

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

YEAR ENDED DECEMBER 31, 2014

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

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THIEF RIVER FALLS, MINNESOTA**

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INTRODUCTORY SECTION

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

**ORGANIZATION SCHEDULE
DECEMBER 31, 2014**

<u>Office</u>	<u>Name</u>	<u>Term Expires</u>
Commissioners		
1 st District	Donald Jensen	January 2017
2 nd District	Cody Hempel	January 2017
3 rd District	Neil Peterson, Chair	January 2019
4 th District	Darryl Tveitbakk, Vice-Chair	January 2019
5 th District	Oliver Swanson	January 2017
Officers		
Elected:		
Attorney	Alan Rogalla	January 2019
Auditor-Treasurer	Kenneth Olson	January 2019
Recorder	Kenneth Schmalz	January 2019
Sheriff	Ray Kuznia	January 2019
Appointed:		
Assessor	Adeline Olson	January 2017
Coroner	Sanjay Patel ¹	January 2015
Highway Engineer	Michael Flaagan	May 2018
Human Services Director	Kenneth Yutrzenka	Indefinite
Solid Waste Officer	Howard Person	Indefinite
Veterans Service Officer	Steve Stone	Indefinite

¹ Replaced by Scott Petrescue on January 5, 2015.

FINANCIAL SECTION

Colleen Hoffman, Director
Crystelle Philipp, CPA
Marit Knutson, CPA



Hoffman, Philipp, & Knutson, PLLC

1541 Highway 59 South | Thief River Falls, MN 56701 | Phone: 218-681-4078 | choffman@mncable.net

INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Pennington County

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Pennington County, Minnesota, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Pennington County, Minnesota, as of December 31, 2014, and the respective changes in financial position 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 the required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a 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 Pennington 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 relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 18, 2015, on our consideration of Pennington County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.

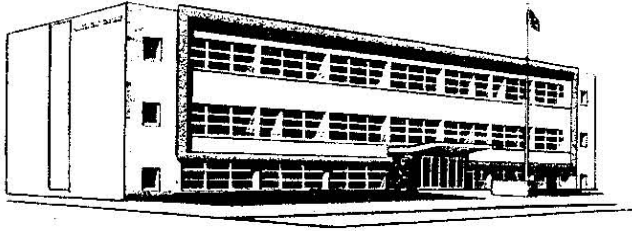
Report on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such 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. The 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 Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.



Hoffman, Philipp, & Knutson, PLLC

September 18, 2015



PENNINGTON COUNTY

101 Main Ave. No.; P.O. Box 616
Thief River Falls, MN 56701

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

The management of Pennington County offers readers of the County's Financial Statements this narrative overview and analysis of the financial activities of Pennington County for the fiscal year ended December 31, 2014. The Management's Discussion and Analysis provides comparisons with the previous year and is designed to focus on the current year's activities, resulting changes, and currently known facts, and should be read in conjunction with the County's basic financial statements that follow this section.

FINANCIAL HIGHLIGHTS

The total net position of governmental activities is \$64,946,181, of which \$51,692,577 is the net investment in capital assets, \$2,226,514 is restricted for specific purposes, and \$11,027,090 is unrestricted. The total net position of governmental activities increased by \$424,189 for the year ended December 31, 2014. This is attributed mainly to road construction funded by County State Aid Highway grants.

At the close of 2014, the County's governmental funds reported combined ending fund balances of \$12,059,668, a decrease of \$93,316, from the prior year. Of the total fund balance amount, \$478,255 is non-spendable, \$1,583,984 is legally or contractually restricted, \$6,305,088 is formally committed for specific purposes, and \$3,692,341 is assigned for specific purposes. Maintaining an adequate fund balance is necessary to provide County services throughout the year.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

“Equal Opportunity Employer”

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

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

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

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

Fund Financial Statements

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

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

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

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

Pennington County adopts annual budgets for its governmental funds. Budgetary comparisons have been provided for these funds to demonstrate compliance with their budgets.

Fiduciary Funds Fiduciary funds are used to account for assets held by the County as an agent for individuals, private organizations, other governments, or other funds. Pennington County's fiduciary funds consist of ten agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. In addition, the Agency Funds are not reflected in the government-wide financial statements because those resources are not available to support the County's programs. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All fiduciary activities are reported in Statement 7, Combining Statement of Changes in Fiduciary Net Position, All Agency Funds.

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.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Over time, net position serves as a useful indicator of the County's financial position. The County's assets exceeded liabilities by \$64,946,181 at the close of 2014. The largest portion of the County's net position (approximately 80 percent) reflects its net investment in capital assets (i.e., land, infrastructure, buildings and improvements, and machinery and equipment). It should be noted that this amount is not available for future spending. Approximately three percent of the County's net position is restricted and 17 percent of the County's net position is unrestricted. The unrestricted net position amount of \$11,027,090, as of December 31, 2014, may be used to meet the County's ongoing obligations to citizens.

The County's overall financial position increased from last year. Total assets increased by \$29,466, from the prior year, due to completed highway construction projects added to infrastructure and various equipment purchases. Total liabilities decreased by \$391,723, from the prior year, as a result of decreased contracts payable and OPEB liability. This resulted in an increased net position of \$421,189 from the prior year.

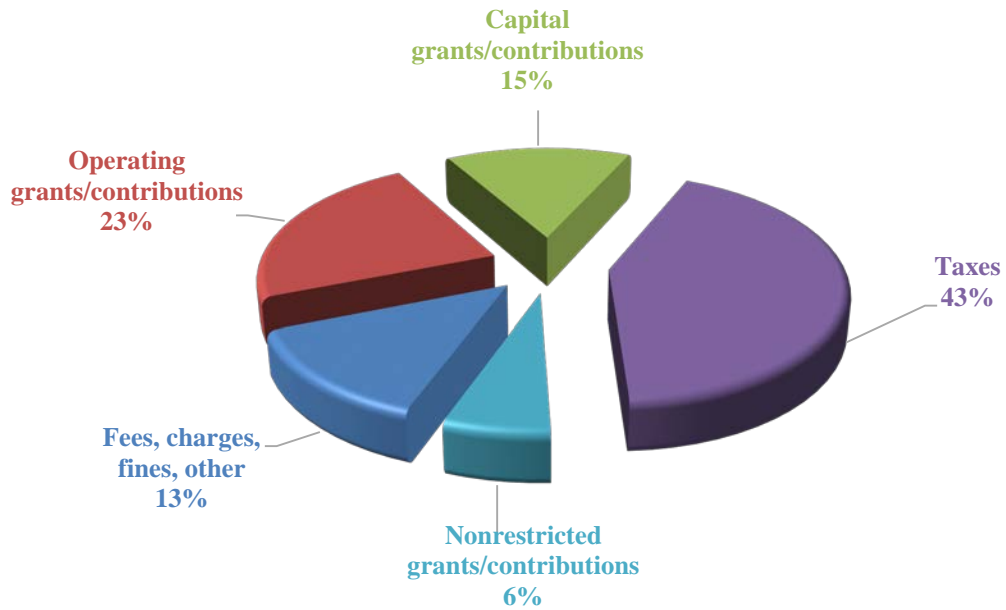
NET POSITION

	Governmental Activities	
	2013	2014
Current and other assets	\$ 15,314,092	\$ 14,761,114
Capital assets	53,482,133	54,064,577
Total assets	\$ 68,796,225	\$ 68,825,691
Other liabilities	\$ 1,187,894	\$ 571,012
Long-term liabilities outstanding	3,083,339	3,308,498
Total liabilities	\$ 4,271,233	\$ 3,879,510
Net position		
Net investment in capital assets	\$ 50,713,080	\$ 51,692,577
Restricted	2,987,705	2,226,514
Unrestricted	10,824,207	11,027,090
Total net position	\$ 64,524,992	\$ 64,946,181

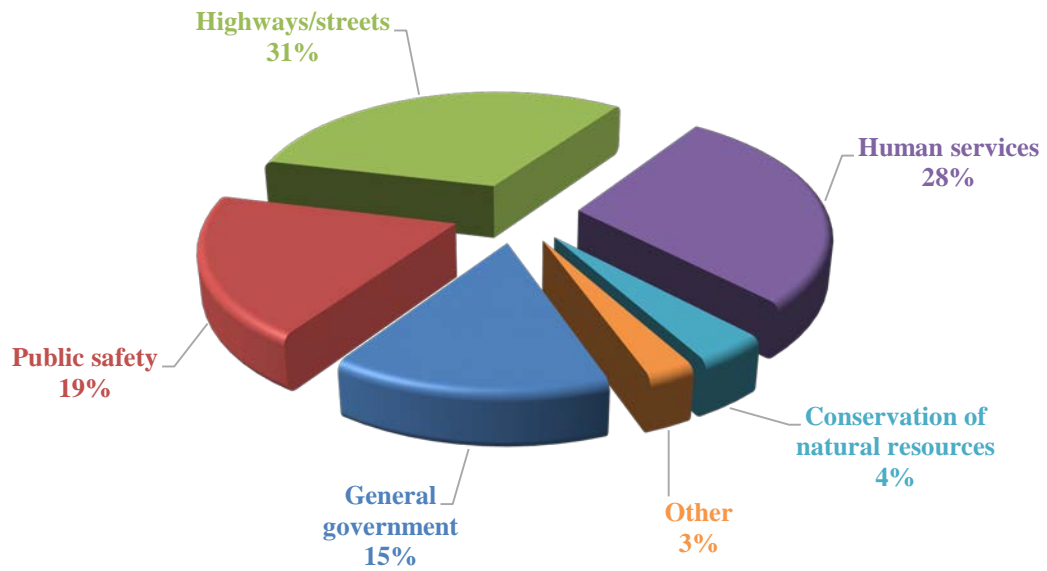
CHANGES IN NET POSITION

	Governmental Activities	
	2013	2014
Revenues		
Program Revenues		
Fees, charges, fines and other	\$ 2,730,914	\$ 2,337,101
Operating grants and contributions	3,822,154	3,972,113
Capital grants and contributions	3,047,514	2,588,475
General Revenues		
Taxes	7,344,943	7,442,811
Grants and contributions not restricted to specific programs	1,717,475	995,827
Payments in lieu of taxes	37,393	32,781
Investment earnings	37,331	37,638
Total revenues	\$ 18,737,724	\$ 17,406,746
Expenses		
General government	\$ 2,521,950	\$ 2,566,637
Public safety	3,136,721	3,266,391
Highways and streets	2,034,583	5,233,145
Sanitation	75,957	66,393
Human services	4,816,575	4,802,309
Health	53,316	51,064
Culture and recreation	224,341	204,724
Conservation of natural resources	1,911,535	671,206
Economic development	10,100	45,626
Interest	93,445	78,062
Total expenses	\$ 14,878,523	\$ 16,985,557
Increase (decrease)	\$ 3,859,201	\$ 421,189
Net position, January 1	60,665,791	64,524,992
Net position, December 31	\$ 64,524,992	\$ 64,946,181

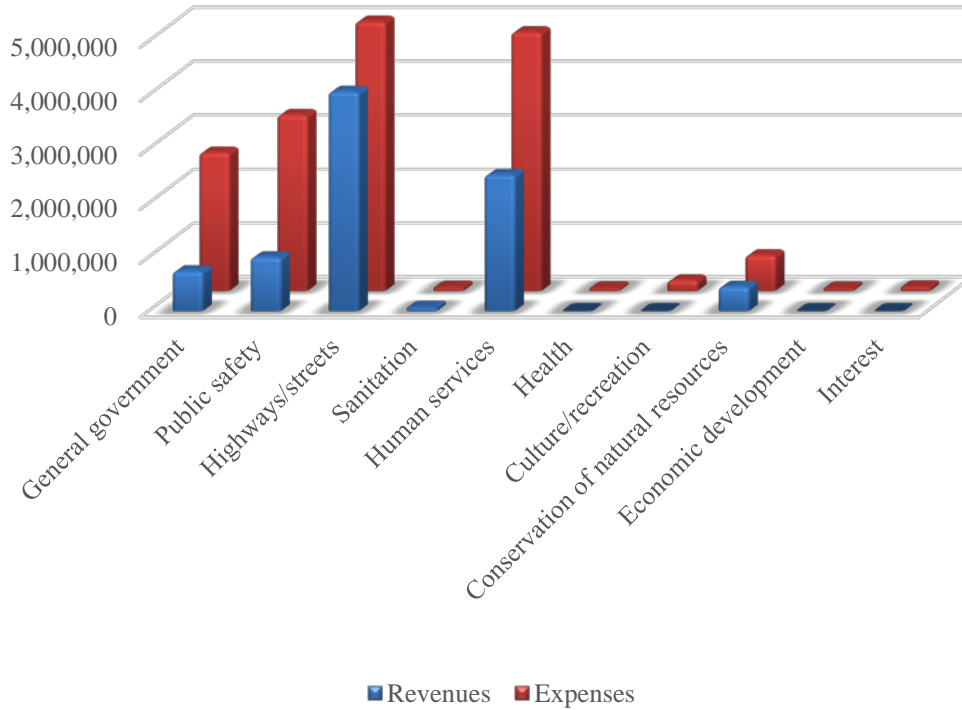
Revenues by Source



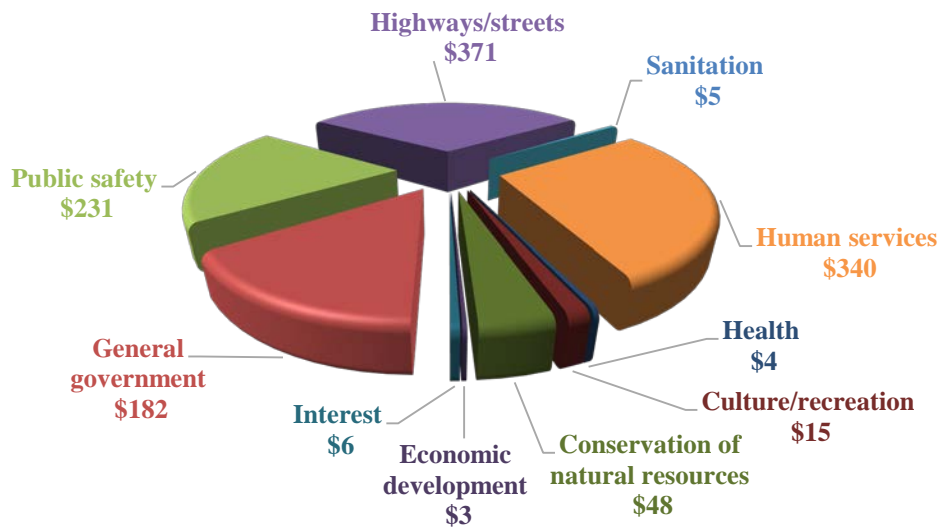
Expenses by Function



Program Revenues & Expenses



Expenditure Per Capita 14,118 Population as of July 1, 2014



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

Governmental Funds

At the end of 2014, the County's governmental funds reported combined ending fund balances of \$12,059,668. Of this amount, approximately 4 percent constitutes non-spendable fund balance, 13 percent constitutes legally or contractually restricted fund balance, 52 percent constitutes formally committed fund balance, and 31 percent constitutes specifically assigned fund balance.

The General Fund is the operating fund of the County. At the end of the current fiscal year, the General Fund's total fund balance was \$5,171,673. The General Fund's restricted fund balance was \$742,957 and committed fund balance was \$4,428,716. 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 2014. Unrestricted fund balance represents 69 percent of total General Fund expenditures, while total fund balance represents 81 percent of that same amount.

In 2014, the fund balance amount in the General Fund decreased by \$39,988, due to planned spending of reserves.

The fund balance of the Road and Bridge Special Revenue Fund increased \$57,779 in 2014, due to the receipt of payments from County State Aid Highway funding.

The fund balance of the Human Services Special Revenue Fund increased \$175,696 from the prior year, due to a decrease in out of home placement costs.

The fund balance of the Ditch Special Revenue Fund increased \$58,384 from the prior year, due to planning to build up reserves.

The fund balance of the Capital Improvement Special Revenue Fund decreased \$89,495 from the prior year due to courthouse improvement projects.

GENERAL FUND BUDGETARY HIGHLIGHTS

Actual revenues were less than overall budgeted revenues by \$45,970, with the largest negative variance in taxes. Actual expenditures were more than overall final budgeted expenditures by \$76,111, partially as a result of unbudgeted Aquatic Invasive Species Prevention Funds passed through to the Soil and Water Conservation District, and capital outlay for public safety.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The County's investment in capital assets for its governmental activities as of December 31, 2014 amounted to \$54,064,577 (net of accumulated depreciation). The total increase in the County's investment in capital assets for the current fiscal year was less than one percent. This was primarily due to completed highway projects added to infrastructure and various equipment purchases.

	Governmental Activities	
	2014	2013
Land	\$ 464,569	\$ 464,569
Construction in progress	-	1,803,733
Infrastructure	50,348,698	48,068,388
Buildings and improvements	1,479,656	1,667,029
Machinery and equipment	1,771,654	1,478,414
	<u>54,064,577</u>	<u>53,482,133</u>
Total capital assets	\$ <u>54,064,577</u>	\$ <u>53,482,133</u>

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

Long-Term Debt

At the end of the current fiscal year, the County had total debt outstanding of \$2,373,168 which is backed by the full faith and credit of the government.

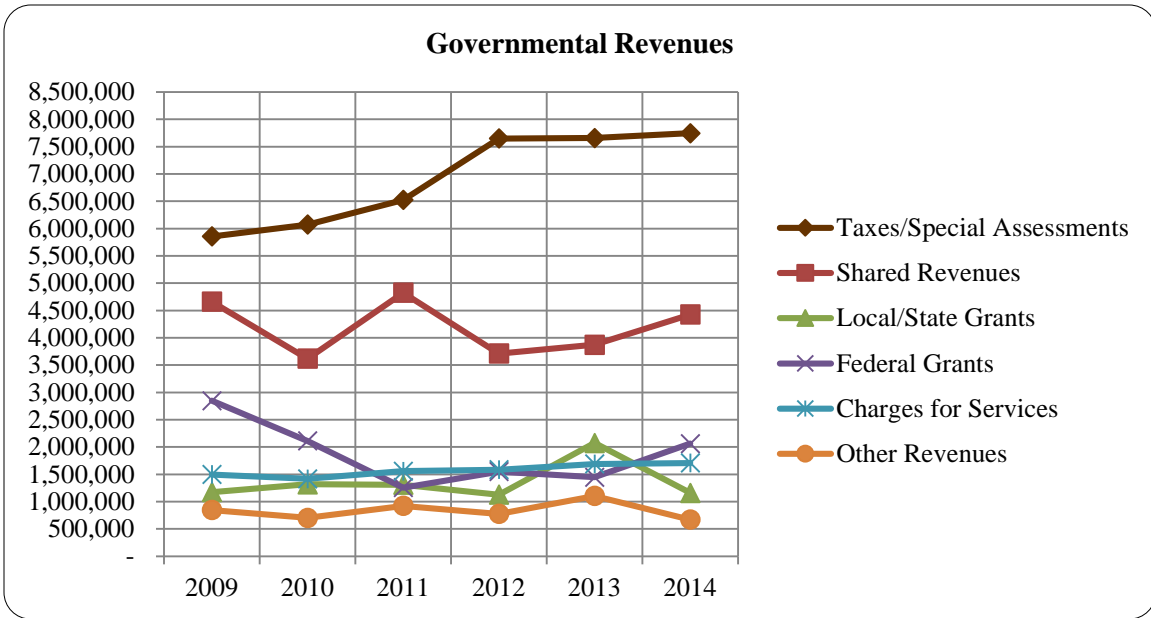
	Governmental Activities	
	2014	2013
General Obligation Bonds (net of discount)	\$ 1,651,168	\$ 1,944,802
General Obligation Highway State-Aid Note	722,000	813,000
	<u>2,373,168</u>	<u>2,757,802</u>
	\$ <u>2,373,168</u>	\$ <u>2,757,802</u>

Minnesota Statutes limit the amount of debt that a County may have to three percent of its total market value, excluding revenue bonds. At the end of 2014, overall debt of the County is below the three percent debt limit.

Pennington County’s bond rating is “AA-” from Standard & Poor’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. It is also subject to changes in investment earnings and asset values associated with U.S. Treasury Securities because of actions by foreign governments and other holders of publicly held U.S. Treasury Securities. The five-year analysis below focuses on the revenues of the County’s governmental funds taken from Exhibit 5 and the Schedule of Intergovernmental Revenue.



- The unemployment rate for Pennington County was 5.9 percent as of December 31, 2014. This is higher than the statewide rate of 3.7 percent and the national average rate of 5.6 percent.
- Pennington County’s population at July 1, 2014 was 14,118, an increase of 188 since 2010. This ranks Pennington County 59th of 87 in the State of Minnesota.
- On December 10, 2014, Pennington County set its 2015 revenue and expenditure budgets.

REQUESTS FOR INFORMATION

This annual financial report is designed to provide a general overview of Pennington 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 Kenneth Olson, Pennington County Auditor-Treasurer, P.O. Box 616, Thief River Falls, Minnesota 56701.

BASIC FINANCIAL STATEMENTS

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET POSITION
DECEMBER 31, 2014**

		Governmental Activities
<u>Assets</u>		
Cash and pooled investments	\$	11,762,516
Taxes receivable - prior		222,841
Special assessments receivable - prior		11,239
Accounts receivable		70,991
Due from other governments		1,286,178
Inventories		389,700
Special assessments - noncurrent		1,017,649
Capital assets		
Non-depreciable		464,569
Depreciable - net of accumulated depreciation		53,600,008
		68,825,691
Total Assets	\$	68,825,691
<u>Liabilities</u>		
Accounts payable	\$	294,174
Salaries payable		172,965
Due to other governments		76,446
Accrued interest payable		27,427
Long-term liabilities		
Due within one year		723,501
Due in more than one year		2,584,997
		3,879,510
Total Liabilities	\$	3,879,510
<u>Net Position</u>		
Net investment in capital assets	\$	51,692,577
Amounts restricted for		
General government		308,861
Public safety		115,039
Highways and streets		961,587
Conservation of natural resources		596,055
Debt service		244,972
Unrestricted amounts		11,027,090
		64,946,181
Total Net Position	\$	64,946,181

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

EXHIBIT 2

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2014**

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Fees, Charges, Fines and Other	Operating Grants and Contributions	Capital Grants and Contributions	
Functions/Programs					
Governmental activities					
General government	\$ 2,566,637	\$ 732,958	\$ 15,000	\$ -	\$ (1,818,679)
Public safety	3,266,391	741,826	264,339	-	(2,260,226)
Highways and streets	5,233,145	341,840	1,381,173	2,349,361	(1,160,771)
Sanitation	66,393	7,267	63,803	-	4,677
Human services	4,802,309	502,044	2,037,534	-	(2,262,731)
Health	51,064	-	-	-	(51,064)
Culture and recreation	204,724	-	-	-	(204,724)
Conservation of natural resources	671,206	11,166	210,264	239,114	(210,662)
Economic development	45,626	-	-	-	(45,626)
Interest	78,062	-	-	-	(78,062)
Total governmental activities	\$ 16,985,557	\$ 2,337,101	\$ 3,972,113	\$ 2,588,475	\$ (8,087,868)
General revenues					
Property taxes					\$ 7,423,991
Gravel taxes					18,820
Grants and contributions not restricted to specific programs					995,827
Payments in lieu of taxes					32,781
Investment earnings					37,638
Total general revenues					\$ 8,509,057
Change					421,189
Net position - January 1					64,524,992
Net position - December 31					\$ 64,946,181

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

EXHIBIT 3

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2014**

	<u>Special Revenue Funds</u>					<u>Other Governmental Funds (Statement 1)</u>	<u>Total Governmental Funds</u>
	<u>General Fund</u>	<u>Road and Bridge</u>	<u>Human Services</u>	<u>Ditch</u>	<u>Capital Improvement</u>		
<u>Assets</u>							
Assets							
Cash and pooled investments	\$ 5,083,012	\$ 1,442,490	\$ 1,890,113	\$ 720,357	\$ 1,877,561	\$ 748,983	\$ 11,762,516
Taxes receivable - prior	113,830	36,111	66,450	-	-	6,450	222,841
Special assessments receivable - prior	-	-	-	11,239	-	-	11,239
Accounts receivable	65,952	5,039	-	-	-	-	70,991
Due from other funds	24,864	-	-	-	-	-	24,864
Due from other governments	156,855	915,505	209,861	3,957	-	-	1,286,178
Inventories	-	389,700	-	-	-	-	389,700
Advances to other funds	-	-	-	-	-	88,555	88,555
Special assessments - noncurrent	-	-	-	1,017,649	-	-	1,017,649
Total Assets	<u>\$ 5,444,513</u>	<u>\$ 2,788,845</u>	<u>\$ 2,166,424</u>	<u>\$ 1,753,202</u>	<u>\$ 1,877,561</u>	<u>\$ 843,988</u>	<u>\$ 14,874,533</u>
<u>Liabilities, Deferred Inflows of Resources and Fund Balances</u>							
Liabilities							
Accounts payable	\$ 63,478	\$ 26,912	\$ 160,859	\$ 40,581	\$ 1,189	\$ 1,155	\$ 294,174
Salaries payable	100,151	27,139	45,675	-	-	-	172,965
Due to other funds	-	622	24,242	-	-	-	24,864
Due to other governments	22,348	4,508	47,267	1,786	-	537	76,446
Advances from other funds	-	-	-	88,555	-	-	88,555
Total Liabilities	<u>\$ 185,977</u>	<u>\$ 59,181</u>	<u>\$ 278,043</u>	<u>\$ 130,922</u>	<u>\$ 1,189</u>	<u>\$ 1,692</u>	<u>\$ 657,004</u>
Deferred Inflows of Resources							
Taxes	\$ 86,863	\$ 27,556	\$ 50,708	\$ -	\$ -	\$ 4,922	\$ 170,049
Special assessments	-	-	-	1,026,225	-	-	1,026,225
County State Aid Highway Allotment	-	961,587	-	-	-	-	961,587
Total Deferred Inflows of Resources	<u>\$ 86,863</u>	<u>\$ 989,143</u>	<u>\$ 50,708</u>	<u>\$ 1,026,225</u>	<u>\$ -</u>	<u>\$ 4,922</u>	<u>\$ 2,157,861</u>

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

*EXHIBIT 3
(Continued)*

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2014**

	Special Revenue Funds					Other Governmental Funds (Statement 1)	Total Governmental Funds
	General Fund	Road and Bridge	Human Services	Ditch	Capital Improvement		
Fund Balances							
Non-spendable							
Advances to other funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 88,555	\$ 88,555
Inventories	-	389,700	-	-	-	-	389,700
Restricted for							
Attorney forfeited property	14,736	-	-	-	-	-	14,736
CVSO enhancement grant	3,684	-	-	-	-	-	3,684
Debt service	-	-	-	-	-	244,972	244,972
Drug and Alcohol Resistance Education	11,626	-	-	-	-	-	11,626
Enhanced 911	32,490	-	-	-	-	-	32,490
Handgun permits	47,765	-	-	-	-	-	47,765
Law library	31,330	-	-	-	-	-	31,330
Conservation of natural resources	77,445	-	-	596,055	-	-	673,500
Probation	17,049	-	-	-	-	-	17,049
Recorder's equipment	149,163	-	-	-	-	-	149,163
SCORE	241,612	-	-	-	-	-	241,612
Sheriff's forfeited property	6,109	-	-	-	-	-	6,109
Technology	109,948	-	-	-	-	-	109,948
Committed to							
Capital improvements	2,815,196	-	-	-	1,876,372	-	4,691,568
Jail canteen	98,105	-	-	-	-	-	98,105
Juvenile restitution	12,445	-	-	-	-	-	12,445
Operations	1,500,000	-	-	-	-	-	1,500,000
Parents forever	2,970	-	-	-	-	-	2,970
Assigned to							
Highways and streets	-	1,350,821	-	-	-	-	1,350,821
Human services	-	-	1,837,673	-	-	-	1,837,673
Sanitation	-	-	-	-	-	503,847	503,847
Total Fund Balances	\$ 5,171,673	\$ 1,740,521	\$ 1,837,673	\$ 596,055	\$ 1,876,372	\$ 837,374	\$ 12,059,668
Total Liabilities, Deferred Inflows and Fund Balances	\$ 5,444,513	\$ 2,788,845	\$ 2,166,424	\$ 1,753,202	\$ 1,877,561	\$ 843,988	\$ 14,874,533

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE STATEMENT OF NET POSITION--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2014**

Fund balances - total governmental funds (Exhibit 3)	\$	12,059,668
<p>Amounts reported for governmental activities in the Statement of Net Position are different because:</p>		
<p>Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.</p>		54,064,577
<p>Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.</p>		2,157,861
<p>Long-term liabilities, including bonds and notes payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.</p>		
Accrued interest payable	\$ (27,427)	
General obligation bonds	(1,651,168)	
General obligation notes	(722,000)	
Compensated absences payable	(640,438)	
Other post-employment benefits	(294,892)	(3,335,925)
Net position of governmental activities (Exhibit 1)	\$	64,946,181

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

EXHIBIT 5

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

	Special Revenue Funds					Other	Total
	General Fund	Road and Bridge	Human Services	Ditch	Capital Improvement	Governmental Funds (Statement 2)	Governmental Funds
Revenues							
Taxes	\$ 3,845,936	\$ 1,258,527	\$ 2,190,771	\$ -	\$ -	\$ 148,263	\$ 7,443,497
Special assessments	-	-	-	302,213	-	-	302,213
Licenses and permits	14,863	-	-	-	-	-	14,863
Intergovernmental	1,109,395	4,228,489	2,243,244	-	-	67,957	7,649,085
Charges for services	1,137,409	201,144	364,680	3,957	-	-	1,707,190
Fines and forfeitures	17,723	-	-	-	-	-	17,723
Investment earnings	37,638	-	-	-	-	-	37,638
Miscellaneous	310,126	140,696	137,364	-	5,872	7,267	601,325
Total Revenues	\$ 6,473,090	\$ 5,828,856	\$ 4,936,059	\$ 306,170	\$ 5,872	\$ 223,487	\$ 17,773,534
Expenditures							
Current							
General government	\$ 2,424,344	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,424,344
Public safety	3,068,307	-	-	-	-	-	3,068,307
Highways and streets	-	5,633,327	-	-	-	-	5,633,327
Sanitation	-	-	-	-	-	65,325	65,325
Human services	30,472	-	4,760,363	-	-	-	4,790,835
Health	51,064	-	-	-	-	-	51,064
Culture and recreation	203,722	-	-	-	-	-	203,722
Conservation of natural resources	360,830	-	-	174,232	-	136,465	671,527
Economic development	45,626	-	-	-	-	-	45,626
Total Current	\$ 6,184,365	\$ 5,633,327	\$ 4,760,363	\$ 174,232	\$ -	\$ 201,790	\$ 16,954,077
Debt Service							
Principal retirement	\$ -	\$ 91,000	\$ -	\$ 45,000	\$ -	\$ 250,000	\$ 386,000
Interest	-	25,528	-	28,554	-	27,389	81,471
Total Debt Service	\$ -	\$ 116,528	\$ -	\$ 73,554	\$ -	\$ 277,389	\$ 467,471
Capital Outlay							
General government	\$ 5,553	\$ -	\$ -	\$ -	\$ 80,489	\$ -	\$ 86,042
Public safety	338,038	-	-	-	-	-	338,038
Highways and streets	-	138,823	-	-	-	-	138,823
Total Capital Outlay	\$ 343,591	\$ 138,823	\$ -	\$ -	\$ 80,489	\$ -	\$ 562,903
Total Expenditures	\$ 6,527,956	\$ 5,888,678	\$ 4,760,363	\$ 247,786	\$ 80,489	\$ 479,179	\$ 17,984,451

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

**EXHIBIT 5
(Continued)**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

	Special Revenue Funds					Other Governmental Funds (Statement 2)	Total Governmental Funds
	General Fund	Road and Bridge	Human Services	Ditch	Capital Improvement		
Excess of Revenues Over (Under) Expenditures	\$ (54,866)	\$ (59,822)	\$ 175,696	\$ 58,384	\$ (74,617)	\$ (255,692)	\$ (210,917)
Other Financing Sources (Uses)							
Transfers in	\$ 14,878	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 14,878
Transfers out	-	-	-	-	(14,878)	-	(14,878)
Total Other Financing Sources (Uses)	\$ 14,878	\$ -	\$ -	\$ -	\$ (14,878)	\$ -	\$ -
Net Change in Fund Balance	\$ (39,988)	\$ (59,822)	\$ 175,696	\$ 58,384	\$ (89,495)	\$ (255,692)	\$ (210,917)
Fund Balance - January 1	5,211,661	1,682,742	1,661,977	537,671	1,965,867	1,093,066	12,152,984
Increase (decrease) in inventories	-	117,601	-	-	-	-	117,601
Fund Balance - December 31	\$ 5,171,673	\$ 1,740,521	\$ 1,837,673	\$ 596,055	\$ 1,876,372	\$ 837,374	\$ 12,059,668

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

EXHIBIT 6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2014**

Net change in fund balances - total governmental funds (Exhibit 5) \$ (210,917)

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

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

Expenditures for general capital assets and infrastructure	\$	2,718,378	
Current year depreciation		(2,105,976)	
Net book value of assets disposed		<u>(29,958)</u>	582,444

Revenues in the Statement of Activities that do not provide current
financial resources are not reported as revenues in the governmental funds.

Change in deferred inflows of resources			(366,788)
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The repayment of the principal of long-term debt consumes the current financial resources
of governmental funds, however, the transaction has no effect on net position.

Principal repayments			
Capital improvement bonds		295,000	
State-aid highway notes		<u>91,000</u>	386,000

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

Change in			
Amortization of discounts	\$	(1,762)	
Amortization of premium		396	
Accrued interest payable		4,775	
Compensated absences payable		(45,981)	
Other post-employment benefits		(44,579)	
Inventories		<u>117,601</u>	<u>30,450</u>

Change in net position of governmental activities (Exhibit 2) \$ 421,189

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

EXHIBIT 7

**STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
DECEMBER 31, 2014**

	<u>Agency (Statement 7)</u>
<u>Assets</u>	
Cash and pooled investments	\$ 611,388
Due from other funds	<u>17,490</u>
Total Assets	<u><u>\$ 628,878</u></u>
<u>Liabilities</u>	
Accounts payable	\$ 27,106
Due to other funds	17,490
Due to other governments	<u>584,282</u>
Total Liabilities	<u><u>\$ 628,878</u></u>

PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2014

I. Summary of Significant Accounting Policies

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

A. Financial Reporting Entity

Pennington County was established November 23, 1910, and is an organized county having the powers, duties, and privileges granted counties by Minnesota Statutes, Chapter 373. The County is governed by a five-member Board of Commissioners elected from districts within the County. The Board is organized with a chair and vice chair elected at the annual meeting in January of each year. The County Auditor-Treasurer, elected on a County-wide basis, serves as the clerk of the Board but has no vote.

The County participates in joint ventures and jointly-governed organizations which are described in Notes section VI, subdivisions D and E, respectively.

B. Basic Financial Statements

1. Government-Wide Statements

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

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

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

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

I. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

2. Fund Financial Statements

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

The County reports the following major governmental funds:

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

The Road and Bridge Special Revenue Fund is used to account for and report revenues and expenditures of the County Highway Department which is responsible for the construction and maintenance of roads, bridges, and other projects affecting County roadways. Financing is provided by annual tax levy, intergovernmental revenues, and charges for services restricted and assigned to various highways and streets purposes.

The Human Services Special Revenue Fund is used to account for and report economic assistance and community social services programs. Financing is provided by annual tax levy and intergovernmental revenues assigned to human services.

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

The Capital Improvement Special Revenue Fund was opened in 2007 to account for and report proceeds from the sale of the Oakland Park Nursing Home committed to future County capital improvements.

Additionally, the County reports the following fund types:

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

Debt Service Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

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

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

I. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting

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

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

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

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

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2014, based on market prices. Pursuant to Minnesota Statute, § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Pooled investment earnings for 2014 were \$37,638. Total investment earnings were \$37,638.

Pennington County invests in an external investment pool, the Minnesota Association of Governments Investing for Counties (MAGIC) Fund, which is created under a joint powers agreement pursuant to Minnesota Statute, § 471.59. The MAGIC Fund is not registered with the Securities and Exchange Commission, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Therefore, the fair value of the County's position in the pool is the same as the value of the pool shares.

2. Receivables and Payables

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

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

I. Summary of Significant Accounting Policies

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

2. Receivables and Payables (Continued)

Activity 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” (i.e., the current portion of interfund loans) or “advances from/to other funds” (i.e., the non-current portion of interfund loans).

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

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

3. Inventories

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

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

4. Capital Assets

Capital assets, which include land, infrastructure (e.g., roads, bridges, and similar items), buildings and improvements, and machinery and equipment, are reported in the applicable government-wide financial statements. Capital assets have initial useful lives extending beyond two years and a dollar amount for capitalization per asset of \$5,000, except all land and construction in progress which is capitalized regardless of cost. Capital assets are recorded at historical cost or estimated historical cost when purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

<u>Assets</u>	<u>Years</u>
Infrastructure	50-75
Buildings and improvements	20-30
Machinery and equipment	5-12

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

I. Summary of Significant Accounting Policies

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

5. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expenditure) until then. Currently, the County has no items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position by the County that is applicable to a future reporting period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The County's deferred inflows of resources arise only under a modified basis of accounting that qualifies for reporting in this category. Accordingly, deferred inflows of resources are reported only in the governmental funds balance sheet, and recognized as an inflow of resources in the period that the amounts become available.

6. Employee Benefits

The liability for compensated absences reported in financial statements consists of unpaid, accumulated annual vacation and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. Compensated absences are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

The County uses the actuarial method of valuation to determine its Other Post-Employment Benefit liability.

7. Long-Term Obligations

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

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

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

I. Summary of Significant Accounting Policies

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

8. Net Position and Fund Balance

Certain funds of the County are classified as restricted net position 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.

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

Non-spendable – includes fund balance amounts that cannot be spent because it is either not in spendable form or legally or contractually required to be maintained intact.

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 and do not lapse at year-end. 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. The County Board has delegated the authority to assign and remove assignments of fund balance amounts for specified purposes to the County Auditor.

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 does not have any unassigned fund balance at December 31, 2014.

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 in excess of zero dollars. 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 property taxes or transfers from other funds within a three-year period of time.

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

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

I. Summary of Significant Accounting Policies

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

8. Net Position and Fund Balance (Continued)

expended when major flood or other natural disaster repairs exist 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 does not identify an amount for stabilization as of December 31, 2014.

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.

9. 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, liabilities, and deferred inflows, 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.

II. Stewardship, Compliance, and Accountability

A. Individual Fund Deficits of Equity Accounts

Fourteen of the 50 active ditch systems incurred expenditures in excess of revenues and available resources. These deficits will be eliminated with future special assessment levies against benefited properties. The following shows the restricted fund balance as of December 31, 2014:

Account balance	\$ 787,198
Account deficit	<u>(191,143)</u>
Fund Balance	<u><u>\$ 596,055</u></u>

B. Land Management

The County manages approximately 1,524 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.

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

III. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

Reconciliations of the County’s total deposits and investments to the basic financial statements, as of December 31, 2014, are as follows:

Governmental funds	
Cash and pooled investments	\$ 11,762,516
Fiduciary funds	
Cash and pooled investments	611,388
Total cash and investments	\$ 12,373,904
Deposits	\$ 7,579,188
Cash on hand	2,275
Investments	4,792,441
Total deposits, cash on hand, and investments	\$ 12,373,904

Deposits

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

Authorized collateral includes treasury bills, notes, and bonds; issues of U.S. government agencies; general obligations rated “A” or better, revenue obligations rated “AA” or better; irrevocable standard 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, 2014, the County’s deposits were not exposed to custodial credit risk.

Investments

Minnesota Statutes, §§ 118A.04 and 118A.05 generally authorize the following types of investments available to the County:

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

III. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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 Minnesota Statute, § 118A.04, subdivision 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 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 does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

At December 31, 2014, the County had the following investments and maturities:

	Fair Value Less Than 1 Year
Minnesota Association of Governments Investing for Counties (MAGIC) Fund	\$ 804,178
Wells Fargo Advantage Government Money Market	3,988,263
Total Investments	\$ 4,792,441
	100%

Credit Risk

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

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

III. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

Investments

Credit Risk (Continued)

The County's exposure to credit risk as of December 31, 2014, is as follows:

	<u>Moody's Rating</u>	<u>Fair Value</u>
Minnesota Association of Governments Investing for Counties (MAGIC) Fund	N/A	\$ 804,178
Wells Fargo Advantage Government Money Market	Aaa	3,988,263
		\$ 4,792,441
N/A – not applicable		

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 that are in the possession of an outside party. The County does not have a policy on custodial credit risk. At December 31, 2014, none of the County's investments were subject to custodial credit risk.

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the County's investment in a single issuer, excluding U.S. guaranteed investments, investment pools, and mutual funds. At December 31, 2014, the County's investments were not subject to concentration of credit risk.

2. Receivables

Receivables as of December 31, 2014, for the County's governmental activities, including any applicable allowances for uncollectible accounts, are as follows:

	<u>Total Receivables</u>	<u>Amounts Not Scheduled for Collection During the Subsequent Year</u>
Taxes	\$ 222,841	\$ 170,049
Special assessments	1,028,888	1,026,225
Accounts	70,991	-
Due from other governments	1,286,178	961,587
Total	\$ 2,608,898	\$ 2,157,861

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

III. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the governmental activities for the year ended December 31, 2014 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated				
Land	\$ 464,569	\$ -	\$ -	\$ 464,569
Construction in progress	1,803,733	569,562	2,373,295	-
Total capital assets not depreciated	\$ 2,268,302	\$ 569,562	\$ 2,373,295	\$ 464,569
Capital assets being depreciated				
Infrastructure	\$ 71,318,198	\$ 4,002,592	\$ -	\$ 75,320,790
Buildings and improvements	4,768,133	-	29,958	4,738,175
Machinery and equipment	4,162,926	519,519	111,088	4,571,357
Total capital assets being depreciated	\$ 80,249,257	\$ 4,522,111	\$ 141,046	\$ 84,630,322
Less: accumulated depreciation for				
Infrastructure	\$ 23,249,810	\$ 1,722,282	\$ -	\$ 24,972,092
Buildings and improvements	3,101,104	157,415	-	3,258,519
Machinery and equipment	2,684,512	226,279	111,088	2,799,703
Total accumulated depreciation	\$ 29,035,426	\$ 2,105,976	\$ 111,088	\$ 31,030,314
Total capital assets, depreciated, net	\$ 51,213,831	\$ 2,416,135	\$ 29,958	\$ 53,600,008
Governmental Activities				
Capital Assets, Net	<u>\$ 53,482,133</u>	<u>\$ 2,985,697</u>	<u>\$ 2,403,253</u>	<u>\$ 54,064,577</u>

Depreciation Expense

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

General government	\$ 38,602
Public safety	142,818
Highways and streets, including depreciation of infrastructure assets	1,902,668
Human services	19,818
Sanitation	1,068
Culture and recreation	1,002
Total Depreciation Expense	<u>\$ 2,105,976</u>

Construction Contracts

The County has no active construction contracts as of December 31, 2014.

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

III. Detailed Notes on All Funds (Continued)

B. Interfund Receivables and Payables

The composition of interfund balances as of December 31, 2014, is as follows:

Due To/From Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	
General Fund	Human Services Special Revenue Fund	\$ 24,242	Reimbursements
	Road and Bridge Special Revenue Fund	<u>622</u>	Reimbursements
Total Due To/From Other Funds		<u>\$ 24,242</u>	

Advances From/To Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	
Ditch Special Revenue Fund	Solid Waste Special Revenue Fund	<u>\$ 88,555</u>	Cash deficit

This advance will be paid back.

Interfund Transfers

Interfund transfers for the year ended December 31, 2014, consisted of the following operating transfers:

Transfer to General Fund			
Fund from Capital Improvement Fund		<u>\$ 14,878</u>	Reimbursements

C. Liabilities

Compensated Absences

Under the County's personnel policies and union contracts, employees are granted vacation in varying amounts based on their length of service. Vacation leave accrual varies from 12 to 21 days per year. Sick leave accrual is 12 days per year. Leave may be accumulated to a maximum of 24 days vacation and 100 days sick leave under the County's employment policy. For the governmental activities, compensated absences are generally liquidated by the General Fund, the Road and Bridge Special Revenue Fund, and the Human Services Special Revenue Fund.

Unused compensatory time, accumulated vacation and vested sick leave are paid to employees upon termination. Unvested sick leave, approximately \$542,022 at December 31, 2014, is available to employees in the event of illness-related absences and is not paid to them at termination.

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

III. Detailed Notes on All Funds

C. Liabilities (Continued)

Long-Term Debt

Types of Indebtedness	Final Maturity	Installment Amounts	Interest Rates (%)	Original Issue Amounts	Outstanding Balance December 31, 2014
2004 G.O. Capital Improvement Bonds	2014	\$60,000-\$65,000	3.44	\$ 535,000	\$ -
2009 G.O. Refunding Bonds	2019	\$120,000-\$185,000	3.4	1,450,000	660,000
2013 G.O. Drainage Bonds	2033	\$45,000-\$65,000	2.46	1,035,000	990,000
				\$ 3,020,000	\$ 1,650,000
Less: Net bond discount/premium					1,168
Total General Obligation Bonds, net of discount				\$ 3,020,000	\$ 1,651,168
2001 G.O. Highway State-Aid Note	2021	\$88,000-\$113,000	3.14	2,000,000	722,000
Total				\$ 5,020,000	\$ 2,373,168

Debt Service Requirements

Debt service requirements at December 31, 2014, were as follows:

Year Ending December 31	General Obligation Bonds		2001 General Obligation Highway State-Aid Note		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	165,000	43,776	94,000	22,671	259,000	66,447
2016	175,000	38,846	97,000	19,719	272,000	58,565
2017	175,000	33,656	100,000	16,674	275,000	50,330
2018	180,000	28,116	103,000	13,533	283,000	41,649
2019	190,000	22,031	106,000	10,299	296,000	32,330
2020-2024	245,000	82,380	222,000	10,519	467,000	92,899
2025-2029	275,000	53,471			275,000	53,471
2030-2033	245,000	14,081			245,000	14,081
	\$ 1,650,000	\$ 316,357	\$ 722,000	\$ 93,415	\$ 2,372,000	\$ 409,772
Less: net bond discount/premium	1,168	-	-	-	1,168	-
Total	\$ 1,651,168	\$ 316,357	\$ 722,000	\$ 93,415	\$ 2,373,168	\$ 409,772

Changes in Long-Term Liabilities

Long-term liability activity for the governmental activities for the year ended December 31, 2014 was as follows:

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

III. Detailed Notes on All Funds

C. Liabilities

Long-Term Debt

Changes in Long-Term Liabilities (Continued)

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General obligation bonds	\$ 1,945,000	\$ -	\$ 295,000	\$ 1,650,000	\$ 165,000
Less: Bond premium/discount	(198)	7,532	6,166	1,168	-
2001 General Obligation Highway State-Aid Note	813,000	-	91,000	722,000	94,000
Net OPEB Payable	250,313	65,897	21,318	294,892	-
Compensated Absences	594,457	559,221	513,240	640,438	464,501
Governmental Activities Long-Term Liabilities	<u>\$ 3,602,572</u>	<u>\$ 632,650</u>	<u>\$ 926,724</u>	<u>\$ 3,308,498</u>	<u>\$ 723,501</u>

IV. Pension Plans and Other Post-Employment Benefits

Defined Benefits Plans

Plan Description

All full-time and certain part-time employees of the County are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). The PERA administers the Public Employees Retirement Fund, the Public Employee's Police and Fire Fund, and the Public Employees Correctional Fund, which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356.

Public Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All new members must participate in the Coordinated Plan. All police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Fund. Members who are employed in a county correctional institution and have direct contact with inmates, are covered by the Public Employees Correctional Fund.

The PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits are established by state statute and vest after three years of credited service. The retirement 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.

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

IV. Pension Plans and Other Post-Employment Benefits

Defined Benefits Plans

Plan Description (Continued)

Two methods are used to compute benefits for Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each year thereafter. For a Coordinated Plan member, the annuity accrual rate is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each successive year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For Public Employees Police and Fire Fund members, the annuity accrual rate is 3 percent for each year of service. For Public Employees Correctional Fund Members, the annuity accrual rate is 1.9 percent for each year of service.

For all Public Employees Retirement Fund members whose annuity is calculated using Method 1, and for all Public Employees Police and Fire Fund and Public Employees Correctional Fund members, a full annuity is available when age plus years of service equal 90. A reduced retirement annuity is also available to eligible members seeking early retirement.

The benefit provisions stated in the previous paragraphs 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 public service.

The PERA issues a publicly available financial report that includes financial statements and required supplementary information for the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund. That report may be obtained on the Internet at www.mnpera.org; by writing to PERA at 60 Empire Drive, Suite 200, Saint Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Minnesota Statutes, Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the State Legislature. The County makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members were required to contribute 9.10 and 6.25 percent, respectively, of their annual covered salary in 2014. Public Employees Police and Fire Fund members were required to contribute 10.20 percent of their annual covered salary in 2014. The contribution rate in the Public Employees Police and Fire Fund will increase in 2015 to 10.80 percent. Public Employees Correctional Fund members were required to contribute 5.83 percent of their annual covered salary in 2014.

The County is required to contribute the following percentages of annual covered payroll in 2014 and 2015:

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

IV. Pension Plans and Other Post-Employment Benefits

Defined Benefits Plans

Funding Policy (Continued)

	2014	2015
Public Employees Retirement Fund		
Basic Plan Members	9.10%	11.78%
Coordinated Plan Members	7.25%	7.50%
Public Employees Police and Fire Fund	15.30%	16.20%
Public Employees Correctional Fund	8.75%	8.75%

The County's contributions for the years ending December 31, 2014, 2013, and 2012, for the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund, were:

	Public Employees Retirement Fund	Public Employees Police and Fire Fund	Public Employees Correctional Fund
2014	\$ 276,140	\$ 69,626	\$ 77,634
2013	\$ 266,186	\$ 65,358	\$ 76,719
2012	\$ 251,261	\$ 63,162	\$ 75,171

These amounts are equal to contractually required contributions for each year as set by state statute.

Defined Contribution Plan

Three employees of Pennington County are covered by the Public Employees Defined Contribution Plan, a multiple-employer, deferred compensation plan administered by PERA in accordance with Minnesota Statute, Chapter 353D. 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. Minnesota Statute, § 353D.03 specifies the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes five percent of salary, which is matched by the employer. Employees may elect to make member contributions in an amount not to exceed the employer share. Employee and employer contributions are combined and used to purchase shares in accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2.00 percent of employer contributions and 0.25 percent of the assets in each member account annually.

Total contributions by dollar amount and percentage of covered payroll made by the County during the year ended December 31, 2014, were:

	Employee	Employer
Contribution amount	\$ 2,216	\$ 2,216
Percentage of covered payroll	5%	5%

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

IV. Pension Plans and Other Post-Employment Benefits (Continued)

Other Post-Employment Benefits – (OPEB)

Plan Description

Pennington County provides a single-employer defined benefit healthcare plan to eligible retirees and their spouses. The plan offers medical insurance benefits. The County provides for retirees by Minnesota Statute § 471.61, subdivision 2b. The retiree healthcare plan does not issue a publicly available financial report.

Funding Policy

The contribution requirements of the plan members and the County are established and may be amended by the Pennington County Board of Commissioners. Retirees are required to pay 100 percent of the total premium cost. Since the premium is determined on the entire active and retiree population, the retirees are receiving an implicit rate subsidy. This post-employment benefit is funded on a pay-as-you-go basis usually paying retiree benefits out of the General Fund. As of the January 1, 2014 actuarial valuation, there were approximately 129 participants in the plan, including three retirees and one spouse receiving payments.

Annual OPEB Cost and Net OPEB Obligation

The County's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the County's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the County's net OPEB obligation to the plan.

Annual Required Contribution	\$	70,458
Interest on net OPEB obligation		11,264
Adjustments to Annual Required Contribution		<u>(15,825)</u>
Annual OPEB cost (expense)	\$	65,897
Contributions made		<u>(21,318)</u>
Increase in net OPEB obligation	\$	44,579
Net OPEB Obligation - January 1, 2013		<u>250,313</u>
Net OPEB Obligation - December 31, 2013	\$	<u><u>294,892</u></u>

The County's annual OPEB cost for December 31, 2014 was \$65,897. The percentage of annual OPEB cost contributed to the plan was 32.4 percent, and the net OPEB obligation for 2014 was \$294,892. Currently, three years actuarial data is available. For trend information, refer to the Required Supplementary Information.

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

IV. Pension Plans and Other Post-Employment Benefits

Other Post-Employment Benefits – (OPEB) (Continued)

Fund Status and Funding Progress

As of January 1, 2014, the most recent actuarial valuation date, the plan was zero percent funded. The actuarial liability for benefits was \$590,175, and the actuarial value of assets was zero, resulting in an unfunded actuarial liability (UAAL) of \$590,175. The covered payroll (annual payroll of active employees covered by the plan) was \$5,098,322, and the ratio of the UAAL to the covered payroll was 11.6 percent.

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

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and 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.

In the January 1, 2014, actuarial valuation, 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 Pennington County's implicit rate of return on the General Fund. The annual healthcare cost trend is 8.0 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, 2014, was 23 years.

V. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

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

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

V. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities (Continued)

The County, in connection with the normal conduct of its affairs, may be involved in various claims, judgments, and litigation. The County Attorney estimates that the potential claims against the County not covered by insurance resulting from such litigation would not materially affect the financial statements of the County.

B. Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. The County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Insurance Trust (MCIT) to cover workers' compensation and property and casualty liabilities. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for each of the past three fiscal years.

The Worker's Compensation Division of MCIT is self-sustaining based on the contributions charged, so 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 \$480,000 per claim in 2014 and \$490,000 per claim in 2015. 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. The 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.

C. Joint Ventures

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

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

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

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

V. Summary of Significant Contingencies and Other Items

C. Joint Ventures

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

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

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

Inter-County Nursing Service

The Inter-County Nursing Service was formed in 1978 under the authority of the Joint Powers Act, pursuant to Minnesota Statutes, § 471.59, and includes Pennington and Red Lake Counties. The purpose of the Nursing Service is to provide, through visits to individuals' homes, skilled public nursing care on a part-time or intermittent basis to residents of Pennington and Red Lake Counties.

Control of the Nursing Service is vested in the Inter-County Nursing Service Board, which is composed of one county commissioner and four others from each county, and a physician who may be from either county. In the event of dissolution of the Inter-County Nursing Service Board, the net assets of the Nursing Service at that time shall be divided between the counties in proportion to the contribution of each.

The Nursing Service has no long-term debt. Financing is provided by state and federal grants, charges for services, and appropriations from the two counties. Pennington County contributed \$49,906 to the Nursing Service for the year ended December 31, 2014. Pennington County, in an agent capacity, reports the cash transactions of the Nursing Service as an agency fund on its financial statements. Complete financial information can be obtained from the Pennington County Auditor/Treasurer's Office or the Nursing Service's office, P.O. Box 616, Thief River Falls, Minnesota 56701.

Northern Counties Land Use Coordinating Board

The Northern Counties Land Use Coordinating Board was established September 22, 1993, and amended May 4, 1995, under the authority of the Joint Powers Act, pursuant to Minnesota Statute, § 471.59, and includes Beltrami, Clearwater, Cook, Itasca, Koochiching, Lake, Lake of the Woods, Marshall, Pennington, and St. Louis Counties. The purpose of the Land Use Coordinating Board is to formulate land use plans or general policies needed for the protection, sustainable use, and development of lands and natural resources in Northern Minnesota.

The Northern Counties Land Use Coordinating Board is composed of two elected county commissioners from each member county except St. Louis County, which has three members, as provided in the Land Use Coordinating Board's bylaws.

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

V. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Northern Counties Land Use Coordinating Board (Continued)

In the event of dissolution of the Northern Counties Land Use Coordinating Board, the net assets shall be distributed to the respective member counties in proportion to the contribution of each.

The Land Use Coordinating Board has no long-term debt. Financing is provided by appropriations from member counties. Pennington County did not contribute to the Land Use Coordinating Board for the year ended December 31, 2014. St. Louis County, in an agent capacity, reports the cash transactions as an agency fund on its financial statements. Complete financial information can be obtained from the St. Louis County Auditor, 100 North Fifth Avenue West, Duluth, Minnesota 55802.

Northwest Minnesota Household Hazardous Waste Management Group

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

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

Responsibility for budgeted expenditures is shared with the first 50 percent divided equally among the member counties, and the remaining 50 percent divided on a population-ratio basis. In the event of dissolution, the net assets shall be divided among the member counties in the same proportion as their respective financial responsibilities.

The Waste Management Group has no long-term debt. Financing is provided by appropriations from the member counties when needed. Pennington County disbursed \$6,455 to the Waste Management Group for the year ended December 31, 2014. Clearwater County, in an agent capacity, reports the cash transactions as an agency fund on its financial statements. Complete financial information can be obtained from the Clearwater County Auditor/Treasurer's Office or the Waste Management Group's office, P.O. Box 186, Bagley, Minnesota 56621.

Northwest Minnesota Regional Radio Board

The Northwest Minnesota Regional Radio Board was formed in 2007 under the authority of the Joint Powers Act, pursuant to Minnesota Statutes, §§ 403.39 and 471.59. Members include Becker, Beltrami, Clearwater, Clay, Hubbard, Kittson, Lake of the Woods, Mahnomen, Marshall, Norman, Pennington, Polk, Red Lake, and Roseau counties and the City of Moorhead. The purpose of the Northwest Minnesota Regional Radio Board is to provide

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V. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Northwest Minnesota Regional Radio Board (Continued)

regional administration for the installation, operation, and maintenance of local and regional enhancements to the Statewide Public Safety Radio and Communication System (ARMER).

Control is vested in the Northwest Minnesota Regional Radio Board, which is composed of one county commissioner from each member county and one city council member from the member city, appointed by their respective governing bodies as provided in the Northwest Minnesota Regional Radio Board's Joint Powers Agreement.

The Northwest Minnesota Regional Radio Board has no long-term debt. Financing is provided by annual contributions from members, reflective of the extent of participation and use of services. Pennington County contributed \$3,000 to the Northwest Regional Radio Board for the year ended December 31, 2014. Complete financial information can be obtained from Headwaters Regional Development Commission, P.O. Box 906, Bemidji, Minnesota 56619.

Northwest Minnesota Six County Joint Powers Board

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

The Northwest Minnesota Six County Joint Powers Board is composed of one representative appointed by each county board from the six counties. Each county also has one alternate appointed to the Board, and the Board may choose to have non-voting advisory members on the Board. In the event of dissolution, the net assets shall be distributed to the respective member counties in proportion to the contribution of each. Membership does not cause an additional financial benefit or burden to the counties.

Financing is provided by grants from the State of Minnesota or contributions. Complete financial information can be obtained from the Red Lake Watershed District, P.O. Box 803, Thief River Falls, Minnesota 56701.

Northwest Service Cooperative

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

The NWSC 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

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V. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Northwest Service Cooperative (Continued)

three ex-officio superintendents. Adequate rates are charged so that the members do not experience additional benefit or burden. Pennington County contributed \$250 to the Cooperative for the year ended December 31, 2014. Complete financial information can be obtained from the Northwest Service Cooperative, 114 First Street West, Thief River Falls, Minnesota 56701.

Northwestern Counties Data Processing Security Association

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

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

The Northwestern Counties Data Processing Security Association has no long-term debt. Financing is provided by state grants and appropriations from member counties when needed. Pennington County did not contribute to the Association for the year ended December 31, 2014. Lake of the Woods County, in an agent capacity, reports the cash transactions of the Association as an agency fund on its financial statements. Complete financial information can be obtained from the Lake of the Woods County Auditor-Treasurer's Office, 206 8th Avenue SE, Suite 260, Baudette, Minnesota 56623.

Northwestern Minnesota Juvenile Center

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

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

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V. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Northwestern Minnesota Juvenile Center (Continued)

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

Quin County Community Health Service

The Quin County Community Health Service was formed in 1978 under the authority of the Joint Powers Act, pursuant to Minnesota Statute, § 471.59, and includes Kittson, Marshall, Pennington, Red Lake, and Roseau 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 Quin County Board of Health, which is composed of one member appointed from each of the member counties (total five members, as provided in the joint powers agreement). In the event of dissolution, the net assets of the Health Service shall be divided among the member counties in the same proportion as their respective financial responsibilities as determined by county population.

The Health Service has no long-term debt. Financing is provided by state and federal grants, charges for services, and appropriations from the member counties when needed. Adequate rates are charged so that the member counties do not experience any additional financial benefit or burden. Marshall County, in an agent capacity, reports the cash transactions of the Health Service as an agency fund on its financial statements. Complete financial information can be obtained from the Marshall County Auditor/Treasurer's Office or the Health Service's office, Newfolden, Minnesota 56738.

Red Lake River Corridor

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

The Red Lake River Corridor Joint Powers Board is composed of one member for each participating entity. Each participant may also have one alternate who, in the absence of the appointed member, may attend meetings and have all the duties and rights of the member. In the event of dissolution, the net assets shall be distributed to the respective members in proportion to the contribution of each.

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V. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Red Lake River Corridor (Continued)

Financing is provided by contributions from members. The County did not contribute to the Board in 2014. Complete financial information can be obtained from the Treasurer, Stacy Myhrer, 102 Broadway Avenue North, St. Hilaire, Minnesota 56754.

Thief River Falls Regional Airport Authority

The Thief River Falls Regional Airport Authority was formed in 2010 pursuant to Minnesota Statutes, §§ 360.0425 to 360.0427, and 471.59, and includes Pennington County and the City of Thief River Falls. The purpose of the Thief River Falls Regional Airport Authority is to acquire, establish, construct, maintain, improve, and operate the Airport.

The Airport Authority consists of five Commissioners: two members from the County Board, two members from the City Council, and one lay member mutually appointed by the County and City. The Commissioners shall each be appointed for three year terms.

In the event of dissolution of the Airport Authority, net assets shall be divided between the participating governmental entities in proportion to their relative shares of the most recent levy.

Financing is provided by state and federal grants, charges for services, and appropriations and property tax levies, pursuant to Minnesota Statute, § 275.066. Pennington County did not contribute to the Airport Authority for the year ended December 31, 2014. Complete financial information can be obtained from the Thief River Falls Regional Airport Authority, P.O. Box 672, Thief River Falls, Minnesota 56701.

D. Jointly-Governed Organizations

Job Training Partnership Act Joint Powers Agreement

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

Minnesota Counties Computer Consortium

The Minnesota Counties Computer Consortium was formed in 1979 pursuant to Minnesota Statute, § 471.59 and includes 24 counties. Control of the Consortium is vested in the Joint Data Processing Board which is composed of one representative and one alternate appointed by each member county. The County's responsibility does not extend beyond making this appointment.

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V. Summary of Significant Contingencies and Other Items

D. Jointly-Governed Organizations (Continued)

Minnesota Rural Counties Caucus

The Minnesota Rural Counties Caucus was established in 1997 and includes Becker, Beltrami, Clay, Clearwater, Itasca, Kittson, Lake, Lake of the Woods, Mahnommen, Marshall, McLeod, Morrison, Norman, Pennington, Polk, Red Lake, and Roseau Counties. Control of the Caucus is vested in the Minnesota Rural Counties Caucus Executive Committee which is composed of ten directors, each with an alternate, who are appointed annually by each respective county board. The County contributed \$2,100 to the Caucus for the year ended December 31, 2014.

Multi-Cultural Events Center Joint Powers Board

The Multi-Cultural Events Center Joint Powers Board was formed in 1995 under the authority of the Joint Powers Act, pursuant to Minnesota Statute, § 471.59, and includes Pennington County, the City of Thief River Falls, Independent School District No. 564, Northland Community College, and Northwest Technical College. The Joint Powers Board is composed of one director appointed by the governing body of each member, with one alternate designated for each director, as provided in the Joint Powers Board's bylaws. The County did not contribute to the Multi-Cultural Events Center Joint Powers Board in 2014.

Northwest Minnesota Multi-County Housing and Redevelopment Authority

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

Northwest Regional Library

The Northwest Regional Library was formed pursuant to Minnesota Statutes, §§ 134.20 and 471.59, effective January 1, 1981, and includes Kittson, Marshall, Pennington, Red Lake, and Roseau Counties. Control of the Library is vested in the Northwest Regional Library Board which is composed of 16 members with staggered terms made up of the following: one member appointed by each board of county commissioners who may be a member of the Board of Commissioners; one member appointed by each participating city; and one additional member appointed by each county and city for each 6,000 of population or major percentage (85 percent) thereof. Pennington County appropriated \$100,000 to the Library for the year ended December 31, 2014.

Northwest Workforce Service Area

The Northwest Workforce Service Area was formed in July 2000 under the authority of the Workforce Investment Act of 1998 (Public Law 105-22) and includes Kittson, Marshall, Norman, Pennington, Polk, Red Lake, and Roseau Counties. The purpose of the Service Area is to increase a participant's employment, retention, earnings, and occupational skill attainment

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V. Summary of Significant Contingencies and Other Items

D. Jointly-Governed Organizations

Northwest Workforce Service Area (Continued)

and result in improved workforce quality, reduced welfare dependency, and enhanced productivity and competitiveness.

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

The Northwest Workforce Service Area has no long-term debt. Financing is provided by state and local grants. Complete financial information can be obtained from the Northwest Regional Development Commission, 115 South Main, Warren, Minnesota 56762.

Pennington County Family Service Collaborative

The Pennington County Family Service Collaborative was formed pursuant to Minnesota Statute, § 124D.23, effective July 1, 1996, and includes Pennington County, Thief River Falls Independent School District 564, and the Inter-County Nursing Service. Control of the Collaborative is vested in the Family Service Collaborative Board and includes at least one member from the public entities along with other members of the general public. Pennington County has accepted responsibility as the fiscal agent for reporting, claiming, and receiving payments.

Red Lake Watershed District

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

REQUIRED SUPPLEMENTARY INFORMATION

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

Schedule 1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2014**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 3,990,990	\$ 3,990,990	\$ 3,845,936	\$ (145,054)
Licenses and permits	6,650	6,650	14,863	8,213
Intergovernmental	965,445	965,445	1,109,395	143,950
Charges for services	1,140,040	1,140,040	1,137,409	(2,631)
Fines and forfeitures	20,000	20,000	17,723	(2,277)
Investment earnings	25,000	25,000	37,638	12,638
Miscellaneous	370,935	370,935	310,126	(60,809)
Total Revenues	\$ 6,519,060	\$ 6,519,060	\$ 6,473,090	\$ (45,970)
Expenditures				
Current				
General government				
Commissioners	\$ 220,677	\$ 220,677	\$ 222,398	\$ (1,721)
District court	17,500	17,500	18,074	(574)
Law library	16,000	16,000	16,508	(508)
County administration	1,000	1,000	1,674	(674)
County auditor	454,249	454,249	392,787	61,462
License bureau	226,625	226,625	209,982	16,643
County assessor	251,563	251,563	242,903	8,660
Elections	54,456	54,456	48,979	5,477
Data processing	170,936	170,936	161,639	9,297
Attorney	435,266	435,266	420,788	14,478
Recorder	236,890	236,890	194,026	42,864
Buildings and grounds	313,005	313,005	305,205	7,800
Veterans service officer	81,450	81,450	90,219	(8,769)
Insurance	38,839	38,839	40,428	(1,589)
Other general government	54,100	54,100	58,734	(4,634)
Total general government	\$ 2,572,556	\$ 2,572,556	\$ 2,424,344	\$ 148,212

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

***Schedule 1
(Continued)***

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2014**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures				
Current (Continued)				
Public safety				
Sheriff	\$ 897,269	\$ 897,269	\$ 871,140	\$ 26,129
Coroner	12,258	12,258	28,343	(16,085)
County jail	1,109,047	1,109,047	1,069,534	39,513
DARE program	4,000	4,000	1,790	2,210
Enhanced 911	16,500	16,500	37,240	(20,740)
Emergency services	73,809	73,809	74,057	(248)
Jail canteen fund	57,000	57,000	40,329	16,671
Juvenile justice	3,500	3,500	3,078	422
Law enforcement center	614,635	614,635	595,691	18,944
Probation and parole	37,000	37,000	33,280	3,720
Sentence to service	190,343	190,343	212,890	(22,547)
Toward zero deaths	17,166	17,166	15,877	1,289
Training	7,500	7,500	10,852	(3,352)
Victim assistance	72,955	72,955	74,206	(1,251)
Other public safety	2,000	2,000	-	2,000
Total public safety	\$ 3,114,982	\$ 3,114,982	\$ 3,068,307	\$ 46,675
Human Services				
Buildings and grounds	\$ 42,400	\$ 42,400	\$ 30,472	\$ 11,928
Health				
Nursing service	\$ 55,000	\$ 55,000	\$ 49,906	\$ 5,094
County health officer	958	958	-	958
Parenting education	3,000	3,000	1,158	1,842
Total health	\$ 58,958	\$ 58,958	\$ 51,064	\$ 7,894
Culture and recreation				
Auditorium	\$ 34,300	\$ 34,300	\$ 22,507	\$ 11,793
Historical society	13,000	13,000	13,000	-
Regional library	100,000	100,000	100,000	-
Senior citizens	1,000	1,000	-	1,000
Snowmobile and ski trails	70,793	70,793	68,215	2,578
Total culture and recreation	\$ 219,093	\$ 219,093	\$ 203,722	\$ 15,371

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

*Schedule 1
(Continued)*

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2014**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures				
Current (Continued)				
Conservation of natural resources				
Agricultural society	\$ 10,000	\$ 10,000	\$ 10,000	\$ -
Agriculture inspection	40	40	-	40
Area Ag Information Center	5,000	5,000	5,000	-
Cooperative extension	171,286	171,286	138,700	32,586
Soil and water conservation	172,539	172,539	207,130	(34,591)
Total conservation of natural resources	\$ 358,865	\$ 358,865	\$ 360,830	\$ (1,965)
Economic development				
Economic development	\$ 20,000	\$ 20,000	\$ 43,476	\$ (23,476)
Red River Valley Development	800	800	800	-
Tri-Valley Opportunity Council	1,216	1,216	1,350	(134)
Total economic development	\$ 22,016	\$ 22,016	\$ 45,626	\$ (23,610)
Total Current Expenditures	\$ 6,388,870	\$ 6,388,870	\$ 6,184,365	\$ 204,505
Capital outlay				
General government	\$ -	\$ -	\$ 5,553	\$ (5,553)
Public safety	62,975	62,975	338,038	(275,063)
Total capital outlay	\$ 62,975	\$ 62,975	\$ 343,591	\$ (280,616)
Total Expenditures	\$ 6,451,845	\$ 6,451,845	\$ 6,527,956	\$ (76,111)
Excess of Revenues Over (Under) Expenditures	\$ 67,215	\$ 67,215	\$ (54,866)	\$ (122,081)
Other Financing Sources (Uses)				
Transfers in	-	-	14,878	14,878
Net Change in Fund Balance	\$ 67,215	\$ 67,215	\$ (39,988)	\$ (107,203)
Fund Balance - January 1	5,211,661	5,211,661	5,211,661	-
Fund Balance - December 31	\$ 5,278,876	\$ 5,278,876	\$ 5,171,673	\$ (107,203)

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

Schedule 2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2014**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 1,274,241	\$ 1,274,241	\$ 1,258,527	\$ (15,714)
Intergovernmental	3,774,623	3,774,623	4,228,489	453,866
Charges for services	63,000	63,000	201,144	138,144
Miscellaneous	44,000	44,000	140,696	96,696
Total Revenues	\$ 5,155,864	\$ 5,155,864	\$ 5,828,856	\$ 672,992
Expenditures				
Current				
Highways and streets				
Administration	\$ 299,696	\$ 299,696	\$ 302,774	\$ (3,078)
Maintenance	2,711,969	2,711,969	3,405,366	(693,397)
Construction	-	-	16,685	(16,685)
Equipment maintenance and shop	1,764,235	1,764,235	1,638,758	125,477
Township roads	-	-	187,339	(187,339)
Other highways and streets	98,000	98,000	82,405	15,595
Total highways and streets	\$ 4,873,900	\$ 4,873,900	\$ 5,633,327	\$ (759,427)
Debt service				
Principal retirement	\$ 91,000	\$ 91,000	\$ 91,000	\$ -
Interest	12,764	12,764	25,528	(12,764)
Total debt service	\$ 103,764	\$ 103,764	\$ 116,528	\$ (12,764)
Capital outlay				
Highways and streets	\$ 178,200	\$ 178,200	\$ 138,823	\$ 39,377
Total Expenditures	\$ 5,155,864	\$ 5,155,864	\$ 5,888,678	\$ (732,814)
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ (59,822)	\$ (59,822)
Fund Balance - January 1	1,682,742	1,682,742	1,682,742	-
Increase (decrease) in inventories	-	-	117,601	117,601
Fund Balance - December 31	\$ 1,682,742	\$ 1,682,742	\$ 1,740,521	\$ 57,779

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

Schedule 3

**BUDGETARY COMPARISON SCHEDULE
HUMAN SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2014**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 2,239,247	\$ 2,239,247	\$ 2,190,771	\$ (48,476)
Intergovernmental	2,333,750	2,333,750	2,243,244	(90,506)
Charges for services	355,800	355,800	364,680	8,880
Miscellaneous	48,700	48,700	137,364	88,664
Total Revenues	\$ 4,977,497	\$ 4,977,497	\$ 4,936,059	\$ (41,438)
Expenditures				
Current				
Human services				
Income maintenance	\$ 1,497,968	\$ 1,497,968	\$ 1,573,711	\$ (75,743)
Social services	3,440,328	3,440,328	3,186,652	253,676
Total human services	\$ 4,938,296	\$ 4,938,296	\$ 4,760,363	\$ 177,933
Capital outlay				
Human services	19,000	19,000	-	19,000
Total Expenditures	\$ 4,957,296	\$ 4,957,296	\$ 4,760,363	\$ 196,933
Excess of Revenues Over (Under) Expenditures	\$ 20,201	\$ 20,201	\$ 175,696	\$ 155,495
Fund Balance - January 1	1,661,977	1,661,977	1,661,977	-
Fund Balance - December 31	\$ 1,682,178	\$ 1,682,178	\$ 1,837,673	\$ 155,495

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

Schedule 4

**BUDGETARY COMPARISON SCHEDULE
DITCH SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2014**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Special assessments	\$ 152,000	\$ 152,000	\$ 302,213	\$ 150,213
Charges for services	-	-	3,957	3,957
Total Revenues	\$ 152,000	\$ 152,000	\$ 306,170	\$ 154,170
Expenditures				
Current				
Conservation of natural resources				
Administration	\$ -	\$ -	\$ 522	\$ (522)
Ditch maintenance and repairs	152,000	152,000	168,269	(16,269)
Middle River/Snake River Watershed	-	-	4,154	(4,154)
Red Lake Watershed	-	-	1,287	(1,287)
Total conservation of natural resources	\$ 152,000	\$ 152,000	\$ 174,232	\$ (22,232)
Debt service				
Principal	\$ -	\$ -	\$ 45,000	\$ (45,000)
Interest	-	-	28,554	(28,554)
Total debt service	\$ -	\$ -	\$ 73,554	\$ (73,554)
Total Expenditures	\$ 152,000	\$ 152,000	\$ 247,786	\$ (95,786)
Net Change in Fund Balance	\$ -	\$ -	\$ 58,384	\$ 58,384
Fund Balance - January 1	537,671	537,671	537,671	-
Fund Balance - December 31	\$ 537,671	\$ 537,671	\$ 596,055	\$ 58,384

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

Schedule 5

**BUDGETARY COMPARISON SCHEDULE
CAPITAL IMPROVEMENT SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2014**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Miscellaneous	\$ -	\$ -	\$ 5,872	\$ 5,872
Expenditures				
Current				
Capital outlay				
General government	-	-	80,489	(80,489)
Total Expenditures	\$ -	\$ -	\$ 80,489	\$ (80,489)
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ (74,617)	\$ (74,617)
Other Financing Sources (Uses)				
Transfers out	-	-	(14,878)	(14,878)
Net Change in Fund Balance	\$ -	\$ -	\$ (89,495)	\$ (89,495)
Fund Balance - January 1	1,965,867	1,965,867	1,965,867	-
Fund Balance - December 31	\$ 1,965,867	\$ 1,965,867	\$ 1,876,372	\$ (89,495)

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

Schedule 6

**SCHEDULE OF FUNDING PROGRESS
OTHER POST-EMPLOYMENT BENEFIT PLAN
FOR THE YEAR ENDED DECEMBER 31, 2014**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
January 1, 2008	\$ -	\$ 518,648	\$ 518,648	\$ -	\$ 4,480,493	11.6%
January 1, 2011	-	493,738	493,738	-	4,675,993	10.6%
January 1, 2014	-	590,175	590,175	-	5,098,322	11.6%

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

Schedule 7

**SCHEDULE OF EMPLOYER CONTRIBUTIONS
OTHER POST-EMPLOYMENT BENEFIT PLAN
FOR THE YEAR ENDED DECEMBER 31, 2014**

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2012	52,015	19,301	37.1%	228,655
December 31, 2013	51,310	29,652	57.8%	250,313
December 31, 2014	65,897	21,318	32.4%	294,892

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2014

I. Budgetary Information

A. Budget Policy

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. All annual appropriations lapse at fiscal year-end.

On or before the last Tuesday in August of each year, all departments and agencies submit requests for appropriations to the County Auditor-Treasurer so that a budget can be prepared. Before October 31, the proposed budget is presented to the County Board for review. The Board holds a public hearing, and then 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 head 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, 2014:

	-	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
General Fund				
General government				
Commissioners	\$	222,398	\$ 220,677	\$ (1,721)
County administration		1,674	1,000	(674)
District court		18,074	17,500	(574)
Law library		16,508	16,000	(508)
Veterans service officer		90,219	81,450	(8,769)
Insurance		40,428	38,839	(1,589)
Other general government		58,734	54,100	(4,634)
Public safety				
Coroner		28,343	12,258	(16,085)
Enhanced 911		37,240	16,500	(20,740)
Emergency services		74,057	73,809	(248)
Sentence to service		212,890	190,343	(22,547)
Training		10,852	7,500	(3,352)
Conservation of natural resources				
Soil and water conservation		207,130	172,539	(34,591)
Economic development				
Economic development		43,476	20,000	(23,476)
Tri-Valley Opportunity Council		1,350	1,216	(134)
Capital outlay				
General government		5,553	-	(5,553)
Public safety		338,038	62,975	(275,063)

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

I. Budgetary Information

B. Excess of Expenditures Over Budget (Continued)

	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
Road and Bridge Special Revenue Fund			
Highways and streets			
Administration	302,774	299,696	(3,078)
Maintenance	3,405,366	2,711,969	(693,397)
Construction	16,685	-	(16,685)
Township roads	187,339	-	(187,339)
Debt service			
Interest	25,528	12,764	(12,764)
Human Services Special Revenue Fund			
Human services			
Income maintenance	1,573,711	1,497,968	(75,743)
Ditch Special Revenue Fund			
Conservation of natural resources			
Administration	522	-	(522)
Ditch maintenance and repairs	168,269	152,000	(16,269)
Middle River/Snake River Watershed	4,154	-	(4,154)
Red Lake Watershed	1,287	-	(1,287)
Debt service			
Principal	45,000	-	(45,000)
Interest	28,554	-	(28,554)
Capital Improvement Special Revenue Fund			
Capital outlay			
General government	80,489	-	(80,489)

II. Other Post-Employment Benefits (OPEB)

The most recent actuarial valuation date is January 1, 2014. Since the last actuarial valuation as of January 1, 2008, the following actuarial assumptions have been changed:

- The health care trend rates were changed to better anticipate short-term and long-term medical increases.
- Claim costs were developed by age adjusting the premium information from Pennington County. As of January 1, 2014, premium information, actual claims and enrollment experience were used.

There have been no changes to the plan provisions since the actuarial valuation as of January 1, 2014. Currently, three years actuarial data is available. Future notes will provide additional trend analysis to meet the three actuarial valuations requirement as it becomes available. For more information, refer to Schedules 6 and 7 of this section and the Notes to the Financial Statements Section V., Other Post-Employment Benefits.

SUPPLEMENTARY INFORMATION

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

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

The Solid Waste Special Revenue Fund is used to account for and report solid waste activities. Financing is provided by intergovernmental revenue and user service charges restricted and assigned to various sanitation purposes.

Debt Service Funds

The Highway Capital Improvement Debt Service Fund is used to account for and report the financial resources restricted for the payment of highway capital improvement bonds, interest, and related costs.

The Law Enforcement Radio Debt Service Fund is used to account for and report the financial resources restricted for the payment of law enforcement radio bonds, interest, and related costs.

The Minimum Security Facility Debt Service Fund is used to account for and report the financial resources restricted for the payment of minimum security facility bonds, interest, and related costs.

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

Statement 1

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2014**

	Special Revenue (Statement 3)	Debt Service (Statement 5)	Total Nonmajor Governmental Funds (Exhibit 3)
<u>Assets</u>			
Cash and pooled investments	\$ 505,511	\$ 243,472	\$ 748,983
Taxes receivable - prior	118	6,332	6,450
Advances to other funds	88,555	-	88,555
Total Assets	\$ 594,184	\$ 249,804	\$ 843,988
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>			
Liabilities			
Accounts payable	\$ 1,155	\$ -	\$ 1,155
Due to other governments	537	-	537
Total Liabilities	\$ 1,692	\$ -	\$ 1,692
Deferred Inflows of Resources			
Taxes	\$ 90	\$ 4,832	\$ 4,922
Fund Balances			
Nonspendable			
Advances to other funds	\$ 88,555	\$ -	\$ 88,555
Restricted for			
Debt service	-	244,972	244,972
Assigned to sanitation	503,847	-	503,847
Total Fund Balances	\$ 592,402	\$ 244,972	\$ 837,374
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 594,184	\$ 249,804	\$ 843,988

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

Statement 2

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

	Special Revenue (Statement 4)	Debt Service (Statement 6)	Total Nonmajor Governmental Funds (Exhibit 5)
Revenues			
Taxes	\$ -	\$ 148,263	\$ 148,263
Intergovernmental	63,803	4,154	67,957
Miscellaneous	7,267	-	7,267
Total Revenues	\$ 71,070	\$ 152,417	\$ 223,487
Expenditures			
Current			
Sanitation	\$ 65,325	\$ -	\$ 65,325
Conservation of natural resources	136,465	-	136,465
Total Current	\$ 201,790	\$ -	\$ 201,790
Debt Service			
Principal retirement	\$ -	\$ 250,000	\$ 250,000
Interest	-	27,389	27,389
Total Debt Service	\$ -	\$ 277,389	\$ 277,389
Total Expenditures	\$ 201,790	\$ 277,389	\$ 479,179
Net Change in Fund Balance	\$ (130,720)	\$ (124,972)	\$ (255,692)
Fund Balance - January 1	723,122	369,944	1,093,066
Fund Balance - December 31	\$ 592,402	\$ 244,972	\$ 837,374

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

Statement 3

**COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
DECEMBER 31, 2014**

	Forfeited Tax Sale	Solid Waste	Total (Statement 1)
<u>Assets</u>			
Cash and pooled investments	\$ -	\$ 505,511	\$ 505,511
Taxes receivable - prior	-	118	118
Advances to other funds	-	88,555	88,555
Total Assets	\$ -	\$ 594,184	\$ 594,184
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>			
Liabilities			
Accounts payable	\$ -	\$ 1,155	\$ 1,155
Due to other governments	-	537	537
Total Liabilities	\$ -	\$ 1,692	\$ 1,692
Deferred Inflows of Resources			
Taxes	\$ -	\$ 90	\$ 90
Fund Balances			
Nonspendable			
Advances to other funds	-	88,555	88,555
Assigned to sanitation	-	503,847	503,847
Total Fund Balances	\$ -	\$ 592,402	\$ 592,402
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ -	\$ 594,184	\$ 594,184

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

Statement 4

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

	Forfeited Tax Sale	Solid Waste	Total (Statement 2)
Revenues			
Intergovernmental	\$ -	\$ 63,803	\$ 63,803
Miscellaneous	-	7,267	7,267
	\$ -	\$ 71,070	\$ 71,070
Expenditures			
Current			
Sanitation	\$ -	\$ 65,325	\$ 65,325
Conservation of natural resources	136,465	-	136,465
	\$ 136,465	\$ 65,325	\$ 201,790
Net Change in Fund Balance	\$ (136,465)	\$ 5,745	\$ (130,720)
Fund Balance - January 1	136,465	586,657	723,122
Fund Balance - December 31	\$ -	\$ 592,402	\$ 592,402

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

Statement 5

**COMBINING BALANCE SHEET
NONMAJOR DEBT SERVICE FUNDS
DECEMBER 31, 2014**

	Highway Capital Improvement	Law Enforcement Radio	Minimum Security Facility	Total (Statement 1)
<u>Assets</u>				
Cash and pooled investments	\$ 211,105	\$ 16,481	\$ 15,886	\$ 243,472
Taxes receivable - prior	4,361	782	1,189	6,332
Total Assets	\$ 215,466	\$ 17,263	\$ 17,075	\$ 249,804
 <u>Deferred Inflows of Resources and Fund Balances</u>				
Deferred Inflows of Resources				
Taxes	\$ 3,328	\$ 597	\$ 907	\$ 4,832
Fund Balances				
Restricted for debt service	212,138	16,666	16,168	244,972
Total Deferred Inflows of Resources and Fund	\$ 215,466	\$ 17,263	\$ 17,075	\$ 249,804

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

Statement 6

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR DEBT SERVICE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Highway Capital Improvement</u>	<u>Law Enforcement Radio</u>	<u>Minimum Security Facility</u>	<u>Total (Statement 2)</u>
Revenues				
Taxes	\$ 147,133	\$ 567	\$ 563	\$ 148,263
Intergovernmental	4,154	-	-	4,154
Total Revenues	\$ 151,287	\$ 567	\$ 563	\$ 152,417
Expenditures				
Debt Service				
Principal retirement	\$ 115,000	\$ 65,000	\$ 70,000	\$ 250,000
Interest	24,823	1,268	1,298	27,389
Total Expenditures	\$ 139,823	\$ 66,268	\$ 71,298	\$ 277,389
Excess of Revenues Over (Under) Expenditures	\$ 11,464	\$ (65,701)	\$ (70,735)	\$ (124,972)
Fund Balance - January 1	200,674	82,367	86,903	369,944
Fund Balance - December 31	\$ 212,138	\$ 16,666	\$ 16,168	\$ 244,972

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

Schedule 8

**BUDGETARY COMPARISON SCHEDULE
FORFEITED TAX SALE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2014**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Land and timber sales	\$ 10,000	\$ 10,000	\$ -	\$ (10,000)
Expenditures				
Current				
Conservation of natural resources				
Forfeited land	10,000	10,000	136,465	(126,465)
Net Change in Fund Balance	\$ -	\$ -	\$ (136,465)	\$ (136,465)
Fund Balance - January 1	136,465	136,465	136,465	-
Fund Balance - December 31	<u>\$ 136,465</u>	<u>\$ 136,465</u>	<u>\$ -</u>	<u>\$ (136,465)</u>

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

Schedule 9

**BUDGETARY COMPARISON SCHEDULE
SOLID WASTE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2014**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Intergovernmental	\$ 55,000	\$ 55,000	\$ 63,803	\$ 8,803
Miscellaneous	10,000	10,000	7,267	(2,733)
Total Revenues	\$ 65,000	\$ 65,000	\$ 71,070	\$ 6,070
Expenditures				
Current				
Sanitation				
Solid waste	\$ 10,500	\$ 10,500	\$ 10,641	\$ (141)
Recycling	55,000	55,000	54,684	316
Total Expenditures	\$ 65,500	\$ 65,500	\$ 65,325	\$ 175
Net Change in Fund Balance	\$ (500)	\$ (500)	\$ 5,745	\$ 6,245
Fund Balance - January 1	586,657	586,657	586,657	-
Fund Balance - December 31	\$ 586,157	\$ 586,157	\$ 592,402	\$ 6,245

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

Schedule 10

**BUDGETARY COMPARISON SCHEDULE
HIGHWAY CAPITAL IMPROVEMENT DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2014**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 150,700	\$ 150,700	\$ 147,133	\$ (3,567)
Intergovernmental	1,700	1,700	4,154	2,454
Total Revenues	\$ 152,400	\$ 152,400	\$ 151,287	\$ (1,113)
Expenditures				
Debt service				
Principal retirement	\$ 115,000	\$ 115,000	\$ 115,000	\$ -
Interest	24,788	24,788	24,823	(35)
Total Expenditures	\$ 139,788	\$ 139,788	\$ 139,823	\$ (35)
Excess of Revenues Over (Under) Expenditures	\$ 12,612	\$ 12,612	\$ 11,464	\$ (1,148)
Fund Balance - January 1	200,674	200,674	200,674	-
Fund Balance - December 31	\$ 213,286	\$ 213,286	\$ 212,138	\$ (1,148)

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

Schedule 11

**BUDGETARY COMPARISON SCHEDULE
LAW ENFORCEMENT RADIO DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2014**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ -	\$ -	\$ 567	\$ 567
Expenditures				
Debt service				
Principal retirement	\$ 65,000	\$ 65,000	\$ 65,000	\$ -
Interest	1,699	1,699	1,268	431
Total Expenditures	\$ 66,699	\$ 66,699	\$ 66,268	\$ 431
Excess of Revenues Over (Under) Expenditures	\$ (66,699)	\$ (66,699)	\$ (65,701)	\$ 998
Fund Balance - January 1	82,367	82,367	82,367	-
Fund Balance - December 31	\$ 15,668	\$ 15,668	\$ 16,666	\$ 998

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

Schedule 12

**BUDGETARY COMPARISON SCHEDULE
MINIMUM SECURITY FACILITY DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2014**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ -	\$ -	\$ 563	\$ 563
Expenditures				
Debt service				
Principal retirement	\$ 70,000	\$ 70,000	\$ 70,000	\$ -
Interest	1,263	1,263	1,298	(35)
Total Expenditures	\$ 71,263	\$ 71,263	\$ 71,298	\$ (35)
Excess of Revenues Over (Under) Expenditures	\$ (71,263)	\$ (71,263)	\$ (70,735)	\$ 528
Fund Balance - January 1	86,903	86,903	86,903	-
Fund Balance - December 31	\$ 15,640	\$ 15,640	\$ 16,168	\$ 528

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

AGENCY FUNDS

The Group Insurance Agency Fund is used to account for the employer's share of group insurance. Funds are provided for payment of the insurance from the General Fund and special revenue funds.

The Inter-County Nursing Service Agency Fund is used to account for the cash transactions of the Inter-County Nursing Service.

The Northwest Minnesota Housing Redevelopment Authority Agency Fund is used to account for the collection and payment of funds due to the Northwest Minnesota Housing and Redevelopment Authority.

The Northwest Regional Development Commission Agency Fund is used to account for the collection and payment of funds due to the Northwest Regional Development Commission.

The Prepaid Taxes Agency Fund is used to account for the payment of taxes prior to the preparation of tax statements or prior to January 1 of the year due.

The School Districts Agency Fund is used to account for the collection and payment of funds due to school districts.

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

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

The Towns and Cities Agency Fund is used to account for the collection and payment of funds due to towns and cities.

The Watersheds Agency Fund is used to account for the collection and payment of funds due to watershed districts.

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

Statement 7

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

	Balance January 1	Additions	Deductions	Balance December 31
<u>GROUP INSURANCE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 17,282	\$ 1,658,412	\$ 1,648,588	\$ 27,106
<u>Liabilities</u>				
Accounts payable	\$ 17,282	\$ 1,658,412	\$ 1,648,588	\$ 27,106
 <u>INTER-COUNTY NURSING SERVICE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 231,844	\$ 934,302	\$ 880,909	\$ 285,237
<u>Liabilities</u>				
Due to other governments	\$ 231,844	\$ 934,302	\$ 880,909	\$ 285,237
 <u>NORTHWEST MINNESOTA HOUSING REDEVELOPMENT AUTHORITY</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 44,009	\$ 44,009	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 44,009	\$ 44,009	\$ -
 <u>NORTHWEST REGIONAL DEVELOPMENT COMMISSION</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 25,649	\$ 25,649	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 25,649	\$ 25,649	\$ -

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

*Statement 7
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

	Balance January 1	Additions	Deductions	Balance December 31
<u>PREPAID TAXES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 19,153	\$ 46,064	\$ 47,727	\$ 17,490
<u>Liabilities</u>				
Due to other funds	\$ 19,153	\$ 46,064	\$ 47,727	\$ 17,490
 <u>SCHOOL DISTRICTS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 4,909,317	\$ 4,909,317	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 4,909,317	\$ 4,909,317	\$ -
 <u>STATE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 25,903	\$ 2,050,658	\$ 2,052,616	\$ 23,945
<u>Liabilities</u>				
Due to other governments	\$ 25,903	\$ 2,050,658	\$ 2,052,616	\$ 23,945
 <u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 175,499	\$ 18,018,019	\$ 17,946,371	\$ 247,147
Due from other funds	19,153	17,490	19,153	17,490
Total Assets	\$ 194,652	\$ 18,035,509	\$ 17,965,524	\$ 264,637
<u>Liabilities</u>				
Due to other governments	\$ 194,652	\$ 18,035,509	\$ 17,965,524	\$ 264,637

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

*Statement 7
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

	Balance January 1	Additions	Deductions	Balance December 31
<u>TOWNS AND CITIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 12	\$ 2,856,374	\$ 2,845,923	\$ 10,463
<u>Liabilities</u>				
Due to other governments	\$ 12	\$ 2,856,374	\$ 2,845,923	\$ 10,463
 <u>WATERSHEDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 567,622	\$ 567,622	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 567,622	\$ 567,622	\$ -
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 469,693	\$ 31,110,426	\$ 30,968,731	\$ 611,388
Due from other funds	19,153	17,490	19,153	17,490
Total Assets	\$ 488,846	\$ 31,127,916	\$ 30,987,884	\$ 628,878
<u>Liabilities</u>				
Accounts payable	\$ 17,282	\$ 1,658,412	\$ 1,648,588	\$ 27,106
Due to other funds	19,153	46,064	47,727	17,490
Due to other governments	452,411	29,423,440	29,291,569	584,282
Total Liabilities	\$ 488,846	\$ 31,127,916	\$ 30,987,884	\$ 628,878

OTHER SCHEDULES

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

Schedule 13

**BALANCE SHEET - BY DITCH
DITCH SPECIAL REVENUE FUND
DECEMBER 31, 2014**

	Assets					Total Assets
	Cash and Pooled Investments	Special Assessments Receivable Prior	Due from Other Governments	Due from Other Ditches	Special Assessments Receivable Noncurrent	
County Ditches						
1 - Rocksbury/North	\$ 1,416	\$ 34	\$ -	\$ -	\$ -	\$ 1,450
1 - Rocksbury/Sanders	9,228	-	-	-	-	9,228
16	10,179	20	-	-	-	10,199
21	1,329	142	-	-	-	1,471
22	-	-	-	-	-	-
32	14,608	32	-	-	-	14,640
33	642	6	-	-	-	648
35	13,911	150	-	-	-	14,061
36	34,713	127	-	-	-	34,840
37	1,486	135	-	-	-	1,621
38	1,984	600	-	-	-	2,584
39	1,736	91	-	-	-	1,827
41	1,437	757	-	-	-	2,194
42	1,366	96	-	-	-	1,462
43	1,504	181	-	-	-	1,685
44	29,648	57	-	-	-	29,705
45	9,649	55	-	-	-	9,704
46	7,374	-	-	-	-	7,374
47	1,244	3	-	-	-	1,247
53	1,190	11	-	-	-	1,201
55	1,778	19	-	-	-	1,797
57	4,251	15	-	-	-	4,266
58	2,737	34	-	-	-	2,771
59	1,918	16	-	-	-	1,934
62	13,346	3	-	-	-	13,349
70	70,555	288	-	-	-	70,843
71	8,248	89	-	-	-	8,337
73	1,574	-	-	-	-	1,574
74	2,253	-	-	-	-	2,253
75	24,139	325	-	-	-	24,464
77	19,104	23	-	-	-	19,127
96	38,122	357	-	-	-	38,479
109-2	184	3	-	-	17,570	17,757
Joint County Ditches						
1	24,016	102	295	-	-	24,413
11	10,669	57	-	-	-	10,726
13	90,476	611	231	-	-	91,318
15	18,751	-	-	-	-	18,751
18	27,674	127	125	-	-	27,926
25 - Branch 3	19,508	211	-	113,000	-	132,719
30	56,025	108	3,283	-	-	59,416
30 - Branch A	2,428	-	-	-	-	2,428
31	15,858	-	23	-	-	15,881
60	518	-	-	-	-	518
13 Red Lk/Penn	10,443	-	-	-	-	10,443
Watershed Ditches						
JD 14	894	89	-	-	-	983
109 - Red Lk Watershed	42	-	-	-	-	42
122 - Challenger Project	-	167	-	-	-	167
Red Lake Watershed 13	562	1,662	-	-	71,347	73,571
Red Lake Watershed 14	55,101	1,056	-	-	509,899	566,056
RLWD - Water Mngmt District 1	54,539	3,380	-	-	418,833	476,752
Total	\$ 720,357	\$ 11,239	\$ 3,957	\$ 113,000	\$ 1,017,649	\$ 1,866,202

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

**BALANCE SHEET - BY DITCH
DITCH SPECIAL REVENUE FUND
DECEMBER 31, 2013**

*Schedule 13
(Continued)*

	Liabilities					Deferred Inflows	Fund Balances	Total Liabilities, Deferred Inflows and Fund Balances
	Accounts Payable	Due to Other Governments	Advances from Other Funds	Due to Other Ditches	Total Liabilities		Restricted for Conservation of Natural Resources	
County Ditches								
1 - Rocksbury/North	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 26	\$ 1,424	\$ 1,450
1 - Rocksbury/Sanders	-	-	-	-	-	-	9,228	9,228
16	-	-	-	-	-	15	10,184	10,199
21	-	-	-	18,000	18,000	108	(16,637)	1,471
22	-	-	121	-	121	-	(121)	-
32	-	-	-	-	-	24	14,616	14,640
33	-	-	-	3,000	3,000	5	(2,357)	648
35	-	-	-	-	-	115	13,946	14,061
36	-	-	-	-	-	97	34,743	34,840
37	-	-	-	35,000	35,000	103	(33,482)	1,621
38	-	-	-	16,000	16,000	458	(13,874)	2,584
39	1,120	-	-	3,000	4,120	69	(2,362)	1,827
41	-	-	-	2,000	2,000	578	(384)	2,194
42	-	-	-	18,000	18,000	73	(16,611)	1,462
43	-	-	-	8,000	8,000	138	(6,453)	1,685
44	13,610	-	-	-	13,610	44	16,051	29,705
45	-	-	-	-	-	42	9,662	9,704
46	-	-	-	-	-	-	7,374	7,374
47	5,790	-	-	4,000	9,790	2	(8,545)	1,247
53	-	-	-	2,000	2,000	8	(807)	1,201
55	-	-	-	4,000	4,000	14	(2,217)	1,797
57	-	-	-	-	-	12	4,254	4,266
58	-	-	-	-	-	26	2,745	2,771
59	-	-	-	-	-	12	1,922	1,934
62	-	-	-	-	-	2	13,347	13,349
70	-	-	-	-	-	220	70,623	70,843
71	561	-	-	-	561	68	7,708	8,337
73	-	-	-	-	-	-	1,574	1,574
74	-	-	-	-	-	-	2,253	2,253
75	-	-	-	-	-	248	24,216	24,464
77	-	-	-	-	-	17	19,110	19,127
96	17,940	-	-	-	17,940	273	20,266	38,479
109-2	-	-	16,266	-	16,266	17,572	(16,081)	17,757
Joint County Ditches								
1	-	472	-	-	472	78	23,863	24,413
11	-	124	-	-	124	44	10,558	10,726
13	-	118	-	-	118	466	90,734	91,318
15	-	68	-	-	68	-	18,683	18,751
18	1,560	793	-	-	2,353	97	25,476	27,926
25 - Branch 3	-	-	-	-	-	161	132,558	132,719
30	-	-	-	-	-	82	59,334	59,416
30 - Branch A	-	-	-	-	-	-	2,428	2,428
31	-	143	-	-	143	-	15,738	15,881
60	-	68	-	-	68	-	450	518
31 Red Lk/Penn	-	-	-	-	-	-	10,443	10,443
Watershed Ditches								
JD 14	-	-	-	-	-	68	915	983
109 - Red Lk Watershed	-	-	-	-	-	-	42	42
122 - Challenger Project	-	-	-	-	-	128	39	167
Red Lake Watershed 13	-	-	72,168	-	72,168	72,615	(71,212)	73,571
Red Lake Watershed 14	-	-	-	-	-	510,705	55,351	566,056
RLWD - Water Mngmt District 1	-	-	-	-	-	421,412	55,340	476,752
Total	\$ 40,581	\$ 1,786	\$ 88,555	\$ 113,000	\$ 243,922	\$ 1,026,225	\$ 596,055	\$ 1,866,202

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

Schedule 14

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2014**

Shared Revenue

State

Acquatic Invasive Species Prevention Aid	\$	9,772
County program aid		726,469
Disparity reduction aid		93,680
Enhanced 911		86,263
Highway users tax		3,356,158
Market value credit		85,302
PERA rate reimbursement		16,384
Police state aid		52,677
		52,677

Total Shared Revenue **\$ 4,426,705**

Payments

City of Thief River Falls	\$	45,975
Jobs, Inc		35,000
Payments in lieu of taxes		32,781
Red Lake County		53,245
		53,245

Total Payments **\$ 167,001**

Grants

State

Minnesota Department/Board of

Corrections	\$	14,523
Human Services		596,126
Natural Resources		90,670
Peace Officers Standards and Training		2,896
Pollution Control		63,803
Public Safety		80,461
Transportation		58,373
Water and Soil Resources		71,969
		71,969

Total State **\$ 993,821**

Federal

Department of

Agriculture	\$	142,415
Interior		791
Transportation		591,840
Health and Human Services		1,306,583
Homeland Security		19,929
		19,929

Total Federal **\$ 2,061,558**

Total Grants **\$ 3,055,379**

Total Intergovernmental Revenue **\$ 7,649,085**

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

Schedule 15

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

Federal Grantor Pass Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	\$ <u>142,415</u>
U.S. Department of the Interior		
Passed Through Minnesota Department of Natural Resources Wildlife Restoration and Basic Hunter Education	15.611	\$ <u>791</u>
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ 580,365
Passed Through Minnesota Department of Public Safety State and Community Highway Safety	20.600	<u>11,475</u>
Total U.S. Department of Transportation		\$ <u>591,840</u>
U.S. Department of Health and Human Services		
Passed Through Northwest Regional Development Commission/Northwest Area Agency on Aging Special Programs for the Aging - Title III B	93.044	\$ 7,590
Passed Through Minnesota Department of Human Services Promoting Safe and Stable Families	93.556	520
Temporary Assistance for Needy Families Cluster Temporary Assistance for Needy Families	93.558	96,010
Child Support Enforcement	93.563	367,545
Refugee and Entrant Assistance	93.566	768
Child Care and Development Block Grant	93.575	2,138
Stephanie Tubbs Jones Child Welfare Services Program	93.645	344
Foster Care Title IV-E	93.658	149,014
Social Services Block Grant	93.667	106,772
Chafee Foster Care Independence Program	93.674	729
Children's Health Insurance Program	93.767	68
Medical Assistance Program	93.778	<u>575,085</u>
Total U.S. Department of Health and Human Services		\$ <u>1,306,583</u>
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Public Safety Hazard Mitigation Grant	97.039	\$ 3,058
Emergency Management Performance Grants	97.042	<u>16,871</u>
Total U.S. Department of Homeland Security		\$ <u>19,929</u>
Total Federal Awards		\$ <u>2,061,558</u>

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

I. Reporting Entity

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

II. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Pennington County under programs of the federal government for the year ended December 31, 2014. The information in this schedule is presented in accordance with the requirements of Office Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Pennington County, it is not intended to and does not present the financial position, changes in net position, or cash flows of Pennington County.

III. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through grant numbers were not assigned by the pass-through agencies.

IV. Subrecipients

During 2014, the County did not pass any federal money to subrecipients.

V. American Recovery and Reinvestment Act

The American Recovery and Reinvestment Act of 2009 (ARRA) requires recipients to clearly distinguish ARRA funds from non-ARRA funding. In 2014, the County had no funds designated as ARRA funds

MANAGEMENT AND COMPLIANCE SECTION

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

Schedule 16

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2014

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses an unmodified opinion on the financial statements of Pennington County.
- B. Significant deficiencies in internal control were disclosed by the audit of financial statements of Pennington County and are reported in the "Independent Auditor's 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*." The significant deficiencies were not material weaknesses.
- C. No instances of noncompliance material to the financial statements of Pennington County were disclosed during the audit.
- D. No matters involving internal control over compliance relating to the audit of the major federal award programs were reported in the "Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance"
- E. The Auditor's Report on Compliance for the major federal award programs for Pennington County expresses an unmodified opinion.
- F. No findings were disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- G. The major program were:

Highway Planning & Construction	CFDA #20.205
Foster Care Title IV-E	CFDA #93.658
Social Services Block Grant	CFDA #93.667
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. Pennington County was determined to be a low-risk auditee.

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

**Schedule 16
(Continued)**

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

1996-001 **Segregation of Duties**

Due to the limited number of personnel within several County offices, segregation of accounting duties necessary to ensure adequate internal accounting control is not possible. This is not unusual in operations the size of Pennington 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 accounting control point of view.

A deficiency in internal control 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.

We recommend that Pennington County's management be aware of the absence of segregation of duties within the accounting and data processing functions and, if possible, implement oversight procedures to ensure that internal control policies and procedures are being implemented by staff.

County's Response:

Management is aware of this and will provide oversight where needed.

2007-001 **Internal Controls**

The financial statements are the responsibility of the County's management. Internal control over financial reporting is a process designed to provide reasonable assurance about the achievement of the County's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

Internal control over the safeguarding of assets against unauthorized acquisition, use, or disposition may include controls related to financial reporting and operations objectives. Generally, controls that are relevant to an audit of financial statements are those that pertain to the County's objective of reliable financial reporting. In this section, the term financial reporting relates to the preparation of reliable financial statements that are fairly presented in conformity with GAAP.

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

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

Schedule 16
(Continued)

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

1996-007 Ditch Special Revenue Fund Balance Deficits

Fourteen of the 50 active individual ditch systems had deficit fund balances at December 31, 2014, totaling \$217,833, the largest being \$75,917. Minnesota Statute, § 103E.735, subdivision 1, provides that a fund balance to be used for repairs may be established for any drainage system, not to exceed 20 percent of the assessed benefits of the ditch system or \$40,000, whichever is larger.

We recommend that the County eliminate the individual ditch system fund balance deficits by levying assessments pursuant to Minnesota Statute, § 103E.735, which permits the accumulation of a surplus balance for future repairs and maintenance costs of a ditch system.

County's Response:

The County Board levies each year in an attempt to provide enough funds to cover estimated work planned for in the coming year. Sometimes more work is required than the County Board feels the benefited owners can afford to pay in one year. The Board then spreads the levy over a number of years.



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INDEPENDENT AUDITOR'S 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*

Board of County Commissioners
Pennington County

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Pennington County as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 18, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Pennington County's internal control over financial reporting (internal control) 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. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

A deficiency in internal control 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as items 1996-001 and 2007-001, that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pennington County's financial statements are free of 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Questioned Costs as a management practices comment, item 1996-007.

Minnesota Legal Compliance

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minnesota Statute, § 6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories.

In connection with our audit, nothing came to our attention that caused us to believe that the County failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. 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.

Pennington County's Responses to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control, compliance and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions* and the result of that testing, and not to provide an opinion on the effectiveness of the County's internal control 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 and compliance. Accordingly, this communication is not suitable for any other purpose.



Hoffman, Philipp, & Knutson, PLLC

September 18, 2015



Hoffman, Philipp, & Knutson, PLLC

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM, AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Board of County Commissioners
Pennington County

Report on Compliance for Each Major Federal Program

We have audited Pennington County's compliance with the types of compliance requirements described in the *OMB Circular A-133 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, 2014. The County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Pennington County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on the Major Federal Programs

In our opinion, Pennington County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2014.

Report on Internal Control Over Compliance

Management of Pennington 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 OMB Circular A-133, 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 a 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 attention by those charged with governance.

Our consideration of the 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Hoffman, Philipp, & Knutson, PLLC

September 18, 2015