075	1,867,399
-	-	-	339,563
-	-	675,000	938,484
-	-	168,488	174,433
$ 7,270,066	**$ 1,187,147**	**$ 3,995,856**	**$ 37,216,787**
$ 494,398	**$ 300,386**	**$ 80,479**	**$ 464,685**
$ -	$ -	$ 16,933	$ 393,779
-	(376,846)	-	(593,779)
$ -	**$ (376,846)**	**$ 16,933**	**$ (200,000)**
$ 494,398	**$ (76,460)**	**$ 97,412**	**$ 264,685**
5,160,446	**1,833,674**	**4,019,773**	**24,255,680**
-	-	-	**39,620**
$ 5,654,844	**$ 1,757,214**	**$ 4,117,185**	**$ 24,559,985**

HUBBARD COUNTY
PARK RAPIDS, MINNESOTA

EXHIBIT 6

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES—GOVERNMENTAL ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2017

Net change in fund balance – total governmental funds (Exhibit 5)		**$ 264,685**
Amounts reported for governmental activities in the statement of activities are different because:		
In the funds, under the modified accrual basis, receivables not available for expenditure are deferred. In the statement of activities, those revenues are recognized when earned. The adjustment to revenue between the fund statements and the statement of activities is the increase or decrease in revenue deferred as unavailable.		
Unavailable revenue – December 31	$ 2,085,806	
Unavailable revenue – January 1	(2,049,093)	36,713
Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the statement of activities, only the gain or loss on the disposal of capital assets is reported; whereas, in the governmental funds, the proceeds from the sale increase financial resources. The difference is the net book value of the assets disposed.		
Expenditures for general capital assets and infrastructure	$ 6,686,509	
Net book value of assets disposed	(13,118)	
Current year depreciation	(2,841,251)	3,832,140
Issuing long-term debt provides current financial resources to governmental funds, while the repayment of debt consumes current financial resources. Neither transaction has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued; whereas, those amounts are deferred and amortized over the life of the debt in the statement of activities.		
Principal repayments		
General obligation bonds	$ 675,000	
Loans payable	192,000	
Leases payable	71,484	
Amortization of premiums	7,858	946,342
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	$ 7,329	
Change in compensated absences	(75,751)	
Change in net other postemployment benefits obligation	84,343	
Change in net pension liability	5,845,511	
Change in deferred pension outflows	(3,966,723)	
Change in deferred pension inflows	(3,187,090)	
Change in inventories	39,620	(1,252,761)
Change in Net Position of Governmental Activities (Exhibit 2)		**$ 3,827,119**

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

PROPRIETARY FUND

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HUBBARD COUNTY
PARK RAPIDS, MINNESOTA

EXHIBIT 7

STATEMENT OF FUND NET POSITION
HERITAGE COMMUNITY ENTERPRISE FUND
SEPTEMBER 30, 2017

Assets		
Current assets		
Cash and pooled investments	$	2,559,393
Accounts receivable – net of allowance for uncollectible accounts of $117,783		415,739
Prepaid items and other		119,087
Total current assets	**$**	**3,094,219**
Restricted assets		
Cash and pooled investments		
Resident trust funds	$	3,860
Board-designated – bond fund		100,601
Board-designated – building fund		66,141
Tenant security deposits		12,615
Total restricted assets	**$**	**183,217**
Noncurrent assets		
Leveraged loan receivable	$	10,091,000
Capital assets		
Non-depreciable		117,299
Depreciable – net of accumulated depreciation		2,665,424
Total noncurrent assets	**$**	**12,873,723**
Total Assets	**$**	**16,151,159**
Deferred Outflows of Resources		
Deferred pension outflows	**$**	**672,778**

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

EXHIBIT 7
(Continued)

STATEMENT OF FUND NET POSITION
HERITAGE COMMUNITY ENTERPRISE FUND
SEPTEMBER 30, 2017

Liabilities		
Current liabilities		
Accounts payable	$	287,902
Salaries payable		178,013
Compensated absences payable		147,851
Due to related parties		87,088
Due to other funds		9,817
Accrued interest payable		6,317
General obligation bonds payable		380,000
Total current liabilities	**$**	**1,096,988**
Current liabilities payable from restricted assets		
Tenant security deposits payable	$	12,307
Resident trust funds payable		3,860
Total current liabilities payable from restricted assets	**$**	**16,167**
Noncurrent liabilities		
Compensated absences payable	$	101,992
General obligation bonds payable		12,592,728
Net pension liability		2,866,386
Net other postemployment benefits obligation		99,046
Total noncurrent liabilities	**$**	**15,660,152**
Total Liabilities	**$**	**16,773,307**
Deferred Inflows of Resources		
Deferred pension inflows	**$**	**535,886**
Net Position		
Net investment in capital assets	$	(168,968)
Restricted for capital projects		2,026,403
Restricted for debt service		100,601
Unrestricted		(2,443,292)
Total Net Position	**$**	**(485,256)**

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
HERITAGE COMMUNITY ENTERPRISE FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2017

Operating Revenues		
Charges for services	$	4,699,497
Rental income		1,625,326
Intergovernmental		6,599
Miscellaneous		103,564
Total Operating Revenues	**$**	**6,434,986**
Operating Expenses		
Nursing services	$	2,525,074
Administration and fiscal services		771,983
Other care related		426,427
Dietary services		637,940
Laundry		178,353
Housekeeping services		156,137
Plant operations		312,099
Employee benefits		1,418,482
Depreciation and amortization		270,657
Total Operating Expenses	**$**	**6,697,152**
Operating Income (Loss)	**$**	**(262,166)**
Nonoperating Revenues (Expenses)		
Investment earnings	$	144,603
Interest expense		(499,220)
Miscellaneous		9,560
Total Nonoperating Revenues (Expenses)	**$**	**(345,057)**
Income (Loss) Before Transfers	**$**	**(607,223)**
Transfers in		200,000
Change in net position	**$**	**(407,223)**
Net Position – October 1		**(78,033)**
Net Position – September 30	**$**	**(485,256)**

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

HUBBARD COUNTY
PARK RAPIDS, MINNESOTA

EXHIBIT 9

STATEMENT OF CASH FLOWS
HERITAGE COMMUNITY ENTERPRISE FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2017
Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities		
Receipts from residents, programs, counties, and other revenue	$	7,139,466
Payments to employees		(4,338,007)
Payments to suppliers		(1,810,333)
Net cash provided by (used in) operating activities	**$**	**991,126**
Cash Flows from Noncapital Financing Activities		
Miscellaneous revenue	**$**	**9,560**
Cash Flows from Capital and Related Financing Activities		
Principal paid on long-term debt	$	(180,000)
Interest paid on long-term debt		(498,749)
Transfer from other funds		200,000
Purchase of capital assets		(14,756)
Net cash provided by (used in) capital and related financing activities	**$**	**(493,505)**
Cash Flows from Investing Activities		
Investment earnings received	$	281,134
Deposits to bond fund and reinvested interest		(65,810)
Net cash provided by (used in) investing activities	**$**	**215,324**
Net Increase (Decrease) in Cash and Cash Equivalents	**$**	**722,505**
Cash and Cash Equivalents – October 1		**1,836,888**
Cash and Cash Equivalents – September 30	**$**	**2,559,393**
Reconciliation of Cash and Cash Equivalents to the Statement of Net Position		
Cash and Cash Equivalents – September 30	**$**	**2,559,393**

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
HERITAGE COMMUNITY ENTERPRISE FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2017
Increase (Decrease) in Cash and Cash Equivalents

Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities		
Operating income (loss)	**$**	**(262,166)**
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities		
Depreciation expense	$	270,657
(Increase) decrease in accounts receivable		708,101
(Increase) decrease in due from related party		10,828
(Increase) decrease in prepaid items		(17,195)
(Increase) decrease in deferred pension outflows		833,115
Increase (decrease) in accounts payable		99,769
Increase (decrease) in salaries payable		24,322
Increase (decrease) in due to Hubbard County		45
Increase (decrease) in due to related party		(4,622)
Increase (decrease) in tenant security deposits payable		79
Increase (decrease) in other current liabilities		(3,700)
Increase (decrease) in deferred pension inflows		119,284
Increase (decrease) in net pension liability		(787,391)
Total adjustments	**$**	**1,253,292**
Net Cash Provided by (Used in) Operating Activities	**$**	**991,126**

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

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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, 2017

	Agency Funds
Assets	
Cash and pooled investments	**$ 1,172,379**
Liabilities	
Due to other governments	**$ 1,172,379**

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

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1. Summary of Significant Accounting Policies

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

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 Special Revenue Fund of the County. Separate financial statements are not prepared for the Facility.

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Discretely Presented Component Unit

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

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

When included as part of the financial reporting entity, GAAP require financial data for discretely presented component units to be presented in separate columns in the government-wide financial statements to emphasize that they are legally separate from the reporting entity.

Joint Ventures and Jointly-Governed Organizations

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

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (the statement of net position and the statement of activities) display information about the primary government and its component units. These statements include the financial activities of the overall County government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external parties for support.

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

In the government-wide statement of net position, both the governmental and business-type activities columns present all assets, liabilities, deferred inflows and outflows of resources, and net position on a full accrual accounting basis with an economic resource focus. 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 and 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.

2. Fund Financial Statements

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

The County reports the following major governmental funds:

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

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

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

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

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

The County reports the following major enterprise fund:

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

Additionally, the County reports the following fund types:

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

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

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

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

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

C. Measurement Focus and Basis of Accounting

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

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

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.

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

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

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

1. Cash and Cash Equivalents

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

2. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Auditor/Treasurer for the purpose of increasing earnings through investing activities. Pooled and fund investments, if any, are reported at their fair value at December 31, 2017. A market approach is used to value all investments other than external investment pools, which are measured at net asset value. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds receive investment earnings based on state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2017 were $197,832.

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

1. Summary of Significant Accounting Policies

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

3. Receivables and Payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (the current portion of interfund loans) or "advances from/to other funds" (the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

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

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

4. Leveraged Loan Receivable

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

1. Summary of Significant Accounting Policies

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

5. Inventories and Prepaid Items

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

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

6. Restricted Assets

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

7. Capital Assets

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

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

1. Summary of Significant Accounting Policies

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

7. Capital Assets (Continued)

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current period, the Heritage Community Enterprise Fund had no capitalized interest.

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

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
Buildings and improvements	5 – 25
Land improvements	5 – 15
Machinery and equipment	5 – 20

8. Compensated Absences

The liability for compensated absences reported in financial statements consists of unpaid, accumulated Paid Time Off (PTO) leave balances. The liability is calculated using the vesting method, in which leave amounts for all employees who currently are eligible to receive termination payments and other

1. Summary of Significant Accounting Policies

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

8. Compensated Absences (Continued)

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

9. Deferred Outflows/Inflows of Resources

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

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The County has three items, prepaid taxes, unavailable revenue, and deferred pension inflows, which qualify for reporting in this category. Prepaid property taxes represent the County's share of tax collections collected prior to year-end that are not due until the following year. Since the property taxes are levied for use in a future year, the revenue is deferred and recognized in the period for which the amount is levied. These amounts arise under both the modified accrual and the full accrual basis of accounting and are reported in both the governmental funds balance sheet and the statement of net position. The County reports unavailable revenue in connection with receivables

1. Summary of Significant Accounting Policies

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

9. Deferred Outflows/Inflows of Resources (Continued)

for revenues that are not considered to be available to liquidate liabilities of the current period. Unavailable revenues are reported only in the governmental funds balance sheet. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available. Deferred pension inflows arise only under the full accrual basis of accounting and, accordingly, are reported only in the statement of net position.

10. Pensions

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

11. Long-Term Obligations

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

1. Summary of Significant Accounting Policies

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

11. Long-Term Obligations (Continued)

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

12. Net Position and Fund Balance

Net position in the government-wide and proprietary fund financial statements is classified in the following categories:

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

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

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

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

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

1. Summary of Significant Accounting Policies

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

12. Net Position and Fund Balance (Continued)

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.

Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither restricted nor committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the County Auditor/Treasurer who has been delegated that authority by County Board resolution.

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

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

1. Summary of Significant Accounting Policies

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

12. Net Position and Fund Balance (Continued)

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, 2017.

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.

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	$ 5,395,883
Adjustments and allowances	(617,910)
Provisions for uncollectible accounts	(78,476)
Net Resident Service Revenues	$ 4,699,497

1. Summary of Significant Accounting Policies

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

14. Third-Party Reimbursement Agreements

Medicaid

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

Effective January 1, 2016, nursing facilities are paid under the Value Based Nursing Facility Reimbursement (VBR) system as approved during the 2015 Minnesota State Legislative Session. Under the VBR system, care-related costs are reimbursed at actual cost subject to certain limitations. Other operating costs are reimbursed using a pricing model, which results in the rates of these costs being the same for all nursing facilities in the state. Certain other costs, such as qualifying employer health insurance costs, are reimbursed at an external fixed payment rate and will be cost based with no limitations. Reimbursement for historic property-related costs is a separate component of the rate that has been frozen since 2010. Additional reimbursement for new property-related costs is possible under certain conditions.

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

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

1. 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, 2017, 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 52 beds)	89.8%
Medicaid	61.1
Medicare	12.3

1. Summary of Significant Accounting Policies

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

      16. Use of Estimates

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

2. Stewardship, Compliance, and Accountability

   A. Deficits in Equity Accounts

   The Heritage Community Enterprise Fund had a deficit net position of $485,256 as of September 30, 2017. 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, 2017, the County has $1,164,219 in contracts receivable from land leases and timber sales.

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

Reconciliations of the County's total deposits and investments to the basic financial statements as of December 31, 2017, are reported as follows:

Governmental funds	
Cash and pooled investments	$ 25,050,392
Restricted assets	
Permanent fund principal	482,442
Proprietary funds	
Cash and pooled investments	2,559,393
Restricted assets	
Cash and pooled investments	
Resident trust funds	3,860
Tenant security deposits	12,615
Board-designated – bond fund	100,601
Board-designated – building fund	66,141
Fiduciary funds	
Cash and pooled investments	1,172,379
Total Cash and Pooled Investments	$ 29,447,823
Deposits	$ 28,840,311
Invested in MAGIC Fund	604,502
Petty cash and change funds	3,010
Total Deposits and Cash on Hand	$ 29,447,823

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

a. Deposits

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

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk. As of December 31, 2017, the County's deposits were not exposed to custodial credit risk.

b. Investments

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

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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

(2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;

(3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;

(4) bankers' acceptances of United States banks;

(5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and

(6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. The County's investment policy is meant to minimize interest rate risk by structuring investments so

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments

Interest Rate Risk (Continued)

that securities mature to meet cash requirements of ongoing operations and investing operating funds primarily in shorter-term securities and limiting the average maturity in accordance with the County's cash requirements.

Credit Risk

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

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities in the possession of an outside party. The County's investment policy limits investments to those allowed by state statute. At December 31, 2017, the County's investments were not exposed to custodial credit risk.

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the County's investment in a single issuer, excluding U.S. guaranteed investments, external investment pools, and mutual funds. The County's investment policy is to minimize this risk by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. At December 31, 2017, the County's investments were primarily in an external investment pool and, therefore, not subject to concentration of credit risk disclosure requirements.

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

The following table presents the County's deposit and investment balances at December 31, 2017, and information relating to potential investment risk:

Investment Type	Concentration of Credit Risk: Over 5 Percent of Portfolio	Interest Rate Risk: Maturity Date	Carrying (Fair) Value
Investment pool			
MAGIC Fund	N/A	N/A	$ 604,502
Deposits			28,240,311
Non-negotiable certificates of deposit			600,000
Petty cash and change funds			3,010
Total Cash and Investments			$ 29,447,823

MAGIC is a local government investment pool which is quoted at a net asset value (NAV). The County invests in this pool for the purpose of the joint investment of the County's money with those of other counties to enhance the investment earnings accruing to each member.

MAGIC Portfolio is valued using amortized cost. Shares of the MAGIC Portfolio are available to be redeemed upon proper notice without restrictions under normal operating conditions. There are no limits to the number of redemptions that can be made as long as the County has a sufficient number of shares to meet their redemption request. The MAGIC Fund's Board of Trustees can suspend the right of withdrawal or postpone the date of payment if the Trustees determine that there is an emergency that makes the sale of a Portfolio's securities or determination of its net asset value not reasonably practical.

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2017, for the County's governmental activities and as of September 30, 2017, 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	$ 438,582	$ -
Accounts	224,824	-
Accrued interest	130,007	-
Contracts	1,164,219	-
Due from other governments	1,822,435	-
Total Governmental Activities	$ 3,780,067	$ -
Business-Type Activities		
Accounts – net of allowance for uncollectible accounts of $117,783	$ 415,739	$ -
Leveraged loan receivable	10,091,000	10,091,000
Total Business-Type Activities	$ 10,506,739	$ 10,091,000

3. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the governmental activities for the year ended December 31, 2017, and for the business-type activities for the year ended September 30, 2017, was as follows:

Governmental Activities

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not depreciated				
Land	$ 861,745	$ 1,200	$ -	$ 862,945
Permanent right-of-way	3,626,900	50,833	-	3,677,733
Construction in progress	2,008,235	2,965,575	513,594	4,460,216
Total capital assets not depreciated	$ 6,496,880	$ 3,017,608	$ 513,594	$ 9,000,894
Capital assets depreciated				
Infrastructure	$ 71,572,077	$ 2,838,695	$ -	$ 74,410,772
Buildings and improvements	22,591,901	65,085	-	22,656,986
Land improvements	629,002	-	-	629,002
Machinery and equipment	9,981,110	1,278,715	537,541	10,722,284
Total capital assets depreciated	$ 104,774,090	$ 4,182,495	$ 537,541	$ 108,419,044
Less: accumulated depreciation for				
Infrastructure	$ 19,770,786	$ 1,431,847	$ -	$ 21,202,633
Buildings and improvements	8,467,530	712,674	-	9,180,204
Land improvements	474,373	15,759	-	490,132
Machinery and equipment	7,594,093	680,971	524,423	7,750,641
Total accumulated depreciation	$ 36,306,782	$ 2,841,251	$ 524,423	$ 38,623,610
Total capital assets depreciated, net	$ 68,467,308	$ 1,341,244	$ 13,118	$ 69,795,434
Governmental Activities Capital Assets, Net	$ 74,964,188	$ 4,358,852	$ 526,712	$ 78,796,328

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

Business-Type Activities

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not depreciated				
Land	$ 117,299	$ -	$ -	$ 117,299
Capital assets depreciated				
Buildings and improvements	$ 6,003,444	$ 10,870	$ -	$ 6,014,314
Land improvements	190,783	-	-	190,783
Machinery and equipment	959,811	3,886	-	963,697
Total capital assets depreciated	$ 7,154,038	$ 14,756	$ -	$ 7,168,794
Less: accumulated depreciation for				
Buildings and improvements	$ 3,337,577	$ 215,703	$ -	$ 3,553,280
Land improvements	167,640	2,914	-	170,554
Machinery and equipment	727,496	52,040	-	779,536
Total accumulated depreciation	$ 4,232,713	$ 270,657	$ -	$ 4,503,370
Total capital assets depreciated, net	$ 2,921,325	$ (255,901)	$ -	$ 2,665,424
Business-Type Activities, Capital Assets, Net	$ 3,038,624	$ (255,901)	$ -	$ 2,782,723

Depreciation Expense

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

Governmental Activities	
General government	$ 219,234
Public safety	565,175
Highways and streets, including depreciation of infrastructure assets	1,798,268
Sanitation	126,453
Human services	71,748
Culture and recreation	17,467
Conservation of natural resources	42,906
Total Depreciation Expense – Governmental Activities	$ 2,841,251
Business-Type Activities	
Heritage Community	$ 270,657

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2017, is as follows:

Due To/From Other Funds

Receivable Fund	Payable Fund	Amount	
General Fund	Social Services Special Revenue Fund	$ 11,048	Reimbursements
	Forfeited Tax Sale Special Revenue Fund	376,846	Reimbursements
Total Due to General Fund		$ 387,894	
Road and Bridge Special Revenue Fund	General Fund	$ 12,388	Reimbursements
	Social Services Special Revenue Fund	2,834	Reimbursements
	Forfeited Tax Sale Special Revenue Fund	6,076	Reimbursements
	Solid Waste Special Revenue Fund	4,415	Charges for services
Total Due to Road and Bridge Special Revenue Fund		$ 25,713	
Total Due From Other Funds		$ 413,607	
Due to the Heritage Community Enterprise Fund from the General Fund occurring between September 30 and December 31, 2017		9,817	Reimbursements
Total Due To Other Funds		$ 423,424	

The interfund receivables and payables are expected to be paid within one year of December 31, 2017.

3. Detailed Notes on All Funds

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

Interfund Transfers

Interfund transfers for the year ended December 31, 2017, consisted of the following:

	Interfund Transfer In	Interfund Transfer Out	Purpose of Transfer In
General Fund	$ 376,846	$ 216,933	Forfeited tax sale proceeds
Forfeited Tax Sale Special Revenue Fund	-	376,846	
Solid Waste Special Revenue Fund	16,933	-	Matching grant funds
Heritage Community Enterprise Fund	200,000	-	Reimbursements
Total	$ 593,779	$ 593,779	

C. Liabilities

Governmental Activities

Compensated Absences

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

Unused accumulated PTO and severance reserve are paid to employees upon termination. Unvested sick leave, approximately $281,239 at December 31, 2017, is available to employees in the event of illness-related absences and is not paid to them at termination.

3. Detailed Notes on All Funds

C. Liabilities (Continued)

Business-Type Activities

Operating Leases

On December 31, 2014, Hubbard County entered into operating leases for leased property to facilitate the construction and reconstruction project of the Heritage Community with Heritage Center, LLC. The term of the lease expires on December 31, 2049, with the option to extend or terminate at alternative dates as described in the lease documents. The future lease payments to be made by the County as of September 30, 2017, are as follows:

Year Ending September 30	Lease Payment
2018	$ 172,000
2019	172,000
2020	172,000
2021	172,000
2022	172,000
2023 – 2027	3,140,000
2028 – 2032	3,160,000
2033 – 2037	3,190,000
2038 – 2042	3,215,000
2043 – 2047	3,250,000
2048 – 2050	1,950,000
Total	$ 18,765,000

3. Detailed Notes on All Funds

C. Liabilities (Continued)

Long-Term Debt

Governmental Activities

General Obligation Bonds

Hubbard County General Obligation Correctional Facility Refunding Bonds, Series 2012, represent debt incurred to refund the General Obligation Correctional Facilities Bonds, Series 2004, on the crossover date of February 1, 2014. These bonds, dated May 23, 2012, have an original issue amount of $5,835,000. They carry a net interest rate of 2.00 to 2.25 percent and are due in annual installments beginning February 1, 2015, through February 2025. As a result of the refunding, the County realized a substantial interest rate reduction, a gross savings of approximately $669,462 and a present value savings of approximately $590,314. The balance due on these bonds is $4,400,000, including bond premium of $45,036, as of December 31, 2017.

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 $3,035,000, including bond premium of $39,956, as of December 31, 2017.

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 through 2018. The balance due on this loan is $48,000 as of December 31, 2017.

3. Detailed Notes on All Funds

C. Liabilities

Long-Term Debt

Governmental Activities (Continued)

Debt Service Requirements

Debt service requirements at December 31, 2017, are as follows:

Year Ending December 31	General Obligation Correctional Facility Refunding Bonds, Series 2012	
	Principal	Interest
2018	$ 505,000	$ 84,450
2019	515,000	74,250
2020	530,000	63,800
2021	540,000	53,100
2022	555,000	42,150
2023 – 2025	1,755,000	57,000
Subtotal	$ 4,400,000	$ 374,750
Bond premium	45,036	-
Total	$ 4,445,036	$ 374,750

Year Ended December 31	General Obligation Capital Improvement Plan Bonds, Series 2013		Minnesota Public Facilities Authority Loan	
	Principal	Interest	Principal	Interest
2018	$ 190,000	$ 69,462	$ 48,000	$ 1,189
2019	195,000	65,613	-	-
2020	195,000	61,713	-	-
2021	200,000	57,763	-	-
2022	205,000	53,713	-	-
2023 – 2027	1,090,000	202,300	-	-
2028 – 2031	960,000	57,480	-	-
Subtotal	$ 3,035,000	$ 568,044	$ 48,000	$ 1,189
Bond premium	39,956	-	-	-
Total	$ 3,074,956	$ 568,044	$ 48,000	$ 1,189

3. Detailed Notes on All Funds

C. Liabilities

Long-Term Debt

Governmental Activities (Continued)

Changes in Long-Term Liabilities

Long-term liability activity for the governmental activities for the year ended December 31, 2017, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General Obligation Correctional Facility Refunding Bonds, Series 2012	$ 4,890,000	$ -	$ 490,000	$ 4,400,000	$ 505,000
Add: Bond premium	50,040	-	5,004	45,036	-
General Obligation Capital Improvement Plan Bonds, Series 2013	3,220,000	-	185,000	3,035,000	190,000
Add: Bond premium	42,810	-	2,854	39,956	-
Minnesota Public Facilities Authority loan	240,000	-	192,000	48,000	48,000
Capital leases	71,484	-	71,484	-	-
Compensated absences	1,375,067	850,812	775,061	1,450,818	650,938
Governmental Activities Long-Term Liabilities	$ 9,889,401	$ 850,812	$ 1,721,403	$ 9,018,810	$ 1,393,938

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 $1,440,000 as of September 30, 2017.

3. Detailed Notes on All Funds

C. Liabilities

Long-Term Debt

Business-Type Activities

General Obligation Bonds (Continued)

Hubbard County General Obligation Housing Development Revenue Bonds, Series 2008, $1,825,000 General Obligation Housing Development Revenue Bonds dated November 18, 2008, due in annual installments of $45,000 to $125,000, with interest from 3.75 percent to 5.50 percent through October 2034. The balance due on these bonds is $1,465,000 as of September 30, 2017.

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, 2017.

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rates (%)	Original Issue Amounts	Outstanding Balance September 30, 2017
General Obligation Bonds					
2014 G.O. Housing Development Revenue Bonds	2027	$130,000 – $160,000	2.00 – 3.00	$ 1,795,000	$ 1,440,000
2014 G.O. Nursing Home Revenue Bonds	2039	$250,000 – $715,000	1.50 – 4.50	10,145,000	10,145,000
2008 G.O. Housing Development Revenue Bonds	2034	$60,000 – $125,000	3.75 – 5.50	1,825,000	1,465,000
Total General Obligation Bonds				$ 13,765,000	$ 13,050,000

3. Detailed Notes on All Funds

C. Liabilities

Long-Term Debt

Business-Type Activities (Continued)

Debt Service Requirements

Debt service requirements for business-type activities at September 30, 2017, are as follows:

Year Ending September 30	General Obligation Bonds	
	Principal	Interest
2018	$ 380,000	$ 494,982
2019	440,000	486,187
2020	445,000	476,182
2021	320,000	465,108
2022	545,000	456,418
2023 – 2027	3,190,000	1,999,590
2028 – 2032	2,955,000	1,429,465
2033 – 2037	3,375,000	752,598
2038 – 2039	1,400,000	95,174
Total	$ 13,050,000	$ 6,655,704

Changes in Long-Term Liabilities

Long-term liability activity for the business-type activities for the year ended September 30, 2017, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
2014 General Obligation Revenue Bonds	$ 1,565,000	$ -	$ 125,000	$ 1,440,000	$ 130,000
Add: Bond premium	51,439	-	4,748	46,691	-
2014 General Obligation Nursing Home Revenue Bonds	10,145,000	-	-	10,145,000	250,000
Less: bond discounts	(129,598)	-	(5,635)	(123,963)	-
2008 General Obligation Revenue Bonds	1,520,000	-	55,000	1,465,000	-
Compensated absences	250,950	-	1,107	249,843	147,851
Business-Type Activities Long-Term Liabilities	$ 13,402,791	$ -	$ 180,220	$ 13,222,571	$ 527,851

3. Detailed Notes on All Funds (Continued)

D. Fund Balances

Fund balances at year-end December 31, 2017, were as follows:

	General	Road and Bridge	Social Services	Forfeited Tax Sale	Other Governmental Funds	Total Governmental Funds
Nonspendable for						
Inventories	$ -	$ 377,159	$ -	$ -	$ -	$ 377,159
Endowments	-	-	-	-	467,280	467,280
Total nonspendable	$ -	$ 377,159	$ -	$ -	$ 467,280	$ 844,439
Restricted for						
AIS prevention	$ 254,042	$ -	$ -	$ -	$ -	$ 254,042
Attorney forfeitures	20,498	-	-	-	-	20,498
Attorney pretrial diversion program	4,124	-	-	-	-	4,124
Conceal and carry permits	80,984	-	-	-	-	80,984
Debt service	-	-	-	-	1,262,039	1,262,039
Drug education	12,807	-	-	-	-	12,807
DWI assessment	19,054	-	-	-	-	19,054
DWI forfeitures	18,985	-	-	-	-	18,985
Enhanced 911	27,360	-	-	-	-	27,360
Forest development	-	-	-	1,063,730	-	1,063,730
Fuel facility	-	86,866	-	-	-	86,866
Government forfeitures	34,132	-	-	-	-	34,132
Jail canteen	45,395	-	-	-	-	45,395
Law library	21,853	-	-	-	-	21,853
Memorial forest	-	-	-	123,509	-	123,509
Missing heirs	8,225	-	-	-	-	8,225
Natural resources	71,764	-	-	-	15,063	86,827
Parks and recreation	481,169	-	-	-	-	481,169
Probation	25,020	-	-	-	-	25,020
Recorder's equipment	384,220	-	-	-	-	384,220
Recorder's technology	301,709	-	-	-	-	301,709
Sheriff's contingent fund	12,362	-	-	-	-	12,362
Solid waste operations	-	-	-	-	406,679	406,679
Transit	-	1,401,168	-	-	-	1,401,168
Total restricted	$ 1,823,703	$ 1,488,034	$ -	$ 1,187,239	$ 1,683,781	$ 6,182,757
Committed for						
Building maintenance	$ 2,230,979	$ -	$ -	$ -	$ -	$ 2,230,979
County cars	100,422	-	-	-	-	100,422
Departmental designations	1,444,383	-	-	-	-	1,444,383
Emergency management	1,086	-	-	-	-	1,086
Employee benefits – severance	120,919	124,886	32,562	31,229	510	310,106
Employee flex plan	19,986	-	-	-	-	19,986
Employee group health	214,087	-	-	-	-	214,087
Investigations	6,044	-	-	-	-	6,044
Survey remonumentation	57,317	-	-	-	-	57,317
Total committed	$ 4,195,223	$ 124,886	$ 32,562	$ 31,229	$ 510	$ 4,384,410
Assigned to						
Forfeited land sales	$ -	$ -	$ -	$ 538,746	$ -	$ 538,746
Highways and streets	-	4,306,375	-	-	-	4,306,375
Human services	-	-	5,622,282	-	-	5,622,282
Sanitation	-	-	-	-	1,965,614	1,965,614
Total assigned	$ -	$ 4,306,375	$ 5,622,282	$ 538,746	$ 1,965,614	$ 12,433,017
Unassigned	$ 715,362	$ -	$ -	$ -	$ -	$ 715,362
Total Fund Balances	$ 6,734,288	$ 6,296,454	$ 5,654,844	$ 1,757,214	$ 4,117,185	$ 24,559,985

4. Other Postemployment Benefits (OPEB)

Plan Description

Hubbard County provides a single-employer defined benefit health care plan to eligible retirees and their spouses. The plan offers medical insurance benefits. The County provides for retirees as required by Minn. Stat. § 471.61, subd. 2b. The retiree health care plan does not issue a publicly available financial report.

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

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

Funding Policy

The contribution requirements of the plan and the County are established and may be amended by the Hubbard County Board of Commissioners. The required contribution is based on projected pay-as-you-go financing requirements. Non-elected retirees are required to pay 100 percent of the total premium cost. Since the premium is determined on the entire active and retiree population, the retirees are receiving an implicit rate subsidy. This postemployment benefit is funded on a pay-as-you-go basis, usually paying retiree benefits out of the General Fund. For governmental activities in 2017, there were approximately 177 participants in the plan, with four retirees. For the Heritage Community, there were 54 participants in the plan, with no retirees.

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

4. Other Postemployment Benefits (OPEB) (Continued)

Annual OPEB Cost and Net OPEB Obligation

For benefits provided as required by Minn. Stat. § 471.61, subd. 2b, the County's annual OPEB cost (expense) is calculated based on the *annual required contribution of the employer* (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. Additional benefits provided to elected officials have not been included in the calculation of the ARC.

The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial accrued liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the County's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the County's net OPEB obligation to the retiree health plan.

	Governmental Activities December 31, 2017	Business-Type Activities September 30, 2017	Total
ARC	$ 120,561	$ 25,463	$ 146,024
Interest on net OPEB obligation	21,423	4,147	25,570
Adjustments to ARC	(32,712)	(5,802)	(38,514)
Annual OPEB cost (expense)	$ 109,272	$ 23,808	$ 133,080
Contributions made	(193,615)	(16,911)	(210,526)
Increase in net OPEB obligation	$ (84,343)	$ 6,897	$ (77,446)
Net OPEB Obligation – Beginning of Year	748,651	92,149	840,800
Net OPEB Obligation – End of Year	$ 664,308	$ 99,046	$ 763,354

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, 2015, 2016, and 2017, were as follows:

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2015	$ 170,060	$ 109,088	64.1%	$ 768,110
2016	201,599	128,909	63.9	840,800
2017	133,080	210,526	158.2	763,354

4. Other Postemployment Benefits (OPEB) (Continued)

Funded Status and Funding Progress

As of January 1, 2017, 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 $777,762, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of $777,762. The covered payroll (annual payroll of active employees covered by the plan) was $9,142,229, and the ratio of the UAAL to the covered payroll was 8.51 percent.

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

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

Methods and Assumptions

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

4. Other Postemployment Benefits (OPEB)

Methods and Assumptions (Continued)

In the January 1, 2017, 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 3.5 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 6.5 percent initially, reduced to an ultimate rate of 5.0 percent over six years. The UAAL is being amortized over 30 years on a closed basis. The remaining amortization period at December 31, 2017, was 20 years.

In the January 1, 2014, actuarial valuation of the business-type activities, the Projected Unit Credit Actuarial Cost Method was used. The actuarial assumptions include a 4.5 percent investment rate of return (net of investment expenses), which is the Heritage Community's implicit rate of return. The annual health care cost trend is 7.5 percent initially, reduced to an ultimate rate of 5.0 percent over ten years. The UAAL is being amortized over 30 years on a closed basis. The remaining amortization period at December 31, 2017, was 21 years.

5. Pension Plans

A. Defined Benefit Pension Plans

1. Plan Description

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

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

5. Pension Plans

A. Defined Benefit Pension Plans

1. Plan Description (Continued)

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

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

Local government employees of a county-administered facility who are responsible for the direct security, custody, and control of the county correctional facility and its inmates are covered by the Public Employees Correctional Plan (accounted for in the Correctional Fund). For members hired after June 30, 2010, benefits vest on a prorated basis starting with 50 percent after five years and increasing ten percent for each year of service until fully vested after ten 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. General Employees Retirement Plan and Public Employees Police and Fire Plan benefit recipients receive a future annual 1.0 percent for the post-retirement benefit increase, while Public Employees Correctional Plan benefit recipients receive 2.5 percent. For the General Employees Retirement Plan and the Public Employees Police and Fire Plan, if the funding ratio reaches 90 percent for two consecutive years, the benefit increase

5. Pension Plans

A. Defined Benefit Pension Plans

2. Benefits Provided (Continued)

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.

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for General Employees Retirement Plan Coordinated Plan members. Members hired prior to July 1, 1989, receive the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a 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 1.7 percent for Coordinated Plan members for each year of service. Only Method 2 is used for members hired after June 30, 1989. For Public Employees Police and Fire Plan members, the annuity accrual rate is 3.0 percent of average salary for each year of service. For Public Employees Correctional Plan members, the annuity accrual rate is 1.9 percent of average salary for each year of service.

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

5. Pension Plans

A. Defined Benefit Pension Plans (Continued)

3. Contributions

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the state legislature. General Employees Retirement Plan Coordinated Plan members were required to contribute 6.50 percent, of their annual covered salary in 2017. Public Employees Police and Fire Plan members were required to contribute 10.80 percent of their annual covered salary in 2017. Public Employees Correctional Plan members were required to contribute 5.83 percent of their annual covered salary in 2017.

In 2017, the County was required to contribute the following percentages of annual covered salary:

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

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

The County's contributions for the year ended December 31, 2017, to the pension plans were:

General Employees Retirement Plan	$ 758,901
Public Employees Police and Fire Plan	227,351
Public Employees Correctional Plan	142,684

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

5. Pension Plans

A. Defined Benefit Pension Plans (Continued)

4. Pension Costs

General Employees Retirement Plan

At December 31, 2017, the County reported a liability of $9,786,570 for its proportionate share of the General Employees Retirement Plan's net pension liability, of which $2,866,386 was the Heritage Community's portion as of September 30, 2017. The net pension liability was measured as of June 30, 2017, 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, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, Hubbard County's proportionate share was 0.1533 percent, which was an increase of 0.0034 percent measured as of June 30, 2016. The County recognized pension expense of $1,325,584 for its proportionate share of the General Employees Retirement Plan's pension expense, of which $383,000 was the Heritage Community's expense.

The County also recognized $3,552 as revenue, which results in a reduction of the net pension liability, for its proportionate share of the State of Minnesota's contribution to the General Employees Retirement Plan, which qualifies as a special funding situation. Legislation requires the State of Minnesota to contribute $6 million to the General Employees Retirement Plan for the fiscal year ended June 30, 2017.

	Governmental Activities	Business-Type Activities	Total
The County's proportionate share of the net pension liability	$ 6,920,184	$ 2,866,386	$ 9,786,570
State of Minnesota's proportionate share of the net pension liability associated with the County	86,988	36,018	123,006
Total	$ 7,007,172	$ 2,902,404	$ 9,909,576

5. Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs

General Employees Retirement Plan (Continued)

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

	Governmental Activities		Business-Type Activities		Total	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 228,068	$ 430,035	$ 94,465	$ 184,402	$ 322,533	$ 614,437
Changes in actuarial assumptions	1,111,804	693,749	475,882	287,355	1,587,686	981,104
Difference between projected and actual investment earnings	3,107	-	18,512	-	21,619	-
Changes in proportion	236,458	153,843	29,720	64,129	266,178	217,972
Contributions paid to PERA subsequent to the measurement date	273,991	-	54,199	-	328,190	-
Total	$ 1,853,428	$ 1,277,627	$ 672,778	$ 535,886	$ 2,526,206	$ 1,813,513

The $328,190 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, 2018. 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
2018	$ 210,702	$ 80,531	$ 291,233
2019	455,124	179,530	634,654
2020	(70,268)	(55,693)	(125,961)
2021	(293,748)	(121,675)	(415,423)

5. Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs (Continued)

Public Employees Police and Fire Plan

At December 31, 2017, Hubbard County reported a liability of $1,809,159 for its proportionate share of the Public Employees Police and Fire Plan's net pension liability. The net pension liability was measured as of June 30, 2017, 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, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, Hubbard County's proportion was 0.134 percent, which was an increase of 0.001 percent from its proportion measured as of June 30, 2016. The County recognized pension expense of $694,950 for its proportionate share of the Public Employees Police and Fire Plan's pension expense.

The County also recognized $12,060 as revenue, which results in a reduction of the net pension liability, for its proportionate share of the State of Minnesota's on-behalf contribution to the Public Employees Police and Fire Plan. Legislation requires the State of Minnesota to contribute $9 million to the Police and Fire Plan each year, starting in fiscal year 2014, until the plan is 90 percent funded.

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

5. Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs

Public Employees Police and Fire Plan (Continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 41,643	$ 475,627
Changes in actuarial assumptions	2,349,977	2,568,558
Difference between projected and actual investment earnings	16,419	-
Changes in proportion	101,544	-
Contributions paid to PERA subsequent to the measurement date	113,578	-
Total	$ 2,623,161	$ 3,044,185

The $113,578 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, 2018. 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
2018	$ 52,778
2019	52,778
2020	(11,068)
2021	(130,396)
2022	(498,694)

5. Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs (Continued)

Public Employees Correctional Plan

At December 31, 2017, the County reported a liability of $2,166,008 for its proportionate share of the Public Employees Correctional Plan's net pension liability. The net pension liability was measured as of June 30, 2017, 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, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the County's proportion was 0.76 percent, which was a decrease of 0.03 percent from its proportion measured as of June 30, 2016. The County recognized pension expense of $820,843 for its proportionate share of the Public Employees Correctional Plan's pension expense.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 1,506	$ 35,233
Changes in actuarial assumptions	1,225,811	377,036
Difference between projected and actual investment earnings	-	5,643
Changes in proportion	2,489	82,196
Contributions paid to PERA subsequent to the measurement date	72,425	-
Total	$ 1,302,231	$ 500,108

5. Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs

Public Employees Correctional Plan (Continued)

The $72,425 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, 2018. 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
2018	$ 466,912
2019	481,161
2020	(158,079)
2021	(60,296)

Total Pension Expense

The total pension expense for all plans recognized by the County for the year ended December 31, 2017, was $2,841,377.

5. Actuarial Assumptions

The total pension liability in the June 30, 2017, actuarial valuation was determined using the individual entry age normal actuarial cost method and the following additional actuarial assumptions:

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

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants for all plans were based on RP-2014 tables for males or females, as appropriate, with slight adjustments. For the General Employees Retirement Plan and the Public Employees Police and

5. Pension Plans

A. Defined Benefit Pension Plans

5. Actuarial Assumptions (Continued)

Fire Plan, cost of living benefit increases for retirees are assumed to be 1.0 percent through 2044 and 2064, respectively, and 2.5 percent thereafter. Cost of living benefit increases for retirees are assumed to be 2.5 percent for the Public Employees Correctional Plan.

Actuarial assumptions used in the June 30, 2017, valuation were based on the results of actuarial experience studies. The experience study for the General Employees Retirement Plan was dated June 30, 2015. The experience study for the Public Employees Police and Fire Plan was dated August 30, 2016. The experience study for the Public Employees Correctional Plan was dated February 2012.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic stocks	39%	5.10%
International stocks	19	5.30
Bonds	20	0.75
Alternative assets	20	5.90
Cash	2	0.00

6. Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent in 2017, which remained consistent with 2016. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions

5. Pension Plans

A. Defined Benefit Pension Plans

6. Discount Rate (Continued)

will be made at the rate specified in statute. Based on that assumption, the fiduciary net position of the General Employees Retirement Plan and the Public Employees Police and Fire Plan were projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

In the Public Employees Correctional Plan, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members through June 30, 2061. Beginning in fiscal year ended June 30, 2062, when projected benefit payments exceed the Plan's projected fiduciary net position, benefit payments were discounted at the municipal bond rate of 3.56 percent based on an index of 20-year general obligation bonds with an average AA credit rating at the measurement date. An equivalent single discount rate of 5.96 percent for the Public Employees Correctional Plan was determined that produced approximately the same present value of projected benefits when applied to all years of projected benefits as the present value of projected benefits using 7.50 percent applied to all years of projected benefits to the point of asset depletion and 3.56 percent thereafter.

7. Changes in Actuarial Assumptions

The following changes in actuarial assumptions occurred in 2017:

General Employees Retirement Plan

- The Combined Service Annuity (CSA) loads were changed from 0.80 percent for active members and 60 percent for vested and non-vested deferred members (30 percent for deferred Minneapolis Employees Retirement Fund members). The revised CSA loads are now 0.00 percent for active member liability, 15 percent for vested deferred member liability, and 3.00 percent for non-vested deferred member liability.

5. Pension Plans

A. Defined Benefit Pension Plans

7. Changes in Actuarial Assumptions

General Employees Retirement Plan (Continued)

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year for all years to 1.00 percent per year through 2044 and 2.50 percent per year thereafter.

- Minneapolis Employees Retirement Fund plan provisions change the employer supplemental contribution to $21,000,000 in calendar years 2017 and 2018 and returns to $31,000,000 through calendar year 2031. The state's required contribution is $16,000,000 in PERA's fiscal years 2018 and 2019 and returns to $6,000,000 annually through calendar year 2031.

Public Employees Police and Fire Plan

- The assumed salary increases were changed as recommended in the June 30, 2016, experience study. The net effect is proposed rates that average 0.34 percent lower than the previous rates.

- The assumed rates of retirement were changed, resulting in fewer retirements.

- The CSA load was 30 percent for vested and non-vested, deferred members. The CSA has been changed to 33 percent for vested members and 2.00 percent for non-vested members.

- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the mortality table assumed for healthy retirees.

5. Pension Plans

A. Defined Benefit Pension Plans

7. Changes in Actuarial Assumptions

Public Employees Police and Fire Plan (Continued)

- The assumed termination rates were decreased to 3.00 percent for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall.

- The assumed percentage of married female members was decreased from 65 percent to 60 percent.

- The assumed age difference was changed from separate assumptions for male members (wives assumed to be three years younger) and female members (husbands assumed to be four years older) to the assumption that males are two years older than females.

- The assumed percentage of female members electing joint and survivor annuities was increased.

- The assumed post-retirement benefit increase rate was changed from 1.00 percent for all years to 1.00 percent per year through 2064 and 2.50 percent thereafter.

- The single discount rate was changed from 5.60 percent per annum to 7.50 percent per annum.

Public Employees Correctional Plan

- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016 and is applied to healthy and disabled members. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the RP-2014 disabled annuitant mortality table (with future mortality improvement according to Scale MP-2016).

5. Pension Plans

A. Defined Benefit Pension Plans

7. Changes in Actuarial Assumptions

Public Employees Correctional Plan (Continued)

- The CSA load was 30 percent for vested and non-vested, deferred members. The CSA has been changed to 35 percent for vested members and 1.00 percent for non-vested members.

- The single discount rate was changed from 5.31 percent per annum to 5.96 percent per annum.

8. Pension Liability Sensitivity

The following presents the County's proportionate share of the net pension liability calculated using the discount rate previously disclosed, 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 (6.50%)	Discount Rate (7.50%)	1% Increase in Discount Rate (8.50%)
Proportionate share of the General Employees Retirement Plan net pension liability			
Governmental activities	$ 10,733,720	$ 6,920,184	$ 3,798,113
Business-Type activities	4,445,978	2,866,386	1,573,204
Total General Employees Retirement Plan liability	$ 15,179,698	$ 9,786,570	$ 5,371,317

	1% Decrease in Discount Rate (4.60%)	Discount Rate (5.60%)	1% Increase in Discount Rate (6.60%)
Proportionate share of the Public Employees Police and Fire Plan net pension liability	$ 3,407,175	$ 1,809,159	$ 489,909

5. Pension Plans

A. Defined Benefit Pension Plans

8. Pension Liability Sensitivity (Continued)

	1% Decrease in Discount Rate (4.31%)	Discount Rate (5.31%)	1% Increase in Discount Rate (6.31%)
Proportionate share of the Public Employees Correctional Plan net pension liability	$ 3,569,310	$ 2,166,008	$ 1,070,711

9. Pension Plan Fiduciary Net Position

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

B. Defined Contribution Plan

Two 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.

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.

5. Pension Plans

B. Defined Contribution Plan (Continued)

Total contributions by dollar amount and percentage of covered payroll made by Hubbard County during the year ended December 31, 2017, were:

	Employee	Employer
Contribution amount	$ 3,092	$ 3,092
Percentage of covered payroll	5%	5%

6. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

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

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

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

B. Management Agreement

The Heritage Community is managed by Ecumen. All three facilities are under a three-year agreement which expires June 2018. Heritage Living Center, Heritage Manor, and Heritage Cottages each incur a monthly fee of $15,800, $1,920, and $2,500, respectively. Management fees amounted to $240,154 for the year ended September 30, 2017.

6. Summary of Significant Contingencies and Other Items

B. Management Agreement (Continued)

Certain employees of Ecumen perform services for the Heritage Community. The Heritage Community had unpaid amounts pertaining to these services received, presented as Due to Related Parties on the statements at September 30, 2017.

C. Heritage Community Building Project

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

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

D. Risk Management

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

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

6. Summary of Significant Contingencies and Other Items

D. Risk Management (Continued)

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at $500,000 per claim in 2017 and 2018. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

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

E. Joint Ventures

Hubbard County Family Services Collaborative

The Hubbard County Family Services Collaborative was established in 1998 under the authority of Minn. Stat. §§ 124D.23 and 245.491. The Collaborative includes Hubbard County Social Services; Independent School District Numbers 306, 308, and 309; St. Joseph's Area Health Services; Mahube Community Head Start Program; Stellher Human Services, Inc.; Hubbard County Probation; and the 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.

6. Summary of Significant Contingencies and Other Items

E. Joint Ventures

Hubbard County Family Services Collaborative (Continued)

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

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

Financing is provided by state grants and contributions from its members. Hubbard County, in an agent capacity, reports the cash transactions of the Hubbard County Family Services Collaborative as an agency fund on the County's financial statements. During 2017, Hubbard County contributed $72,640 to the Collaborative.

Kitchigami Regional Library

The Kitchigami Regional Library was formed pursuant to Minn. Stat. § 134.20. It was formed January 1, 1992, and includes Beltrami, Cass, Crow Wing, Hubbard, and Wadena Counties, and nine separate cities. Control of the Library is vested in the Kitchigami Regional Library Board, which is composed of 19 members with three-year terms made up of the following: one member appointed by each City Council and two 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, 2017. Separate financial information can be obtained from the Kitchigami Regional Library, PO Box 84, Pine River, Minnesota 56474.

Mississippi Headwaters Board

The Mississippi Headwaters Board was established on February 22, 1980, under the authority of the Joint Powers Act, pursuant to Minn. Stat. § 471.59, and includes Aitkin, Beltrami, Cass, Clearwater, Crow Wing, Hubbard, Itasca, and Morrison Counties. The

6. Summary of Significant Contingencies and Other Items

E. Joint Ventures

Mississippi Headwaters Board (Continued)

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 2017, Hubbard County contributed $1,500 to the Board. Crow Wing County maintains the accounting records of the Board. Complete financial information can be obtained from the Mississippi Headwaters Board, Land Services Building, 322 Laurel Street, Brainerd, Minnesota 56401.

North Country Community Health Service

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

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

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

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

6. Summary of Significant Contingencies and Other Items

E. Joint Ventures

North Country Community Health Service (Continued)

Hubbard County did not contribute to the Health Service for the year ended December 31, 2017. Complete financial information can be obtained from the Clearwater County Auditor/Treasurer's Office or the Health Service's office located at 212 Main Avenue North, Bagley, Minnesota 56621.

Northwest Minnesota Regional Emergency Communication Board

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

The purpose of the Northwest Minnesota Regional Emergency Communication Board is to provide for regional administration of enhancements to the Statewide Public Safety Radio and Communication System (ARMER) owned and operated by the State of Minnesota and to enhance and improve interoperable public safety communications along with coordination of 911 and public safety broadband data services within the region.

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

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

6. Summary of Significant Contingencies and Other Items

E. Joint Ventures

Northwest Minnesota Regional Emergency Communication Board (Continued)

The Northwest Minnesota Regional Emergency Communication Board has no long-term debt. Financing is provided by appropriations from member parties and by state and federal grants. Hubbard County's contribution for 2017 was $2,500. Complete financial information can be obtained from the Headwaters Regional Development Commission, 403 – 4th Street Northwest, Suite 310, Bemidji, Minnesota 56601.

Northwest Service Cooperative

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

The NWSC is governed by a Board of Directors consisting of school board members elected at large by their peers, one city representative, with a maximum of three at-large appointees and three ex-officio superintendents. The NWSC charges adequate rates so that the participating members experience no additional financial benefit or burden. Hubbard County contributed $250 to the NWSC for the year ended December 31, 2017. Complete financial information can be obtained from the Northwest Service Cooperative, 114 First Street West, Thief River Falls, Minnesota 56701.

6. Summary of Significant Contingencies and Other Items

E. Joint Ventures (Continued)

Northwestern Counties Data Processing Security Association

The Northwestern Counties Data Processing Security Association (NCDPSA) was formed in 1994 under the authority of the Joint Powers Act, pursuant to Minn. Stat. § 471.59, and includes Becker, Beltrami, Clay, Clearwater, Hubbard, Kittson, Lake of the Woods, Mahnomen, Marshall, Pennington, Polk, Roseau, and Wadena Counties. Mahnomen County withdrew from the NCDPSA in 2017. The purpose of the NCDPSA is to provide a mechanism whereby the counties may cooperatively provide for a data processing disaster recovery plan and backup system.

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

The NCDPSA has no long-term debt. Financing is provided by grants from the State of Minnesota and appropriations from member counties when needed. Hubbard County did not contribute to the NCDPSA for the year ended December 31, 2017. Clearwater County, in an agent capacity, reports the cash transactions of the NCDPSA as an agency fund on its financial statements. Complete financial information can be obtained from the Clearwater County Auditor/Treasurer's Office, 213 North Main Avenue, Bagley, Minnesota 56621.

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.

6. Summary of Significant Contingencies and Other Items

E. Joint Ventures

Northwestern Minnesota Juvenile Center (Continued)

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

Financing is provided by state and federal grants, charges for services, and appropriations from member counties. Adequate rates are charged so that the member counties do not experience any additional financial benefit or burden. Hubbard County made $71,278 in payments to the Center in 2017. Beltrami County, in an agent capacity, reports the cash transactions of the Northwestern Minnesota Juvenile Center as an agency fund on its financial statements. Complete financial information can be obtained from the Beltrami County Auditor/Treasurer's Office or at the Center's office, PO Box 247, Bemidji, Minnesota 56619.

Paul Bunyan Drug Task Force

The Paul Bunyan Drug Task Force was established July 16, 1992, under the authority of the Joint Powers Act, pursuant to Minn. Stat. § 471.59, and in 2017 included Beltrami, Cass, Hubbard, and Mahnomen Counties; the Leech Lake and White Earth Reservations; the Bureau of Indian Affairs; and the Cities of Bemidji and Park Rapids. The purpose of the Paul Bunyan Drug Task Force is to assist member organizations in the investigation and prosecution of persons in violation of Minnesota statutes.

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

The Paul Bunyan Drug Task Force has no long-term debt. During 2017, Hubbard County contributed $3,500 to the Paul Bunyan Drug Task Force. Financing is provided by the profits from forfeitures and seizures pursuant to Minn. Stat. § 609.531. Beltrami County, in an agent capacity, reports the cash transactions of the Paul Bunyan Drug Task Force on its financial statements. Complete financial information can be obtained from the Beltrami County Auditor/Treasurer, 701 Minnesota Avenue, Suite 220, Bemidji, Minnesota 56601.

6. Summary of Significant Contingencies and Other Items

E. Joint Ventures (Continued)

PrimeWest Health

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

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

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

Financing is provided by Medical Assistance and General Assistance Medical Care payments from the Minnesota Department of Human Services, initial start-up loans from the member counties, and by proportional contributions from member counties, if necessary, to cover operational costs. Hubbard County did not contribute to PrimeWest Health during 2017. Complete financial information can be obtained from its administrative office at PrimeWest Health, 3905 Dakota Street, Suite 101, Alexandria, Minnesota 56308.

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

F. Jointly-Governed Organizations

Region Three – Northwest Minnesota Homeland Security Emergency Management Organization

The Region Three – Northwest Minnesota Homeland Security Emergency Management Organization was established to provide for regional coordination of planning, training, purchase of equipment, and allocating emergency services and staff in order to better respond to emergencies and natural or other disasters within the region. Control is vested in the Board, which is composed of representatives appointed by each Board of County Commissioners. Hubbard County's responsibility does not extend beyond making this appointment.

MAHUBE-OTWA Community Action Partnership

MAHUBE-OTWA Community Action Partnership is a non-profit human service agency serving Becker, Hubbard, Mahnomen, Otter Tail, and Wadena Counties in Northern Minnesota. MAHUBE-OTWA is governed by an 18-member Board, with three members that are residents from each of the counties in the agency's jurisdiction, plus three members are at-large from any of the five counties. The partnership serves low-income and elderly persons to provide services including Head Start programs, Family Development and Housing, Child Care Aware & Early Learning Scholarships, Child Passenger, Senior Programs, Energy Programs, and Family Health.

Minnesota Counties Computer Cooperative

Under Minnesota Joint Powers Law, Minn. Stat. § 471.59, Minnesota counties have created the Minnesota Counties Computer Cooperative (MCCC) to jointly provide for the establishment, operation, and maintenance of data processing systems, facilities, and management information systems. During 2017, Hubbard County expended $105,895 to the MCCC.

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

G. Segment Information

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

Condensed Statement of Net Position	Heritage Living Center	Heritage Manor	Heritage Cottages
Assets			
Current assets	$ 815,697	$ 194,653	$ 199,672
Interfund receivables	31,348	7,405	-
Restricted assets	70,001	111,100	2,116
Capital assets	520,123	820,415	1,442,185
Total Assets	$ 1,437,169	$ 1,133,573	$ 1,643,973
Deferred Outflows of Resources			
Pension-related deferred outflows	$ 672,778	$ -	$ -
Liabilities			
Current liabilities payable from restricted assets	$ 3,860	$ 12,307	$ -
Interfund payables	84,774	4,691	31,348
Other current liabilities	608,825	197,424	30,922
Noncurrent liabilities	3,067,424	1,356,691	1,465,000
Total Liabilities	$ 3,764,883	$ 1,571,113	$ 1,527,270
Deferred Inflows of Resources			
Pension-related deferred inflows	$ 535,886	$ -	$ -
Net Position			
Net investment in capital assets	$ 520,123	$ (666,276)	$ (22,815)
Restricted	-	98,485	2,116
Unrestricted	(2,710,945)	130,251	137,402
Total Net Position	$ (2,190,822)	$ (437,540)	$ 116,703

6. Summary of Significant Contingencies and Other Items

G. Segment Information (Continued)

Condensed Statement of Revenues, Expenses, and Changes in Net Position	Heritage Living Center	Heritage Manor	Heritage Cottages
Operating Revenues			
Charges for services	$ 4,699,497	$ -	$ -
Rental income	-	729,345	895,981
Intergovernmental	6,599	-	-
Miscellaneous	100,299	2,981	284
Total Operating Revenues	$ 4,806,395	$ 732,326	$ 896,265
Depreciation expense	(95,259)	(96,943)	(78,455)
Other operating expenses	(5,640,437)	(497,635)	(672,776)
Operating Income (Loss)	$ (929,301)	$ 137,748	$ 145,034
Nonoperating Revenues (Expenses)			
Investment earnings	$ 286	$ 724	$ 624
Interest expense	-	(35,334)	(73,898)
Total Nonoperating Revenues (Expenses)	$ 286	$ (34,610)	$ (73,274)
Transfers in (out)	$ 274,560	$ -	$ -
Change in Net Position	$ (654,455)	$ 103,138	$ 71,760
Beginning Net Position	(1,536,367)	(540,678)	44,943
Ending Net Position	$ (2,190,822)	$ (437,540)	$ 116,703

H. Subsequent Event

On August 1, 2017, Hubbard County entered into a joint powers agreement with nine governmental units to self-insure health insurance as of January 1, 2018, in effect, leaving the Northwest Service Cooperative. Premiums will be withheld from employees and transferred to Prime Health. Claims will be managed and paid by a third party and will submit invoices to Prime Health for claims incurred.

7. Component Unit Disclosures – Hubbard County Housing and Redevelopment Authority (HRA)

The Hubbard County Housing and Redevelopment Authority (HRA) was created in 1995 by the Hubbard County Board and operates as a local governmental unit for the purpose of providing housing and redevelopment services to the citizens of Hubbard County. The governing body consists of a five-member Board appointed by the Hubbard County Board.

A. Summary of Significant Accounting Policies

1. Measurement Focus

The HRA is reported using the economic resources measurement focus and the full accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows.

2. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position

Cash and Cash Equivalents

The HRA's cash and cash equivalents consist of checking accounts and do not include restricted accounts. Cash and cash equivalents are defined as short-term, highly liquid investments with maturity dates of three months or less at the time of purchase. Available cash balances are maintained in demand deposit accounts.

Capital Assets

Capital assets with useful lives of more than one year are stated at estimated historical cost and comprehensively reported in the statement of net position. Donated assets are stated at estimated fair market value on the date donated. The HRA generally capitalizes assets with a cost of $5,000 or more (excluding stoves and refrigerators). The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated over the estimated useful lives of the assets using the straight-line method.

Depreciation is recorded using the straight-line method over the various lives of the assets, which range from 3 to 40 years.

7. Component Unit Disclosures – Hubbard County Housing and Redevelopment Authority (HRA)

A. Summary of Significant Accounting Policies (Continued)

3. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

B. Detailed Notes on All Funds

1. Deposits and Investments

The HRA's cash and investments at year-end were comprised of the following:

Demand and time deposits	$ 360,317

Deposits

In accordance with Minnesota statutes, the HRA maintains deposits at those depository banks authorized by the Board. All such depositories are members of the Federal Reserve System. The HRA is required by Minnesota statutes to protect HRA deposits with insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit at the close of the financial institution's banking day, not covered by insurance or bonds.

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

7. Component Unit Disclosures – Hubbard County Housing and Redevelopment Authority (HRA)

B. Detailed Notes on All Funds

1. Deposits and Investments

Deposits (Continued)

At December 31, 2017, the HRA had uninsured deposits of $134,595 as a result of a lapse in pledged collateral.

Investments

The HRA had no investments as of December 31, 2017.

2. Contracts Receivable

Contracts receivable consists of amounts due from borrowers for the purchase or remodel of housing. The terms of the receivables range from zero to four percent, maturing from October 15, 2018, to February 1, 2045. At December 31, 2017, the HRA reported contracts receivable of $302,339.

3. Capital Assets

The HRA's capital asset activity for the year ended December 31, 2017, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land and improvements	$ 181,196	$ 38,744	$ -	$ 219,940
Capital assets depreciated				
Buildings	$ 788,187	$ 422,255	$ -	$ 1,210,442
Less: accumulated depreciation	246,828	32,608	-	279,436
Total capital assets depreciated, net	$ 541,359	$ 389,647	$ -	$ 931,006
Total Capital Assets, Net	$ 722,555	$ 428,391	$ -	$ 1,150,946

7. Component Unit Disclosures – Hubbard County Housing and Redevelopment Authority (HRA)

B. Detailed Notes on All Funds (Continued)

4. Long-Term Debt

Long-term debt outstanding at December 31, 2017, for the HRA consists of the following:

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rates (%)	Outstanding Balance December 31, 2017
MHFA loan	2019	-	-	$ 513,000
SCDP mortgage	2023	$138/month	-	9,258
Bank mortgage	2032	$2,537/month	3.5%	354,991
Total Long-Term Debt				$ 877,249

5. Debt Service Requirements

Debt service requirements as of December 31, 2017, are as follows:

Future Payments		
2018	$	21,193
2019		21,888
2020		535,608
2021		23,353
2022		24,124
2023 – 2032		251,083
Total	$	877,249

7. Component Unit Disclosures – Hubbard County Housing and Redevelopment Authority (HRA)

B. Detailed Notes on All Funds (Continued)

6. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2017, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
MHFA loan	$ 513,000	$ -	$ -	$ 513,000	$ -
SCDP mortgage	9,949	-	691	9,258	1,658
Bank mortgage	-	361,250	6,259	354,991	19,535
Long-Term Liabilities	$ 522,949	$ 361,250	$ 6,950	$ 877,249	$ 21,193

7. Conduit Debt Obligation

Not included in the financial statements are various conduit debt obligations issued under the name of the Hubbard County Housing and Redevelopment Authority. The bonds are not secured by or payable from revenue or assets of the HRA. Neither the faith and credit nor the taxing power of the HRA is pledged to the payment of the principal and interest on the bonds, nor is the HRA in any manner obligated to make any appropriations for payments on these bonds. At December 31, 2017, the aggregate principal amount of conduit debt obligations outstanding totaled $2,900,000.

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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, 2017

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 7,456,967	$ 7,456,967	$ 7,116,000	$ (340,967)
Licenses and permits	117,481	117,481	165,525	48,044
Intergovernmental	2,940,495	2,940,495	3,329,946	389,451
Charges for services	1,220,390	1,220,390	1,374,485	154,095
Fines and forfeits	26,600	26,600	40,369	13,769
Investment earnings	267,731	267,731	164,820	(102,911)
Gifts and contributions	20,000	20,000	40,995	20,995
Miscellaneous	544,085	544,085	698,214	154,129
Total Revenues	**$ 12,593,749**	**$ 12,593,749**	**$ 12,930,354**	**$ 336,605**
Expenditures				
Current				
General government				
Commissioners	$ 293,100	$ 293,100	$ 228,633	$ 64,467
District court	93,000	93,000	170,737	(77,737)
Law library	18,000	18,000	8,637	9,363
Coordinator	502,691	502,691	456,986	45,705
County auditor/treasurer	472,113	472,113	434,726	37,387
Professional services	36,150	36,150	25,866	10,284
Elections	88,400	88,400	81,069	7,331
Purchasing	17,000	17,000	11,324	5,676
Data processing	365,762	365,762	372,901	(7,139)
Attorney	673,020	673,020	669,259	3,761
Recorder	349,256	349,256	337,633	11,623
Surveyor	229,251	229,251	193,971	35,280
Assessor	434,872	434,872	412,433	22,439
Environmental services	522,893	522,893	469,568	53,325
Motor pool	46,035	46,035	97,666	(51,631)
Buildings and grounds	808,699	808,699	435,409	373,290
Veterans service officer	155,328	155,328	122,284	33,044
Insurance	90,000	90,000	149,037	(59,037)
Other general government	312,617	312,617	100,432	212,185
Total general government	**$ 5,508,187**	**$ 5,508,187**	**$ 4,778,571**	**$ 729,616**

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

EXHIBIT A-1
(Continued)

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2017

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Expenditures				
Current (Continued)				
Public safety				
Sheriff	$ 2,356,030	$ 2,356,030	$ 2,466,061	$ (110,031)
Boat and water safety	121,231	121,231	115,281	5,950
Emergency services	87,928	87,928	101,008	(13,080)
Coroner	-	-	49,044	(49,044)
Enhanced 911	231,469	231,469	225,785	5,684
Community corrections	2,544,827	2,544,827	2,646,275	(101,448)
Building and grounds	315,990	315,990	278,012	37,978
Jail canteen	-	-	98,875	(98,875)
Sentence to serve	142,883	142,883	137,757	5,126
Probation and parole	76,154	76,154	139,095	(62,941)
Total public safety	**$ 5,876,512**	**$ 5,876,512**	**$ 6,257,193**	**$ (380,681)**
Human services				
Mahube Community Council	**$ 500,000**	**$ 500,000**	**$ 737,650**	**$ (237,650)**
Public health				
Nursing home	**$ -**	**$ -**	**$ 27,930**	**$ (27,930)**
Culture and recreation				
Historical society	$ 17,000	$ 17,000	$ 16,730	$ 270
Parks	204,088	204,088	271,058	(66,970)
Regional library	200,000	200,000	200,000	-
Snowmobile and ski trails	171,400	171,400	123,765	47,635
Total culture and recreation	**$ 592,488**	**$ 592,488**	**$ 611,553**	**$ (19,065)**
Conservation of natural resources				
County extension	$ 146,968	$ 146,968	$ 150,220	$ (3,252)
Agricultural society	41,500	41,500	41,500	-
Aquatic invasive species	438,030	438,030	367,338	70,692
Local water	8,566	8,566	8,566	-
Soil and water conservation	30,000	30,000	30,000	-
Natural resources grant	65,553	65,553	65,553	-
Total conservation of natural resources	**$ 730,617**	**$ 730,617**	**$ 663,177**	**$ 67,440**
Total Expenditures	**$ 13,207,804**	**$ 13,207,804**	**$ 13,076,074**	**$ 131,730**

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, 2017

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Excess of Revenues Over (Under) Expenditures	**$ (614,055)**	**$ (614,055)**	**$ (145,720)**	**$ 468,335**
Other Financing Sources (Uses)				
Transfers in	$ 600,000	$ 600,000	$ 376,846	$ (223,154)
Transfers out	(188,933)	(188,933)	(216,933)	(28,000)
Total Other Financing Sources (Uses)	**$ 411,067**	**$ 411,067**	**$ 159,913**	**$ (251,154)**
Net Change in Fund Balance	**$ (202,988)**	**$ (202,988)**	**$ 14,193**	**$ 217,181**
Fund Balance – January 1	**6,720,095**	**6,720,095**	**6,720,095**	**-**
Fund Balance – December 31	**$ 6,517,107**	**$ 6,517,107**	**$ 6,734,288**	**$ 217,181**

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, 2017

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 3,900,000	$ 3,900,000	$ 3,978,522	$ 78,522
Intergovernmental	6,041,800	6,041,800	6,610,620	568,820
Charges for services	992,500	992,500	748,509	(243,991)
Investment earnings	-	-	6,992	6,992
Miscellaneous	20,000	20,000	78,143	58,143
Total Revenues	**$ 10,954,300**	**$ 10,954,300**	**$ 11,422,786**	**$ 468,486**
Expenditures				
Current				
Highways and streets				
Administration	$ 634,214	$ 634,214	$ 599,536	$ 34,678
Maintenance	2,919,889	2,919,889	2,899,829	20,060
Construction	5,572,874	5,572,874	6,077,332	(504,458)
Equipment maintenance and shop	1,084,346	1,084,346	1,404,608	(320,262)
Fuel facility	13,556	13,556	15,009	(1,453)
Materials for resale	994,942	994,942	54,341	940,601
Other highways and streets	26,847	26,847	27,997	(1,150)
Total highways and streets	**$ 11,246,668**	**$ 11,246,668**	**$ 11,078,652**	**$ 168,016**
Intergovernmental				
Highways and streets	**$ 342,700**	**$ 342,700**	**$ 339,563**	**$ 3,137**
Debt service				
Principal	$ 249,000	$ 249,000	$ 263,484	$ (14,484)
Interest	6,000	6,000	5,945	55
Total debt service	**$ 255,000**	**$ 255,000**	**$ 269,429**	**$ (14,429)**
Total Expenditures	**$ 11,844,368**	**$ 11,844,368**	**$ 11,687,644**	**$ 156,724**
Net Change in Fund Balance	**$ (890,068)**	**$ (890,068)**	**$ (264,858)**	**$ 625,210**
Fund Balance – January 1	**6,521,692**	**6,521,692**	**6,521,692**	**-**
Increase (decrease) in inventories	**-**	**-**	**39,620**	**39,620**
Fund Balance – December 31	**$ 5,631,624**	**$ 5,631,624**	**$ 6,296,454**	**$ 664,830**

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, 2017

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 3,100,000	$ 3,100,000	$ 3,096,211	$ (3,789)
Intergovernmental	3,386,063	3,386,063	3,721,386	335,323
Charges for services	439,000	439,000	504,546	65,546
Investment earnings	-	-	799	799
Miscellaneous	304,463	304,463	441,522	137,059
Total Revenues	**$ 7,229,526**	**$ 7,229,526**	**$ 7,764,464**	**$ 534,938**
Expenditures				
Current				
Human services				
Income maintenance	$ 2,131,600	$ 2,131,600	$ 1,860,953	$ 270,647
Social services	6,235,429	6,235,429	4,963,663	1,271,766
Transportation	-	-	445,450	(445,450)
Total Expenditures	**$ 8,367,029**	**$ 8,367,029**	**$ 7,270,066**	**$ 1,096,963**
Net Change in Fund Balance	**$ (1,137,503)**	**$ (1,137,503)**	**$ 494,398**	**$ 1,631,901**
Fund Balance – January 1	**5,160,446**	**5,160,446**	**5,160,446**	**-**
Fund Balance – December 31	**$ 4,022,943**	**$ 4,022,943**	**$ 5,654,844**	**$ 1,631,901**

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, 2017

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Intergovernmental	$ 110,100	$ 110,100	$ 137,215	$ 27,115
Land and timber sales	2,267,600	2,267,600	1,345,966	(921,634)
Miscellaneous	15,000	15,000	4,352	(10,648)
Total Revenues	**$ 2,392,700**	**$ 2,392,700**	**$ 1,487,533**	**$ (905,167)**
Expenditures				
Current				
Conservation of natural resources				
Forfeited land	$ 828,449	$ 828,449	$ 725,188	$ 103,261
Access road	22,000	22,000	32,826	(10,826)
Forest development	250,000	250,000	271,908	(21,908)
Miscellaneous	4,500	4,500	157,225	(152,725)
Total Expenditures	**$ 1,104,949**	**$ 1,104,949**	**$ 1,187,147**	**$ (82,198)**
Excess of Revenues Over (Under) Expenditures	**$ 1,287,751**	**$ 1,287,751**	**$ 300,386**	**$ (987,365)**
Other Financing Sources (Uses)				
Transfers out	(1,251,773)	(1,251,773)	(376,846)	874,927
Net Change in Fund Balance	**$ 35,978**	**$ 35,978**	**$ (76,460)**	**$ (112,438)**
Fund Balance – January 1	**1,833,674**	**1,833,674**	**1,833,674**	**-**
Fund Balance – December 31	**$ 1,869,652**	**$ 1,869,652**	**$ 1,757,214**	**$ (112,438)**

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 POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2017

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b – a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b – a)/c)
January 1, 2011	$ -	$ 1,158,781	$ 1,158,781	0.00%	$ 9,225,647	12.56%
January 1, 2014	-	1,203,508	1,203,508	0.00	9,619,227	12.51
January 1, 2017	-	777,762	777,762	0.00	9,142,229	8.51

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

HUBBARD COUNTY
PARK RAPIDS, MINNESOTA

EXHIBIT A-6

SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA GENERAL EMPLOYEES RETIREMENT PLAN
DECEMBER 31, 2017

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	State's Proportionate Share of the Net Pension Liability Associated with Hubbard County (b)	Employer's Proportionate Share of the Net Pension Liability and the State's Related Share of the Net Pension Liability (Asset) (a + b)	Covered Payroll (c)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2017	0.1533%	$ 9,786,570	$ 123,006	$ 9,909,576	$ 10,320,226	94.83%	75.90%
2016	0.1499	12,171,137	159,004	12,330,141	9,618,314	126.54	68.91
2015	0.1478	7,659,764	N/A	7,659,764	9,012,354	84.99	78.19

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

HUBBARD COUNTY
PARK RAPIDS, MINNESOTA

EXHIBIT A-7

SCHEDULE OF CONTRIBUTIONS
PERA GENERAL EMPLOYEES RETIREMENT PLAN
DECEMBER 31, 2017

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)
2017	$ 758,901	$ 758,901	$ -	$ 10,567,075	7.18%
2016	718,199	718,199	-	9,887,946	7.26
2015	655,012	655,012	-	9,097,536	7.20

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

HUBBARD COUNTY
PARK RAPIDS, MINNESOTA

EXHIBIT A-8

SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA PUBLIC EMPLOYEES POLICE AND FIRE PLAN
DECEMBER 31, 2017

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
2017	0.134%	$ 1,809,159	$ 1,375,562	131.52%	85.43%
2016	0.133	5,337,521	1,277,137	417.93	63.88
2015	0.129	1,465,742	1,177,598	124.47	86.61

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

HUBBARD COUNTY
PARK RAPIDS, MINNESOTA

EXHIBIT A-9

SCHEDULE OF CONTRIBUTIONS
PERA PUBLIC EMPLOYEES POLICE AND FIRE PLAN
DECEMBER 31, 2017

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)
2017	$ 227,351	$ 227,351	$ -	$ 1,403,400	16.20%
2016	215,093	215,093	-	1,327,734	16.20
2015	195,192	195,192	-	1,204,889	16.20

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

The notes to the required supplementary information are an integral part of these schedules.

HUBBARD COUNTY
PARK RAPIDS, MINNESOTA

EXHIBIT A-10

SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA PUBLIC EMPLOYEES CORRECTIONAL PLAN
DECEMBER 31, 2017

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
2017	0.76%	$ 2,166,008	$ 1,524,580	142.07%	67.89%
2016	0.79	2,885,981	1,481,175	194.84	58.16
2015	0.77	119,042	1,382,657	8.61	96.95

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

HUBBARD COUNTY
PARK RAPIDS, MINNESOTA

EXHIBIT A-11

SCHEDULE OF CONTRIBUTIONS
PERA PUBLIC EMPLOYEES CORRECTIONAL PLAN
DECEMBER 31, 2017

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)
2017	$ 142,684	$ 142,684	$ -	$ 1,630,677	8.75%
2016	131,469	131,469	-	1,502,504	8.75
2015	123,408	123,408	-	1,410,377	8.75

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

The notes to the required supplementary information are an integral part of these schedules.

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HUBBARD COUNTY
PARK RAPIDS, MINNESOTA

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017

1. Budgetary Information

A. Budget Policy

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

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

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

B. Excess of Expenditures Over Budget

The following departments had expenditures in excess of budget for the year ended December 31, 2017:

	Expenditures	Final Budget	Excess
General Fund			
Current			
General government			
District court	$ 170,737	$ 93,000	$ 77,737
Data processing	372,901	365,762	7,139
Motor pool	97,666	46,035	51,631
Insurance	149,037	90,000	59,037

1. Budgetary Information

B. Excess of Expenditures Over Budget (Continued)

	Expenditures	Budget	Excess
General Fund			
Current (Continued)			
Public safety			
Sheriff	2,466,061	2,356,030	110,031
Emergency services	101,008	87,928	13,080
Coroner	49,044	-	49,044
Community corrections	2,646,275	2,544,827	101,448
Jail canteen	98,875	-	98,875
Probation and parole	139,095	76,154	62,941
Human services			
Mahube Community Council	737,650	500,000	237,650
Public health			
Nursing home	27,930	-	27,930
Culture and recreation			
Parks	271,058	204,088	66,970
Conservation of natural resources			
County extension	150,220	146,968	3,252
Road and Bridge Special Revenue Fund			
Current			
Highways and streets			
Construction	6,077,332	5,572,874	504,458
Equipment maintenance and shop	1,404,608	1,084,346	320,262
Fuel facility	15,009	13,556	1,453
Other highways and streets	27,997	26,847	1,150
Debt service			
Principal	263,484	249,000	14,484
Social Services Special Revenue Fund			
Current			
Human services			
Transportation	445,450	-	445,450
Forfeited Tax Sale Special Revenue Fund			
Current			
Conservation of natural resources			
Access road	32,826	22,000	10,826
Forest development	271,908	250,000	21,908
Miscellaneous	157,225	4,500	152,725

2. Other Postemployment Benefits (OPEB)

Governmental Activities

Since the last actuarial valuation as of January 1, 2014, the following actuarial assumptions have changed:

- The health care trend rates were changed to better anticipate short-term and long-term medical increases.
- The mortality table was updated from RP 2000 Combined Healthy Table projected to 2014 with Scale BB (with Blue Collar adjustment for Police and Fire) to the RP-2014 adjusted to 2006 White Collar Mortality Tables with MP-2016 Generational Improvement Scale (Blue Collar Tables for Police and Fire personnel).
- The withdrawal and retirement tables for all employees were updated.
- The retiree plan participation assumption was changed from 50 percent to 40 percent.
- The discount rate was changed from 4.50 percent to 3.50 percent.

Since the last actuarial valuation as of January 1, 2014, the following plan provisions have changed:

- A subsidy was added for Elected Officials with service as an elected official prior to December 31, 2014.
- The years of service required to be eligible for a benefit (implicit rate subsidy) was increased from three years to five years.

Currently, three years of actuarial data is available. For more information, refer to Exhibit A-5 of this section and the Notes to the Financial Statements, Section 4, Other Postemployment Benefits.

Business-Type Activities

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

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

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

General Employees Retirement Plan

2017

- The Combined Service Annuity (CSA) loads were changed from 0.80 percent for active members and 60 percent for vested and non-vested deferred members (30 percent for deferred Minneapolis Employees Retirement Fund members). The revised CSA loads are now 0.00 percent for active member liability, 15 percent for vested deferred member liability, and 3.00 percent for non-vested deferred member liability.

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year for all years to 1.00 percent per year through 2044 and 2.50 percent per year thereafter.

- Minneapolis Employees Retirement Fund plan provisions change the employer supplemental contribution to $21,000,000 in calendar years 2017 and 2018 and returns to $31,000,000 through calendar year 2031. The state's required contribution is $16,000,000 in PERA's fiscal years 2018 and 2019 and returns to $6,000,000 annually through calendar year 2031.

2016

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

- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was also changed from 7.90 percent to 7.50 percent.

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

General Employees Retirement Plan

2016 (Continued)

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

Public Employees Police and Fire Plan

2017

- The assumed salary increases were changed as recommended in the June 30, 2016, experience study. The net effect is proposed rates that average 0.34 percent lower than the previous rates.

- The assumed rates of retirement were changed, resulting in fewer retirements.

- The CSA load was 30 percent for vested and non-vested, deferred members. The CSA has been changed to 33 percent for vested members and 2.00 percent for non-vested members.

- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the mortality table assumed for healthy retirees.

- The assumed termination rates were decreased to 3.00 percent for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall.

- The assumed percentage of married female members was decreased from 65 percent to 60 percent.

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

Public Employees Police and Fire Plan

2017 (Continued)

- The assumed age difference was changed from separate assumptions for male members (wives assumed to be three years younger) and female members (husbands assumed to be four years older) to the assumption that males are two years older than females.

- The assumed percentage of female members electing joint and survivor annuities was increased.

- The assumed post-retirement benefit increase rate was changed from 1.00 percent for all years to 1.00 percent per year through 2064 and 2.50 percent thereafter.

- The single discount rate was changed from 5.60 percent per annum to 7.50 percent per annum.

2016

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

- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was changed from 7.90 percent to 5.60 percent.

- The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

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

Public Employees Correctional Plan

2017

- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016 and is applied to healthy and disabled members. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the RP-2014 disabled annuitant mortality table (with future mortality improvement according to Scale MP-2016).

- The CSA load was 30 percent for vested and non-vested, deferred members. The CSA has been changed to 35 percent for vested members and 1.00 percent for non-vested members.

- The single discount rate was changed from 5.31 percent per annum to 5.96 percent per annum.

2016

- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was changed from 7.90 percent to 5.31 percent.

- The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

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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, 2017

	Solid Waste Special Revenue Fund	Building Bonds Debt Service Fund	Environmental Trust Permanent Fund	Total
Assets				
Cash and pooled investments	$ 2,438,408	$ 1,283,958	$ -	$ 3,722,366
Taxes receivable – delinquent	-	28,573	-	28,573
Accounts receivable	194,087	-	288	194,375
Due from other governments	-	-	185	185
Permanent fund principal	-	-	482,442	482,442
Total Assets	**$ 2,632,495**	**$ 1,312,531**	**$ 482,915**	**$ 4,427,941**
Liabilities, Deferred Inflows of Resources, and Fund Balances				
Liabilities				
Accounts payable	$ 60,158	$ -	$ -	$ 60,158
Salaries payable	25,541	-	572	26,113
Due to other funds	4,415	-	-	4,415
Due to other governments	48,399	-	-	48,399
Total Liabilities	**$ 138,513**	**$ -**	**$ 572**	**$ 139,085**
Deferred Inflows of Resources				
Unavailable revenue – taxes	$ -	$ 21,735	$ -	$ 21,735
Unavailable revenue – charges for services	121,179	-	-	121,179
Prepaid property taxes	-	28,757	-	28,757
Total Deferred Inflows of Resources	**$ 121,179**	**$ 50,492**	**$ -**	**$ 171,671**
Fund Balances				
Nonspendable	$ -	$ -	$ 467,280	$ 467,280
Restricted	406,679	1,262,039	15,063	1,683,781
Committed	510	-	-	510
Assigned	1,965,614	-	-	1,965,614
Total Fund Balances	**$ 2,372,803**	**$ 1,262,039**	**$ 482,343**	**$ 4,117,185**
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	**$ 2,632,495**	**$ 1,312,531**	**$ 482,915**	**$ 4,427,941**

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, 2017

	Solid Waste Special Revenue Fund	Building Bonds Debt Service Fund	Environmental Trust Permanent Fund	Total
Revenues				
Taxes	$ -	$ 896,769	$ -	$ 896,769
Licenses and permits	425	-	-	425
Intergovernmental	68,711	3,970	-	72,681
Charges for services	3,076,551	-	-	3,076,551
Investment earnings	-	3,753	4,703	8,456
Miscellaneous	9,503	-	11,950	21,453
Total Revenues	**$ 3,155,190**	**$ 904,492**	**$ 16,653**	**$ 4,076,335**
Expenditures				
Current				
Sanitation	$ 3,135,293	$ -	$ -	$ 3,135,293
Conservation of natural resources	-	-	17,075	17,075
Debt service				
Principal	-	675,000	-	675,000
Interest	-	168,488	-	168,488
Total Expenditures	**$ 3,135,293**	**$ 843,488**	**$ 17,075**	**$ 3,995,856**
Excess of Revenues Over (Under) Expenditures	**$ 19,897**	**$ 61,004**	**$ (422)**	**$ 80,479**
Other Financing Sources (Uses)				
Transfers in	16,933	-	-	16,933
Net Change in Fund Balance	**$ 36,830**	**$ 61,004**	**$ (422)**	**$ 97,412**
Fund Balance – January 1	**2,335,973**	**1,201,035**	**482,765**	**4,019,773**
Fund Balance – December 31	**$ 2,372,803**	**$ 1,262,039**	**$ 482,343**	**$ 4,117,185**

HUBBARD COUNTY
PARK RAPIDS, MINNESOTA

EXHIBIT B-3

BUDGETARY COMPARISON SCHEDULE
SOLID WASTE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2017

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Licenses and permits	$ 350	$ 350	$ 425	$ 75
Intergovernmental	67,729	67,729	68,711	982
Charges for services	3,240,000	3,240,000	3,076,551	(163,449)
Miscellaneous	11,000	11,000	9,503	(1,497)
Total Revenues	**$ 3,319,079**	**$ 3,319,079**	**$ 3,155,190**	**$ (163,889)**
Expenditures				
Current				
Sanitation				
Solid waste	$ 2,154,137	$ 2,154,137	$ 1,841,244	$ 312,893
Recycling	1,025,066	1,025,066	1,240,759	(215,693)
Demolition landfill	25,000	25,000	53,290	(28,290)
Total Expenditures	**$ 3,204,203**	**$ 3,204,203**	**$ 3,135,293**	**$ 68,910**
Excess of Revenues Over (Under) Expenditures	**$ 114,876**	**$ 114,876**	**$ 19,897**	**$ (94,979)**
Other Financing Sources (Uses)				
Transfers in	16,933	16,933	16,933	-
Net Change in Fund Balance	**$ 131,809**	**$ 131,809**	**$ 36,830**	**$ (94,979)**
Fund Balance – January 1	**2,335,973**	**2,335,973**	**2,335,973**	-
Fund Balance – December 31	**$ 2,467,782**	**$ 2,467,782**	**$ 2,372,803**	**$ (94,979)**

HUBBARD COUNTY
PARK RAPIDS, MINNESOTA

EXHIBIT B-4

BUDGETARY COMPARISON SCHEDULE
ENVIRONMENTAL TRUST PERMANENT FUND
FOR THE YEAR ENDED DECEMBER 31, 2017

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Investment earnings	$ 3,500	$ 3,500	$ 4,703	$ 1,203
Miscellaneous	30,000	30,000	11,950	(18,050)
Total Revenues	**$ 33,500**	**$ 33,500**	**$ 16,653**	**$ (16,847)**
Expenditures				
Current				
Conservation of natural resources				
Natural resources	29,503	29,503	17,075	12,428
Net Change in Fund Balance	**$ 3,997**	**$ 3,997**	**$ (422)**	**$ (4,419)**
Fund Balance – January 1	**482,765**	**482,765**	**482,765**	**-**
Fund Balance – December 31	**$ 486,762**	**$ 486,762**	**$ 482,343**	**$ (4,419)**

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, 2017

	Balance January 1	Additions	Deductions	Balance December 31
HUBBARD COUNTY FAMILY SERVICES COLLABORATIVE				
Assets				
Cash and pooled investments	$ 68,837	$ 77,494	$ 60,000	$ 86,331
Liabilities				
Due to other governments	$ 68,837	$ 77,494	$ 60,000	$ 86,331
STATE REVENUE				
Assets				
Cash and pooled investments	$ 63,338	$ 953,981	$ 965,537	$ 51,782
Liabilities				
Due to other governments	$ 63,338	$ 953,981	$ 965,537	$ 51,782
TAX COLLECTION				
Assets				
Cash and pooled investments	$ 454,903	$ 39,848,847	$ 39,269,484	$ 1,034,266
Liabilities				
Due to other governments	$ 454,903	$ 39,848,847	$ 39,269,484	$ 1,034,266

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, 2017

	Balance January 1	Additions	Deductions	Balance December 31
TOTAL ALL AGENCY FUNDS				
Assets				
Cash and pooled investments	**$ 587,078**	**$ 40,880,322**	**$ 40,295,021**	**$ 1,172,379**
Liabilities				
Due to other governments	**$ 587,078**	**$ 40,880,322**	**$ 40,295,021**	**$ 1,172,379**

OTHER SCHEDULES

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HUBBARD COUNTY
PARK RAPIDS, MINNESOTA

EXHIBIT D-1

SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2017

	Governmental Funds
Appropriations and Shared Revenue	
State	
Highway users tax	$ 4,601,409
Market value credit	116,321
PERA rate reimbursement	30,383
Police aid	176,343
County program aid	695,515
Enhanced 911	94,633
Select Committee on Recycling and the Environment (SCORE)	68,711
Riparian protection aid	40,000
Aquatic invasive species aid	265,440
Total appropriations and shared revenue	**$ 6,088,755**
Reimbursement for Services	
State	
Minnesota Department of	
Human Services	$ 978,138
Transportation	251,573
Local	
Counties	707,738
Total reimbursement for services	**$ 1,937,449**
Payments	
Local	
Payments in lieu of taxes	**$ 807,317**
Grants	
State	
Minnesota Department of	
Corrections	$ 12,749
Human Services	1,461,256
Natural Resources	223,639
Public Safety	11,652
Transportation	256,367
Veterans Affairs	10,000
Board of Water and Soil Resources	92,587
Total state	**$ 2,068,250**

HUBBARD COUNTY
PARK RAPIDS, MINNESOTA

EXHIBIT D-1
(Continued)

SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2017

	Governmental Funds
Grants (Continued)	
Federal	
Department of	
Agriculture	$ 177,395
Justice	30,438
Health and Human Services	1,603,111
Homeland Security	64,680
Transportation	1,094,453
Total federal	**$ 2,970,077**
Total state and federal grants	**$ 5,038,327**
Total Intergovernmental Revenue	**$ 13,871,848**

HUBBARD COUNTY
PARK RAPIDS, MINNESOTA

EXHIBIT D-2

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2017

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	172MN101S2514	**$ 177,395**
U.S. Department of Justice			
Passed Through Minnesota Department of Public Safety			
Crime Victim Assistance	16.575	F-CVSP-2017-HUBBARAO-1243	$ 10,550
Crime Victim Assistance	16.575	F-CVSP-2017-HUBBARAO-1614	10,500
Crime Victim Assistance	16.575	F-CVSP-2017-HUBBARAO-1938	8,574
Crime Victim Assistance	16.575	F-CVSP-2017-HUBBARAO-2336	814
(Total Crime Victim Assistance 16.575 $30,438)			
Total U.S. Department of Justice			**$ 30,438**
U.S. Department of Transportation			
Passed Through Minnesota Department of Transportation			
Highway Planning and Construction Cluster			
Highway Planning and Construction	20.205	00029	$ 1,020,870
Formula Grants for Rural Areas	20.509	Agr#1026725	82,433
Passed Through Minnesota Department of Public Safety			
Highway Safety Cluster			
State and Community Highway Safety	20.600	F-ENFRC17-2017-HUBBARCO-2200	400
State and Community Highway Safety	20.600	F-ENFRC17-2017-HUBBARCO-2381	1,150
State and Community Highway Safety	20.600	F-ENFRC17-2017-HUBBARCO-2546	3,624
State and Community Highway Safety	20.600	F-ENFRC18-2018-HUBBARCO-2669	136
(Total State and Community Highway Safety 20.600 $5,310)			
National Priority Safety Programs	20.616	F-ENFRC17-2017-HUBBARCO-2200	2,493
National Priority Safety Programs	20.616	F-ENFRC17-2017-HUBBARCO-2381	499
(Total National Priority Safety Programs 20.616 $2,992)			
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	F-ENFRC17-2017-HUBBARCO-2200	2,217
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	F-ENFRC17-2017-HUBBARCO-2546	1,904
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	F-ENFRC18-2018-HUBBARCO-2669	2,577
(Total Minimum Penalties for Repeat Offenders for Driving While Intoxicated 20.608 $6,698)			
Total U.S. Department of Transportation			**$ 1,118,303**

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, 2017

Federal Grantor Pass-Through Agency Program or Cluster Title	Federal CFDA Number	Pass-Through Grant Numbers	Expenditures
U.S. Department of Health and Human Services			
Passed Through Minnesota Department of Human Services			
Promoting Safe and Stable Families	93.556	G-1601MNFPSS	$ 13,513
TANF Cluster			
Temporary Assistance for Needy Families	93.558	1601MNTANF	237,801
Child Support Enforcement	93.563	1704MNCSES	227,906
Refugee and Entrant Assistance – State-Administered Programs	93.566	1701MNRCMA	449
CCDF Cluster			
Child Care and Development Block Grant	93.575	G1701MNCCDF	10,823
Community-Based Child Abuse Prevention Grants	93.590	G-1502MNFRPG	6,928
Stephanie Tubbs Jones Child Welfare Services Program	93.645	G-1601MNCWSS	6,900
Foster Care Title IV-E	93.658	1701MNFOST	313,449
Social Services Block Grant	93.667	G-1701MNSOSR	130,589
Chafee Foster Care Independence Program	93.674	G-1601MNCILP	1,289
Children's Health Insurance Program	93.767	05-1705MN0301	217
Medicaid Cluster			
Medical Assistance Program	93.778	05-1705MN5ADM	733,146
Medical Assistance Program	93.778	05-1705MN5MAP	7,781
(Total Medical Assistance Program 93.778 $740,927)			
Total U.S. Department of Health and Human Services			**$ 1,690,791**
U.S. Department of Homeland Security			
Passed Through Minnesota Department of Natural Resources			
Boating Safety Financial Assistance	97.012	HUBBARD FBP-100917	$ 6,375
Passed Through Minnesota Department of Public Safety			
Hazard Mitigation Grant	97.039	F-HMGP-DR4182-HUBBARCO-2395	36,678
Emergency Management Performance Grants	97.042	F-EMPG-2017-HUBBARCO-2348	17,541
Emergency Management Performance Grants	97.042	F-EMPG-2017-HUBBARCO-2466	4,086
(Total Emergency Management Performance Grants 97.042 $21,627)			
Total U.S. Department of Homeland Security			**$ 64,680**
Total Federal Awards			**$ 3,081,607**

Hubbard County did not pass any federal awards through to subrecipients during the year ended December 31, 2017.

EXHIBIT D-2
(Continued)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2017

Federal Grantor Pass-Through Agency Program or Cluster Title	Federal CFDA Number	Pass-Through Grant Numbers	Expenditures
Totals by Cluster			
Total expenditures for SNAP Cluster			$ 177,395
Total expenditures for Highway Planning and Construction Cluster			1,020,870
Total expenditures for Highway Safety Cluster			8,302
Total expenditures for TANF Cluster			237,801
Total expenditures for CCDF Cluster			10,823
Total expenditures for Medicaid Cluster			740,927

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HUBBARD COUNTY
PARK RAPIDS, MINNESOTA

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2017

1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by Hubbard County. The County's reporting entity is defined in Note 1 to the basic financial statements. The schedule does not include $34,878 in federal awards expended by the Hubbard County Housing and Redevelopment Authority component unit, which was audited by other auditors.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Hubbard County under programs of the federal government for the year ended December 31, 2017. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of Hubbard County, it is not intended to and does not present the financial position, changes in net position, or cash flows of Hubbard County.

3. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following 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 ten percent de minimis indirect cost rate allowed under the Uniform Guidance.

4. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	$	2,970,077
Grants received more than 60 days after year-end, considered unavailable revenue in 2018		
Formula Grants for Rural Areas (CFDA No. 20.509)		23,850
Promoting Safe and Stable Families (CFDA No. 93.556)		2,124
Temporary Assistance for Needy Families (CFDA No. 93.558)		66,923
Child Support Enforcement (CFDA No. 93.563)		11,700
Community-Based Child Abuse Prevention Grants (CFDA No. 93.590)		4,723
Stephanie Tubbs Jones Child Welfare Services Program (CFDA No. 93.645)		1,953
Chafee Foster Care Independence Program (CFDA No. 93.674)		257
Expenditures per Schedule of Expenditures of Federal Awards	$	3,081,607

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Management and Compliance Section

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JULIE BLAHA
STATE AUDITOR

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

Independent Auditor's Report

Board of County Commissioners
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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Hubbard County, Minnesota, as of and for the year ended December 31, 2017, including the Heritage Community Enterprise Fund as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated June 11, 2019. Our report includes a reference to other auditors who audited the financial statements of the Heritage Living Center, Manor, and Cottages, included in the Heritage Community Enterprise Fund, and the Hubbard County Housing and Redevelopment Authority discretely presentment component unit, as described in our report on the County's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered 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 did identify a deficiency in internal control over financial reporting that we consider to be a material weakness and deficiencies that we consider to be significant deficiencies.

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

Compliance and Other Matters

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

Minnesota Legal Compliance

The *Minnesota Legal Compliance Audit Guide for Counties*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven categories of compliance to be tested in connection with the audit of the County's financial statements: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for tax increment financing because the County administers no tax increment financing districts.

In connection with our audit, nothing came to our attention that caused us to believe that Hubbard County failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Counties*, except as described in the Schedule of Findings and Questioned Costs as item 2015-012.

However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the County's noncompliance with the above referenced provisions.

Hubbard County's Response to Findings

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

Purpose of This Report

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

/s/Julie Blaha

JULIE BLAHA
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

June 11, 2019

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

Independent Auditor's Report

Board of County Commissioners
Hubbard County
Park Rapids, Minnesota

Report on Compliance for Each Major Federal Program

We have audited Hubbard County's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of the County's major federal programs for the year ended December 31, 2017. Hubbard County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Hubbard County's basic financial statements include the operations of the Hubbard County Housing and Redevelopment Authority (HRA) component unit, which expended $34,878 in federal awards during the year ended December 31, 2017, which are not included in the Schedule of Expenditures of Federal Awards. Our audit, described below, did not include the operations of the Hubbard County HRA because the HRA was audited by other auditors.

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

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

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noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Hubbard County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Basis for Qualified Opinion on Medical Assistance Program (CFDA No. 93.778)
As described in the accompanying Schedule of Findings and Questioned Costs, Hubbard County did not comply with requirements regarding CFDA No. 93.778, Medical Assistance Program, as described in finding number 2015-007 for Eligibility, and finding number 2015-010 for Procurement, Suspension, and Debarment. Compliance with such requirements is necessary, in our opinion, for the County to comply with the requirements applicable to that program.

Qualified Opinion on Medical Assistance Program (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 Medical Assistance Program for the year ended December 31, 2017.

Unmodified Opinion on the Other Major Federal Program
In our opinion, 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 other major federal program identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs for the year ended December 31, 2017.

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

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

Report on Internal Control Over Compliance

Management of Hubbard County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of

expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control over compliance, described in the accompanying Schedule of Findings and Questioned Costs as items 2015-007 and 2015-010, that we consider to be material weaknesses, and deficiency 2016-002 that we consider to be a significant deficiency.

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

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

/s/Julie Blaha

JULIE BLAHA
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

June 11, 2019

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HUBBARD COUNTY
PARK RAPIDS, MINNESOTA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2017

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 programs: **Unmodified, except for the Medicaid Cluster, which is qualified.**

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

The major federal programs are:

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

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

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

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding Number 1996-002

Segregation of Duties

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

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

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

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

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

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 2015-002

Audit Adjustments

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

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

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

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

- The General Fund required adjustments to assets, including an adjustment to increase cash for amounts due from the Taxes and Penalties Agency Fund for prepaid tax collections of $244,492, an adjustment to increase due from other governments by $191,837 for intergovernmental revenue items received within the 60-day accrual period, and an adjustment to increase accrued interest receivable by $130,007 for pooled investment earnings received within the 60-day accrual period.

- The Road and Bridge Special Revenue Fund required an adjustment of $713,498 to record the receivable and deferred inflows of resources – unavailable revenue relating to highway allotment activity ($632,113) and highway planning and construction federal grant ($81,385).

- The Social Services Special Revenue Fund required an adjustment to increase due from other governments by $292,280 for intergovernmental revenue items received within the 60-day accrual period of $163,023, and deferred inflows of resources – unavailable revenue by $129,257 for items not received within the 60-day accrual period.

- The Forfeited Tax Sale Special Revenue Fund required an adjustment to increase accounts payable by $289,047 for the portion of contracts receivable that belongs to other taxing districts, increase timber permit revenues by $192,580 for the portion of contracts receivable that belongs to the County and are available resources, and decrease deferred inflows of resources – unavailable revenue by $481,627 for those resources that are either County resources that were received in the period of availability or will not be County resources.

- The Forfeited Tax Sale Special Revenue Fund required an adjustment of $700,841 to reduce land and timber sales revenue and transfers out for activity that was due to other taxing districts.

- The Heritage Center Project Enterprise Fund required an adjustment to remove October through December 2017 general ledger activity for the September 30, 2017, reporting period. This included reducing expenses by $636,017, reducing revenues by $310,454, and increasing assets by $325,563.

- The Heritage Center Project Enterprise Fund required an adjustment to include October through December 2016 general ledger activity for the September 30, 2017, reporting period. This included increasing expenses by $65,000, increasing revenues by $274,578, and increasing assets by $209,578.

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

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding Number 2015-007

Eligibility

Program: U.S. Department of Health and Human Services' Medical Assistance Program (CFDA No. 93.778), Award Nos. 05-1705MN5ADM and 05-1705MN5MAP, 2017

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 four case files, the asset information was not verified and was not updated in the MAXIS system.

- For four case files, the asset information in MAXIS did not match the supporting documentation provided by the participant.

- One case file had a program application, but it was not signed by the participant and did not record the receipt date of the form.

- For one case file, a re-determination of eligibility was not performed.

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 AICPA Audit Guide, *Government Auditing Standards and Single Audits.*

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

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

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

View of Responsible Official: Acknowledged

Finding Number 2015-010

Procurement, Suspension, and Debarment

Program: U.S. Department of Health and Human Services' Medical Assistance Program (CFDA No. 93.778), Award No. 05-1705MN5ADM, 2017

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 and verifying debarment, suspension, and exclusions as provided in Title 2 U.S. *Code of Federal Regulations* §§ 180.300, 200.213, and 200.318(h).

Condition: Three procurement transactions were tested for compliance with federal regulations, and three instances were noted where the history of the procurement, including selection of the contract, was not documented. In one instance, the County did not have documentation to support that its procurement provided full and open competition. For the two items selected for testing over $25,000, there was no verification performed by the County to determine whether vendors were debarred, suspended, or whether other exclusions existed.

Questioned Costs: None.

Context: Three of seven procurement transactions over $3,000 were tested for compliance with federal regulations, including both of the two purchases over $25,000.

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

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

Cause: The County was unaware of these requirements.

Recommendation: We recommend the County document the history of procurement transactions, including contract selection, 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.

View of Responsible Official: Acknowledged

Finding Number 2016-002

Report Submission

Programs: U.S. Department of Transportation's Highway Planning and Construction (CFDA No. 20.205), Award No. 00029, 2017, and U.S. Department of Health and Human Services' Medical Assistance Program (CFDA No. 93.778), Award No. 05-1705MN5ADM, 2017

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

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

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

Questioned Costs: None.

Context: The County's 2017 audit, which was due to the Federal Audit Clearinghouse no later than September 30, 2018, was not submitted until 2019.

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

Cause: The County changed auditors in late 2018, and it was determined that the September 30, 2018, deadline could not be met. The audit was put on hold until 2019.

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

View of Responsible Official: Acknowledged

IV. OTHER FINDINGS AND RECOMMENDATIONS

MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding Number 2015-012

Bylaws of the Heritage Living Center Board

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

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

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

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

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

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

View of Responsible Official: Acknowledged

V. PREVIOUSLY REPORTED ITEMS RESOLVED

2015-003 Fund Balance Reporting
2015-006 Uniform Guidance Written Procurement Policies and Procedures
2016-001 Activities Allowed and Unallowed, Allowable Costs/Cost Principles, and Reporting

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Hubbard County

301 Court Avenue
Park Rapids, MN 56470

Phone: 218.732.2310 Fax: 218.732.2318

REPRESENTATION OF HUBBARD COUNTY
PARK RAPIDS, MINNESOTA

CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED DECEMBER 31, 2017

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.

David De La Hunt, District 1 • Charlene Christenson, District 2 • Tom Krueger, District 3 • Dan Stacey, District 4 • Ted Van Kempen, District 5
Chairman
(218) 616-4029 (218) 616-2181 (218) 616-4069 (218) 616-4073 (218) 616-4004

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Anticipated Completion Date:

This is an ongoing task with no completion date.

Finding Number: 2015-002
Finding Title: Audit Adjustments

Name of Contact Person Responsible for Corrective Action:

All County Department Managers

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.

Anticipated Completion Date:

2019

Finding Number: 2015-007
Finding Title: Eligibility
Program: Medical Assistance Program (CFDA No. 93.778)

Name of Contact Person Responsible for Corrective Action:

Deb Vizecky, Social Services Director

Corrective Action Planned:

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

Anticipated Completion Date:

2019

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

Name of Contact Person Responsible for Corrective Action:

All County Department Managers

Corrective Action Planned:

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

Anticipated Completion Date:

2019

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

Name of Contact Person Responsible for Corrective Action:

Kay Rave, Hubbard County Auditor/Treasurer

Corrective Action Planned:

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

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

Anticipated Completion Date:

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

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

Name of Contact Person Responsible for Corrective Action:

County Board

Corrective Action Planned:

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

Anticipated Completion Date:

2019

Hubbard County

301 Court Avenue
Park Rapids, MN 56470

Phone: 218.732.2310 Fax: 218.732.2318

REPRESENTATION OF HUBBARD COUNTY
PARK RAPIDS, MINNESOTA

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2017

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

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

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

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

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

Finding Number: 2007-001
Finding Title: Documenting and Monitoring Internal Controls

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

David De La Hunt, District 1 • Charlene Christenson, District 2 • Tom Krueger, District 3 • Dan Stacey, District 4 Chairman • Ted Van Kempen, District 5
(218) 616-4029 (218) 616-2181 (218) 616-4069 (218) 616-4073 (218) 616-4004

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

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

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

Finding Number: 2015-002
Finding Title: Audit Adjustments

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

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

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

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

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

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

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

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

Finding Number: 2015-006
Finding Title: Uniform Guidance Written Procurement Policies and Procedures
Programs: Highway Planning and Construction Program (CFDA No. 20.205) and Medical Assistance Program (CFDA No. 93.778)

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

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

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

Finding Number: 2015-007
Finding Title: Eligibility
Program: Medical Assistance Program (CFDA No. 93.778)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Status: Not Corrected. Complications during the course of the prior year audit imposed by an external oversight agency delayed the completion of the 2017 audit report.

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