



Board of County Commissioners Agenda Request

43
Agenda Item #

Requested Meeting Date: October 9, 2018

Title of Item: Clifton, Larson, Allen 2017 Audit Findings

<input checked="" type="checkbox"/> REGULAR AGENDA	Action Requested:	<input type="checkbox"/> Direction Requested
<input type="checkbox"/> CONSENT AGENDA	<input type="checkbox"/> Approve/Deny Motion	<input checked="" type="checkbox"/> Discussion Item
<input type="checkbox"/> INFORMATION ONLY	<input type="checkbox"/> Adopt Resolution (attach draft)	<input type="checkbox"/> Hold Public Hearing* <i>*provide copy of hearing notice that was published</i>

Submitted by: Jessica Seibert	Department: Administration
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Presenter (Name and Title): Clifton, Larson, Allen	Estimated Time Needed: 45 minutes
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Summary of Issue:

Clifton, Larson, Allen will present the 2017 Audit findings to the Board.

Alternatives, Options, Effects on Others/Comments:

Recommended Action/Motion:

None. Discussion only.

Financial Impact:

Is there a cost associated with this request? Yes No

What is the total cost, with tax and shipping? \$

Is this budgeted? Yes No *Please Explain:*

AITKIN COUNTY, MINNESOTA
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
YEAR ENDED DECEMBER 31, 2017

**AITKIN COUNTY
AITKIN, MINNESOTA**

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AITKIN, MINNESOTA**

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AITKIN, MINNESOTA**

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INTRODUCTORY

**AITKIN COUNTY
AITKIN, MINNESOTA
ORGANIZATION OFFICIALS
AS OF DECEMBER 31, 2017**

		<u>Term Expires</u>
Elected		
Commissioners		
District 1	J. Mark Wedel	December 2018
District 2	Laurie Westerlund**	December 2020
District 3	Donald Niemi	December 2018
District 4	Bill Pratt	December 2020
District 5	Anne Marcotte*	December 2018
Attorney	Jim Ratz	December 2018
Auditor	Kirk Peysar	December 2018
Recorder	Michael Moriarty	December 2018
Sheriff	Scott Turner	December 2018
Treasurer	Lori Grams	December 2018
Appointed		
Administrator	Jessica Seibert	Indefinite
Assessor	Mike Dangers	December 2020
Engineer	John Welle	December 2020
Coroner	Ramsey County Medical Examiner	Indefinite
Health and Human Services		
Director	Cynthia Bennett	Indefinite
Land Commissioner	Mark Jacobs	Indefinite
Veterans Service Officer	Penny Harms	Indefinite

* Chair

** Vice Chair

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FINANCIAL SECTION



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INDEPENDENT AUDITORS' REPORT

Board of County Commissioners
Aitkin County
Aitkin, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Aitkin County (the County), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Aitkin Airport Commission (Airport), included in the City of Aitkin, Minnesota, financial statements as a discrete component unit, for the year ended December 31, 2017. The Airport, in which Aitkin County has an equity interest, is a joint venture between Aitkin County and the City of Aitkin, as discussed in Note 6.B. to the financial statements. The County's investment in the Airport, \$1,501,852, represents 1.1 percent and 1.3 percent, respectively, of the assets and net position of the governmental activities. The financial statements of the Airport were audited by other auditors, whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amount included as an investment in joint venture, is based solely on the report of the auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Aitkin County as of December 31, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

For the year ended December 31, 2017, the County restated fund balance in the Health and Human Services Fund and net position of Governmental Activities to correct an error in the previously issued financial statements (see Note 1.E). Our auditors' opinion was not modified with respect to the restatements.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of funding progress – other postemployment health care benefits, schedule of the proportionate share of the net pension liability, schedule of contributions, and notes to 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 Aitkin 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 schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is also presented for purposes of additional analysis and is not a required part of the basic financial statements.

Other Matters (Continued)

Supplementary Information (Continued)

The supplementary information and the schedule of expenditures of federal awards are the responsibility of management and were 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 supplementary information and the schedule of expenditures of federal awards are 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 27, 2018, on our consideration of Aitkin County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the effectiveness of Aitkin County's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Aitkin County's internal control over financial reporting and compliance. It does not include the Aitkin Airport Commission joint venture, which was audited by other auditors.



CliftonLarsonAllen LLP

Brainerd, Minnesota
September 27, 2018

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MANAGEMENT'S DISCUSSION AND ANALYSIS

**AITKIN COUNTY
AITKIN, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017**

Aitkin County's (the County) Management's Discussion and Analysis (MD&A) provides an overview of the County's financial activities for the fiscal year ended December 31, 2017. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the County's financial statements.

FINANCIAL HIGHLIGHTS

- Governmental activities have a total net position of \$119,038,814, of which \$102,559,383 is the investment in capital assets, and \$5,736,840 is restricted to specific purposes.
- Business-type activities have a total net position of \$2,893,175. Of which, investment in capital assets represents \$3,177,453 of the total, \$2,036 is restricted for specific uses, and the remaining balance of (\$286,314) is unrestricted.
- Aitkin County's net position from current year activity increased by \$1,317,949 for the year ended December 31, 2017. Of the increase, \$1,420,539 was in governmental activities, and there was a decrease of \$102,590 in business-type activities.
- The cost of governmental activities decreased by \$1,328,178 to \$30,566,689 for the current fiscal year. Program revenues of \$13,850,095 offset those costs. A portion of the net cost was funded by general revenues and other items totaling \$18,137,133.
- Governmental funds' fund balances decreased by \$374,467

OVERVIEW OF THE FINANCIAL STATEMENTS

This MD&A is intended to serve as an introduction to the basic financial statements. Aitkin County's basic financial statements consist of three parts: government-wide financial statements, fund financial statements, and notes to the financial statements. The MD&A (this section), certain budgetary comparison schedules, and certain information related to the County's net pension liability are required to accompany the basic financial statements and, therefore, are included as required supplementary information.

**AITKIN COUNTY
AITKIN, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017**

There are two government-wide financial statements. The Statement of Net Position and the Statement of Activities provide information about the activities of the County as a whole and present a longer-term view of the County's finances. Fund financial statements report the County's operation in more detail than the government-wide statements by providing information about the County's most significant funds. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. The remaining statements provide financial information about activities for which the County acts solely as a trustee or agent for the benefit of those outside of the government.

Government-Wide Financial Statements--Statement of Net Position and Statement of Activities

The Statement of Net Position and the Statement of Activities report information about the County as a whole and about the activities in a way that helps the reader determine whether the County's financial condition has improved or declined as a result of the year's activities. These statements include all assets and liabilities using the full accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the County's net position and changes in them. You can think of the County's net position, the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources, as one way to measure the County's financial health or financial position. Over time, increases or decreases in the County's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the County's property tax base and the condition of County roads, to assess the overall health of the County.

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

Governmental activities--Most of the County's basic services are reported here, including general government, public safety, highways and streets, sanitation, human services, health, culture and recreation, conservation of natural resources, and economic development. Property taxes and state and federal grants finance most of these activities.

Business-type activities--The County charges a fee to customers to help it cover all or most of the costs of these services it provides. The Long Lake Conservation Center's activities are reported here.

**AITKIN COUNTY
AITKIN, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017**

Fund Financial Statements

The fund financial statements provide detailed information about the significant funds--not the County as a whole. Some funds are required to be established by state law and by bond covenants. However, the County Board establishes some funds to help it control and manage money for a particular purpose or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The County's two kinds of funds, governmental and proprietary, use different accounting methods.

Governmental funds--Most of the County's basic services are reported in governmental funds, which focus on how money flows in to and out of those funds and the balances left at year-end that are available for spending. These funds are reported using modified accrual basis of accounting. This method measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the County's general government operations and the basic services it provides. Governmental fund information helps to determine whether there are more or fewer resources that can be spent in the near future to finance the County's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in a reconciliation statement following each governmental fund financial statement.

Proprietary funds--When the County charges customers for the services it provides, whether to outside customers or to other units of the County, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the County's enterprise fund (a component of proprietary funds) is the same as the business-type activities we report in the government-wide statements but provides more detail and additional information, such as cash flows.

Reporting the County's Fiduciary Responsibilities

The County is the trustee, or fiduciary, over certain assets. All of the County's fiduciary activities are reported in a separate Statement of Fiduciary Net Position. We exclude these activities from the County's other financial statements because the County cannot use these assets to finance its operations. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

**AITKIN COUNTY
AITKIN, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017**

THE COUNTY AS A WHOLE

Our analysis focuses on the net position (Table 1) and changes in net position (Table 2) of the County's governmental and business-type activities for the year ended December 31, 2017, with comparative amounts for 2016.

**Table 1
Net Position**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
Assets						
Current and other assets	\$ 32,279,033	\$ 32,102,724	\$ 32,392	\$ 41,702	\$ 32,311,425	\$ 32,144,426
Capital assets	<u>102,559,383</u>	<u>99,973,462</u>	<u>3,177,453</u>	<u>3,335,106</u>	<u>105,736,836</u>	<u>103,308,568</u>
Total Assets	<u>\$ 134,838,416</u>	<u>\$ 132,076,186</u>	<u>\$ 3,209,845</u>	<u>\$ 3,376,808</u>	<u>\$ 138,048,261</u>	<u>\$ 135,452,994</u>
Deferred outflows of resources	<u>\$ 5,684,005</u>	<u>\$ 10,222,581</u>	<u>\$ 69,305</u>	<u>\$ 175,026</u>	<u>\$ 5,753,310</u>	<u>\$ 10,397,607</u>
Liabilities						
Long-term debt outstanding	\$ 12,676,546	\$ 18,940,911	\$ 279,042	\$ 423,078	\$ 12,955,588	\$ 19,363,989
Other liabilities	<u>3,300,382</u>	<u>3,985,348</u>	<u>55,463</u>	<u>32,510</u>	<u>3,355,845</u>	<u>4,017,858</u>
Total Liabilities	<u>\$ 15,976,928</u>	<u>\$ 22,926,259</u>	<u>\$ 334,505</u>	<u>\$ 455,588</u>	<u>\$ 16,311,433</u>	<u>\$ 23,381,847</u>
Deferred inflows of resources	<u>\$ 5,506,679</u>	<u>\$ 1,876,716</u>	<u>\$ 51,470</u>	<u>\$ 100,481</u>	<u>\$ 5,558,149</u>	<u>\$ 1,977,197</u>
Net Position						
Investment in capital assets	\$ 102,559,383	\$ 99,973,462	\$ 3,177,453	\$ 3,335,106	\$ 105,736,836	\$ 103,308,568
Restricted	5,736,840	5,570,254	2,036	2,036	5,738,876	5,572,290
Unrestricted	<u>10,742,591</u>	<u>11,952,076</u>	<u>(286,314)</u>	<u>(341,377)</u>	<u>10,456,277</u>	<u>11,610,699</u>
Total Net Position	<u>\$ 119,038,814</u>	<u>\$ 117,495,792</u>	<u>\$ 2,893,175</u>	<u>\$ 2,995,765</u>	<u>\$ 121,931,989</u>	<u>\$ 120,491,557</u>

**AITKIN COUNTY
AITKIN, MINNESOTA**

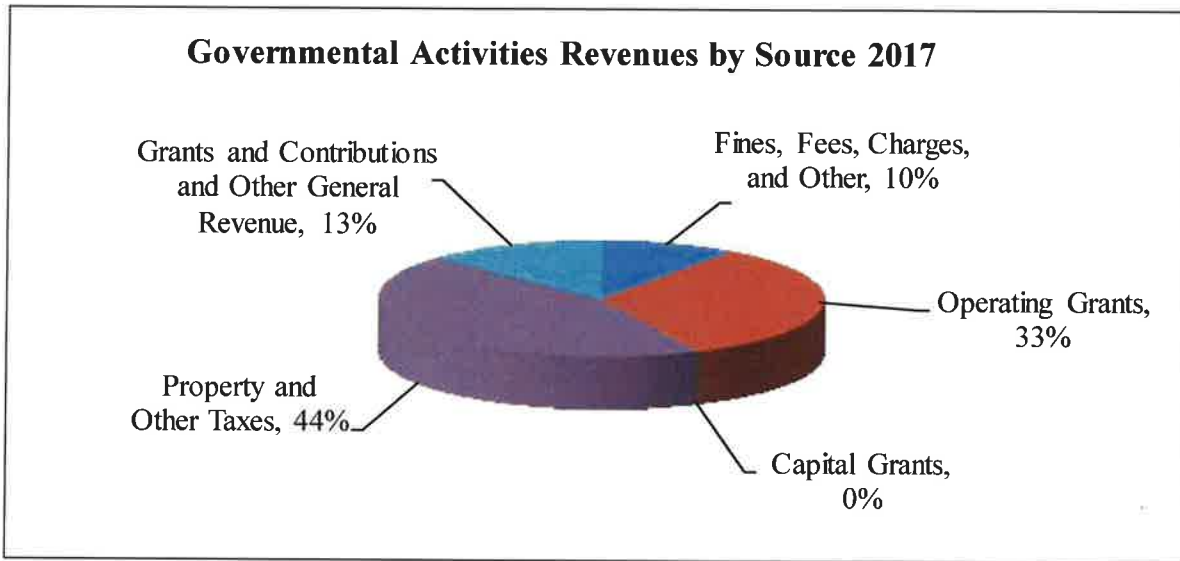
**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017**

**Table 2
Changes in Net Position**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
Revenues						
Program revenues						
Fines, fees, charges, and other	\$ 3,090,126	\$ 3,494,450	\$ 602,217	\$ 616,712	\$ 3,692,343	\$ 4,111,162
Operating grants	10,740,137	10,864,600	24,901	7,548	10,765,038	10,872,148
Capital grants	19,832	7,335	-	-	19,832	7,335
General Revenues						
Property taxes	12,277,637	11,913,160	-	-	12,277,637	11,913,160
Other taxes	1,787,651	1,667,389	-	-	1,787,651	1,667,389
Grants and contributions	1,509,226	1,565,177	-	-	1,509,226	1,565,177
Other general revenues	2,562,619	2,459,773	4,576	7,995	2,567,195	2,467,768
Total Revenues	\$ 31,987,228	\$ 31,971,884	\$ 631,694	\$ 632,255	\$ 32,618,922	\$ 32,604,139
Expenses						
General government	\$ 6,171,963	\$ 5,952,572	\$ -	\$ -	\$ 6,171,963	\$ 5,952,572
Public safety	7,432,365	7,508,566	-	-	7,432,365	7,508,566
Highways and streets	6,204,459	6,235,033	-	-	6,204,459	6,235,033
Sanitation	409,283	386,951	-	-	409,283	386,951
Human services	6,043,268	6,702,806	-	-	6,043,268	6,702,806
Health	884,890	822,880	-	-	884,890	822,880
Culture and recreation	698,138	909,563	-	-	698,138	909,563
Conservation of natural resources	2,405,365	3,284,967	734,284	808,404	3,139,649	4,093,371
Economic development	316,958	91,529	-	-	316,958	91,529
Total Expenses	\$ 30,566,689	\$ 31,894,867	\$ 734,284	\$ 808,404	\$ 31,300,973	\$ 32,703,271
Increase (Decrease) in Net Position before Transfers	\$ 1,420,539	\$ 77,017	\$ (102,590)	\$ (176,149)	\$ 1,317,949	\$ (99,132)
Transfers	-	(663,127)	-	663,127	-	-
Change in Net Position	1,420,539	(586,110)	(102,590)	486,978	1,317,949	(99,132)
Net Position, January 1	117,495,792	118,081,902	2,995,765	2,508,787	120,491,557	120,590,689
Prior Period Adjustment, See Note 1.E	122,483	-	-	-	122,483	-
Net Position, January 1, as Restated	<u>117,618,275</u>	<u>118,081,902</u>	<u>2,995,765</u>	<u>2,508,787</u>	<u>120,614,040</u>	<u>120,590,689</u>
Net Position, December 31	\$ 119,038,814	\$ 117,495,792	\$ 2,893,175	\$ 2,995,765	\$ 121,931,989	\$ 120,491,557

**AITKIN COUNTY
AITKIN, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017**



Governmental Activities

The cost of all activities this year was \$30,566,689. However, as shown in the Statement of Activities, the amount that taxpayers ultimately financed for these activities through County property taxes was \$12,277,637, because some of the cost was paid by those who directly benefited from the programs (\$3,090,126) or by other governments and organizations that subsidized certain programs with grants and contributions (\$10,759,969).

**AITKIN COUNTY
AITKIN, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017**

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

**Table 3
Governmental Activities**

Activity	Total Cost of Services		Net Cost of Services	
	2017	2016	2017	2016
General government	\$ 6,171,963	\$ 5,952,572	\$ 4,694,233	\$ 3,870,582
Public safety	7,432,365	7,508,566	5,831,342	6,096,980
Highways and streets	6,204,459	6,235,033	217,471	252,603
Human services	6,043,268	6,702,806	2,559,770	3,435,602
Conservation of natural resources	2,405,365	3,284,967	1,656,694	2,198,373
Other	2,309,269	2,210,923	1,757,084	1,674,342
Totals	\$ <u>30,566,689</u>	\$ <u>31,894,867</u>	\$ <u>16,716,594</u>	\$ <u>17,528,482</u>

Business-Type Activities

The revenues of the County's business-type activities decreased by 0.1 percent, income from fees decreased 3.0 percent, and expenses decreased by 10 percent.

The County's Funds

As the County completed the year, its governmental funds reported a combined fund balance of \$23,934,776, which is below last year's total of \$24,019,876 after accounting for the prior period adjustment. The Capital Projects Fund (a balance of \$ -365,563) represented the largest decrease in governmental fund balances. The Road and Bridge Special Revenue Fund decreased \$176,767. The Forfeited Tax Sale Special Revenue Fund balance increased \$276,723. The General Fund saw an increase in fund balance of \$290,633. The Health and Human Services Special Revenue Fund increased \$33,224.

**AITKIN COUNTY
AITKIN, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017**

General Fund Budgetary Highlights

The actual charges to appropriations (expenditures) were \$26,621 under the final budget amounts. Revenues were over budget by \$254,053 with the significant positive variances including intergovernmental revenues, licenses and permits, and charges for services. Taxes was under budget by \$747,213.

**AITKIN COUNTY
AITKIN, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017**

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2017, the County had \$105,736,836 invested in a broad range of capital assets, including land, construction in progress, buildings, machinery, furniture, equipment, and infrastructure, net of depreciation (see Table 4). This amount represents a net increase of \$2,428,268, or 2.35 percent, over the last year.

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

	Governmental Activities		Business-Type Activities		Totals	
	2017	2016	2017	2016	2017	2016
Land	\$ 3,584,449	\$ 3,584,449	\$ 15,400	\$ 15,400	\$ 3,599,849	\$ 3,599,849
Construction in progress	737,609	419,999	-	-	737,609	419,999
Buildings	6,916,403	7,291,988	3,140,453	3,296,538	10,056,856	10,588,526
Machinery, furniture, and equipment	4,353,660	4,870,510	21,600	23,168	4,375,260	4,893,678
Infrastructure	86,967,262	83,806,516	-	-	86,967,262	83,806,516
Totals	\$ <u>102,559,383</u>	\$ <u>99,973,462</u>	\$ <u>3,177,453</u>	\$ <u>3,335,106</u>	\$ <u>105,736,836</u>	\$ <u>103,308,568</u>

This year's major additions include:

SAP 001-615-007	CSAH 15	\$ 1,349,510
SAP 001-610-029	CSAH 10	1,293,709
CP 001-053-002	CR 53	1,322,425

Additional information on capital assets is found in Note 3.A.3. of the financial statements.

**AITKIN COUNTY
AITKIN, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017**

Debt

At year-end, the County had \$191,234 in loans outstanding, versus \$217,046 last year, a decrease of 11.9 percent, as shown in Table 5.

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

	Governmental Activities	
	2017	2016
AgBMP Septic Loans	\$ <u>191,234</u>	\$ <u>217,046</u>

The County's general obligation bond rating is "A1," a rating assigned by national rating agencies to the County's debt. The state limits the amount of net debt the County can issue to three percent of the market value of all taxable property in the County. The County's outstanding net debt is significantly below this \$82,611,000 state-imposed limit.

Other obligations include accrued vacation and sick leave payable. More detailed information about the County's long-term liabilities is presented in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The County's elected and appointed officials considered many factors when setting the fiscal year 2018 budget, tax rates, and fees that will be charged for the business-type activities.

- Further increases in the unemployment rate in 2018 could impact the level of services requested by County residents.
- Aitkin County's demographic population has a high median age, creating increased demands for services across several service areas.
- The general stabilization in real market values could result in a more moderate tax rate increase.
- The need to address future capital and infrastructure funding.

**AITKIN COUNTY
AITKIN, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017**

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the County's finances and to show the County's accountability for the money it receives. If you have questions about this report, or need additional information, contact Kirk Peysar, Aitkin County Auditor, Aitkin County Courthouse, 209 Second Street N.W., Room 202, Aitkin, Minnesota 56431.

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BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

**AITKIN COUNTY
AITKIN, MINNESOTA
STATEMENT OF NET POSITION
DECEMBER 31, 2017**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Cash and pooled investments	\$ 25,183,979	\$ 21,430	\$ 25,205,409
Petty cash and change funds	6,000	1,350	7,350
Cash with fiscal agent	103,363	-	103,363
Taxes receivable			
Delinquent	537,214	-	537,214
Special assessments receivable			
Delinquent	12,439	-	12,439
Accounts receivable - net	2,700,566	-	2,700,566
Accrued interest receivable	80,975	-	80,975
Loan receivable	87,871	-	87,871
Due from other governments	1,467,797	30	1,467,827
Prepaid items	3,506	-	3,506
Inventories	593,471	7,546	601,017
Investment in joint venture	1,501,852	-	1,501,852
Restricted assets			
Cash and pooled investments	-	2,036	2,036
Capital assets			
Non-depreciable	4,322,058	15,400	4,337,458
Depreciable - net of accumulated depreciation	98,237,325	3,162,053	101,399,378
Total Assets	\$ 134,838,416	\$ 3,209,845	\$ 138,048,261
<u>Deferred Outflows of Resources</u>			
Deferred pension outflows	\$ 5,684,005	\$ 69,305	\$ 5,753,310

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

**AITKIN COUNTY
AITKIN, MINNESOTA
STATEMENT OF NET POSITION (CONTINUED)
DECEMBER 31, 2017**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<u>Liabilities</u>			
Accounts payable	\$ 344,281	\$ 9,840	\$ 354,121
Salaries payable	829,485	21,137	850,622
Contracts payable	460,909	-	460,909
Due to other governments	349,477	-	349,477
Timber permit bonds	89,974	-	89,974
Long-term liabilities			
Due within one year	1,226,256	24,486	1,250,742
Due in more than one year	154,544	-	154,544
Net pension liability	12,522,002	279,042	12,801,044
Total Liabilities	\$ 15,976,928	\$ 334,505	\$ 16,311,433
<u>Deferred Inflows of Resources</u>			
Taxes received for future years	\$ 568,160	\$ -	\$ 568,160
Deferred pension inflows	4,938,519	51,470	4,989,989
Total Deferred Inflows of Resources	\$ 5,506,679	\$ 51,470	\$ 5,558,149
<u>Net Position</u>			
Investment in capital assets	\$ 102,559,383	\$ 3,177,453	\$ 105,736,836
Restricted for			
General government	955,178	-	955,178
Public safety	395,654	-	395,654
Highways and streets	768,374	-	768,374
Sanitation	594,670	-	594,670
Culture and recreation	443,027	-	443,027
Conservation of natural resources	998,284	-	998,284
Economic development	840,595	-	840,595
Unorganized road, bridge, and fire	637,695	-	637,695
Debt service	103,363	-	103,363
Other purposes	-	2,036	2,036
Unrestricted	10,742,591	(286,314)	10,456,277
Total Net Position	\$ 119,038,814	\$ 2,893,175	\$ 121,931,989

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

**AITKIN COUNTY
AITKIN, MINNESOTA
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2017**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u> <u>Fees, Charges, Fines, and Other</u>
Primary government		
Governmental activities		
General government	\$ 6,171,963	\$ 1,180,202
Public safety	7,432,365	897,259
Highways and streets	6,204,459	478,383
Sanitation	409,283	19,086
Human services	6,043,268	350,262
Health	884,890	76,568
Culture and recreation	698,138	28,774
Conservation of natural resources	2,405,365	-
Economic development	316,958	59,592
Total governmental activities	\$ 30,566,689	\$ 3,090,126
Business-type activities		
Long Lake Conservation Center	734,284	602,217
Total Primary Government	\$ 31,300,973	\$ 3,692,343

General Revenues

Property taxes
Mortgage registry and deed tax
Other taxes
Payments in lieu of tax
Grants and contributions not restricted to
specific programs
Unrestricted investment earnings
Miscellaneous
Gain from sale of assets

Total general revenues

Change in net position

Net Position - Beginning
Prior Period Adjustment, See Note 1.E
Net Position - as Restated

Net Position - Ending

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

Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position		
		Primary Government		Total
		Governmental Activities	Business-Type Activities	
\$ 297,528	\$ -	\$ (4,694,233)	\$ -	\$ (4,694,233)
701,551	2,213	(5,831,342)	-	(5,831,342)
5,490,986	17,619	(217,471)	-	(217,471)
30	-	(390,167)	-	(390,167)
3,133,236	-	(2,559,770)	-	(2,559,770)
297,936	-	(510,386)	-	(510,386)
70,199	-	(599,165)	-	(599,165)
748,671	-	(1,656,694)	-	(1,656,694)
-	-	(257,366)	-	(257,366)
\$ 10,740,137	\$ 19,832	\$ (16,716,594)	\$ -	\$ (16,716,594)
24,901	-	-	(107,166)	(107,166)
\$ 10,765,038	\$ 19,832	\$ (16,716,594)	\$ (107,166)	\$ (16,823,760)
		\$ 12,277,637	\$ -	\$ 12,277,637
		21,252	-	21,252
		48,361	-	48,361
		1,718,038	-	1,718,038
		1,509,226	-	1,509,226
		303,433	-	303,433
		2,244,656	4,576	2,249,232
		14,530	-	14,530
		\$ 18,137,133	\$ 4,576	\$ 18,141,709
		\$ 1,420,539	\$ (102,590)	\$ 1,317,949
		117,495,792	2,995,765	120,491,557
		122,483	-	122,483
		117,618,275	2,995,765	120,614,040
		\$ 119,038,814	\$ 2,893,175	\$ 121,931,989

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FUND FINANCIAL STATEMENTS

GOVERNMENTAL FUNDS

**AITKIN COUNTY
AITKIN, MINNESOTA
BALANCE SHEET
DECEMBER 31, 2017**

	General	Road and Bridge	Health and Human Services	Forfeited Tax Sale	Capital Projects	Nonmajor Funds	Total
<u>Assets</u>							
Cash and pooled investments	\$ 10,154,823	\$ 6,646,317	\$ 4,104,881	\$ 2,375,117	\$ -	\$ 1,902,841	\$ 25,183,979
Petty cash and change funds	3,000	-	3,000	-	-	-	6,000
Cash with fiscal agent	103,363	-	-	-	-	-	103,363
Taxes receivable							
Delinquent	318,425	105,870	109,648	-	-	3,271	537,214
Special assessments							
Delinquent	-	-	-	-	-	12,439	12,439
Accounts receivable - net	22,921	3,771	39,076	2,634,798	-	-	2,700,566
Accrued interest receivable	80,975	-	-	-	-	-	80,975
Loans receivable	87,871	-	-	-	-	-	87,871
Due from other funds	376,749	35,966	-	-	-	178,734	591,449
Due from other governments	38,403	773,804	653,439	2,151	-	-	1,467,797
Prepaid items	-	-	3,506	-	-	-	3,506
Inventories	-	593,471	-	-	-	-	593,471
Total Assets	\$ 11,186,530	\$ 8,159,199	\$ 4,913,550	\$ 5,012,066	\$ -	\$ 2,097,285	\$ 31,368,630
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>							
Liabilities							
Accounts payable	\$ 178,222	\$ 57,796	\$ 96,375	\$ 11,673	\$ -	\$ 215	\$ 344,281
Salaries payable	461,284	104,836	204,169	43,045	-	16,151	829,485
Contracts payable	-	330,263	-	-	130,646	-	460,909
Due to other funds	-	-	-	320,566	234,917	35,966	591,449
Due to other governments	20,443	2,041	313,937	13,056	-	-	349,477
Timber permit bonds	-	-	-	89,974	-	-	89,974
Total Liabilities	\$ 659,949	\$ 494,936	\$ 614,481	\$ 478,314	\$ 365,563	\$ 52,332	\$ 2,665,575
Deferred Inflows of Resources							
Taxes received for future years	\$ 337,710	\$ 110,564	\$ 119,886	\$ -	\$ -	\$ -	\$ 568,160
Unavailable revenue	372,003	874,244	303,364	2,634,798	-	15,710	4,200,119
Total Deferred Inflows of Resources	\$ 709,713	\$ 984,808	\$ 423,250	\$ 2,634,798	\$ 0	\$ 15,710	\$ 4,768,279

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

**AITKIN COUNTY
AITKIN, MINNESOTA
BALANCE SHEET (CONTINUED)
DECEMBER 31, 2017**

<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u> (Continued)	<u>General</u>	<u>Road and Bridge</u>	<u>Health and Human Services</u>	<u>Forfeited Tax Sale</u>	<u>Capital Projects</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Fund Balances							
Nonspendable							
Inventories	\$ -	\$ 593,471	\$ -	\$ -	\$ -	-	\$ 593,471
Prepaid items	-	-	3,506	-	-	-	3,506
Missing heirs	-	-	-	21,519	-	-	21,519
Restricted for							
Debt service	103,363	-	-	-	-	-	103,363
Recorder's technology	422,250	-	-	-	-	-	422,250
Prosecutorial purposes	5,000	-	-	-	-	-	5,000
Enhanced 911	243,284	-	-	-	-	-	243,284
Law enforcement	5,000	-	-	-	-	-	5,000
Administering the carrying of weapons	147,370	-	-	-	-	-	147,370
Conservation of natural resources	48,608	-	-	-	-	-	48,608
Loans receivable	87,871	-	-	-	-	-	87,871
Solid waste	594,670	-	-	-	-	-	594,670
Recorder's equipment purchases	437,284	-	-	-	-	-	437,284
Parks	443,027	-	-	-	-	-	443,027
Sobriety court fees	10,517	-	-	-	-	-	10,517
County development	-	-	-	840,595	-	-	840,595
Law library	-	-	-	88,829	-	-	88,829
Unclaimed property	-	-	-	1,815	-	-	1,815
Administering forfeited tax sale	-	-	-	309,258	-	-	309,258
Unorganized road, bridge, and fire	-	-	-	-	-	637,695	637,695
Ditch maintenance and repairs	-	-	-	-	-	57,066	57,066
Environmental uses	-	-	-	-	-	495,481	495,481
Assigned for							
General government	-	-	-	636,938	-	-	636,938
Highways and streets	-	6,085,984	-	-	-	-	6,085,984
Health and human services	-	-	3,872,313	-	-	-	3,872,313
Forest development	-	-	-	-	-	851,018	851,018
Unassigned	7,268,624	-	-	-	(365,563)	(12,017)	6,891,044
Total Fund Balances	\$ 9,816,868	\$ 6,679,455	\$ 3,875,819	\$ 1,898,954	\$ (365,563)	2,029,243	\$ 23,934,776
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 11,186,530	\$ 8,159,199	\$ 4,913,550	\$ 5,012,066	\$ -	2,097,285	\$ 31,368,630

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

**AITKIN COUNTY
AITKIN, MINNESOTA
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO THE
GOVERNMENT-WIDE STATEMENT OF NET POSITION -
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2017**

Fund balances - total governmental funds	\$	23,934,776
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		102,559,383
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.		
Deferred inflows of resources - unavailable revenue		4,768,279
Investment in joint venture is not available to pay for current-period expenditures and, therefore, is not reported in the governmental funds.		1,501,852
Deferred outflows resulting from pension obligations are not available resources and, therefore, are not reported in the governmental funds.		5,684,005
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
Loans payable	\$ (191,234)	
Net pension liability	(12,522,002)	
Compensated absences	<u>(1,189,566)</u>	(13,902,802)
Deferred inflows resulting from pension obligations are not due and payable in the current period and, therefore, are not reported in the governmental funds.		<u>(5,506,679)</u>
Net Position of Governmental Activities	\$	<u><u>119,038,814</u></u>

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

**AITKIN COUNTY
AITKIN, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2017**

	General	Road and Bridge	Health and Human Services	Forfeited Tax Sale	Capital Projects	Nonmajor Funds	Total
Revenues							
Taxes	\$ 7,297,738	\$ 2,339,972	\$ 2,532,871	\$ -	\$ -	\$ 72,551	\$ 12,243,132
Special assessments	-	-	-	-	-	860	860
Licenses and permits	430,156	-	-	-	-	175	430,331
Intergovernmental	3,747,024	5,874,195	3,572,458	354,340	-	294,656	13,842,673
Charges for services	1,315,533	405,629	374,831	32,012	-	-	2,128,005
Gifts and contributions	9,550	-	-	-	-	-	9,550
Investment earnings	288,142	-	-	-	-	15,291	303,433
Miscellaneous	600,207	77,062	200,206	1,438,616	-	185,913	2,502,004
Total Revenues	\$ 13,688,350	\$ 8,696,858	\$ 6,680,366	\$ 1,824,968	\$ -	\$ 569,446	\$ 31,459,988
Expenditures							
Current							
General government	\$ 5,464,799	\$ -	\$ -	\$ 26,896	\$ 365,563	\$ 2,760	\$ 5,860,018
Public safety	6,511,687	-	-	-	-	28,802	6,540,489
Highways and streets	-	8,735,356	-	-	-	86,776	8,822,132
Sanitation	379,938	-	-	-	-	-	379,938
Human services	-	-	5,796,978	-	-	-	5,796,978
Health	4,832	-	850,164	-	-	-	854,996
Culture and recreation	694,307	-	-	-	-	-	694,307
Conservation of natural resources	189,017	-	-	1,508,472	-	607,335	2,304,824
Economic development	127,325	-	-	-	-	-	127,325
Intergovernmental							
Highways and streets	-	378,264	-	-	-	-	378,264
Debt service							
Principal	37,702	-	-	-	-	-	37,702
Total Expenditures	\$ 13,409,607	\$ 9,113,620	\$ 6,647,142	\$ 1,535,368	\$ 365,563	\$ 725,673	\$ 31,796,973
Excess of Revenues Over (Under) Expenditures	\$ 278,743	\$ (416,762)	\$ 33,224	\$ 289,600	\$ (365,563)	\$ (156,227)	\$ (336,985)
Other Financing Sources (Uses)							
Loans issued	\$ 11,890	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11,890
Transfers in	-	-	-	-	-	12,877	12,877
Transfers out	-	-	-	(12,877)	-	-	(12,877)
Total Other Financing Sources (Uses)	\$ 11,890	\$ -	\$ -	\$ (12,877)	\$ -	\$ 12,877	\$ 11,890
Net Change in Fund Balance	\$ 290,633	\$ (416,762)	\$ 33,224	\$ 276,723	\$ (365,563)	\$ (143,350)	\$ (325,095)
Fund Balance - January 1	9,526,235	6,856,222	3,720,112	1,622,231	-	2,172,593	23,897,393
Prior Period Adjustment, See Note 1.E	-	-	122,483	-	-	-	122,483
Fund Balances - January 1, as Restated	9,526,235	6,856,222	3,842,595	1,622,231	-	2,172,593	24,019,876
Increase (decrease) in Inventories	-	239,995	-	-	-	-	239,995
Fund Balance - December 31	\$ 9,816,868	\$ 6,679,455	\$ 3,875,819	\$ 1,898,954	\$ (365,563)	\$ 2,029,243	\$ 23,934,776

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

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

Net change in fund balances - total governmental funds **\$ (325,095)**

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

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

Unavailable revenue - December 31	\$ 4,768,279	
Unavailable revenue - January 1	<u>(3,672,879)</u>	1,095,400

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. Also, in the statement of activities, only the gain or loss on the disposal of assets is reported; whereas, in the governmental funds, the proceeds from the sale increase financial resources. Therefore, the change in net position differs from the change in fund balance by the net book value of the assets sold.

Expenditures for general capital assets and infrastructure	\$ 6,046,522	
Current year depreciation	<u>(3,460,601)</u>	2,585,921

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

Debt issued		
AgBMP Septic Loans	\$ (11,890)	
Principal repayments		
Loans	<u>37,702</u>	25,812

Decrease in joint venture does not provide current financial resources and is not reported as revenue or expenses in the funds. (190,523)

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 the governmental funds.

Change in compensated absences	\$ (79,745)	
Change in inventories	239,995	
Change in deferred outflows of resources	(4,538,576)	
Change in net pension liability	6,237,313	
Change in deferred inflows of resources	<u>(3,629,963)</u>	<u>(1,770,976)</u>

Change in Net Position of Governmental Activities **\$ 1,420,539**

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

PROPRIETARY FUND

**LONG LAKE CONSERVATION CENTER
ENTERPRISE FUND**

**AITKIN COUNTY
AITKIN, MINNESOTA
STATEMENT OF NET POSITION
LONG LAKE CONSERVATION CENTER ENTERPRISE FUND
DECEMBER 31, 2017**

Assets

Current assets

Cash and pooled investments	\$ 21,430
Petty cash and change funds	1,350
Due from other governments	30
Inventories	7,546

Total current assets **\$ 30,356**

Restricted assets

Cash and pooled investments	\$ 2,036
-----------------------------	-----------------

Noncurrent assets

Capital assets	
Nondepreciable	\$ 15,400
Depreciable - net	3,162,053

Total noncurrent assets **\$ 3,177,453**

Total Assets **\$ 3,209,845**

Deferred Outflows of Resources

Deferred pension outflows	\$ 69,305
---------------------------	------------------

Liabilities

Current liabilities

Accounts payable	\$ 9,840
Salaries payable	21,137
Compensated absences payable - current	24,486

Total current liabilities **\$ 55,463**

Noncurrent liabilities

Net pension liability	279,042
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Total Liabilities **\$ 334,505**

Deferred Inflows of Resources

Deferred pension inflows	\$ 51,470
--------------------------	------------------

Net Position

Investment in capital assets	\$ 3,177,453
Restricted for	
Publications	2,036
Unrestricted	(286,314)

Total Net Position **\$ 2,893,175**

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

**AITKIN COUNTY
AITKIN, MINNESOTA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
LONG LAKE CONSERVATION CENTER ENTERPRISE FUND
FOR THE YEAR ENDED DECEMBER 31, 2017**

Operating Revenues	
Tenant rent	\$ 7,200
Program packages	540,097
Resale	41,599
Miscellaneous	<u>10,881</u>
Total Operating Revenues	\$ 599,777
Operating Expenses	
Personal services	\$ 321,326
Employee benefits and payroll taxes	32,485
Other services and charges	47,485
Supplies	84,914
Utilities	36,279
Advertising	2,737
Insurance	16,793
Staff training	3,041
Postage	334
Depreciation	166,355
Resale	<u>22,535</u>
Total Operating Expenses	\$ 734,284
Operating Income (Loss)	\$ (134,507)
Nonoperating Revenues (Expenses)	
Intergovernmental	\$ 4,696
Gifts and contributions	22,645
Insurance proceeds	<u>4,576</u>
Total Nonoperating Revenues (Expenses)	\$ 31,917
Change in Net Position	\$ (102,590)
Net Position - January 1	<u>2,995,765</u>
Net Position - December 31	<u><u>2,893,175</u></u>

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

**AITKIN COUNTY
AITKIN, MINNESOTA
STATEMENT OF CASH FLOWS
LONG LAKE CONSERVATION CENTER ENTERPRISE FUND
FOR THE YEAR ENDED DECEMBER 31, 2017**

Cash Flows from Operating Activities	
Receipts from customers and users	\$ 618,822
Payments to suppliers	(217,639)
Payments to employees	(330,172)
Payments for fringe benefits and payroll taxes	(85,400)
Net cash provided (used) by operating activities	<u>(14,389)</u>
Cash Flows from Noncapital Financing Activities	
Intergovernmental	4,696
Contributions	22,645
Insurance proceeds	4,576
Net cash provided (used) by noncapital financing activities	<u>31,917</u>
Cash Flows from Capital and Related Financing Activities	
Purchases of capital assets	<u>(8,702)</u>
Net Increase in Cash and Cash Equivalents	8,826
Cash and Cash Equivalents - Beginning of Year	<u>15,990</u>
Cash and Cash Equivalents - End of Year	<u>\$ 24,816</u>
Reconciliation of Operating Income to Cash Flows from Operating Activities	
Operating income	\$ (134,507)
Adjustments to reconcile operating income to net cash provided (used) by operating activities	
Depreciation	166,355
(Increase) decrease in assets and deferred outflows of resources:	
Accounts receivable	19,045
Inventory	(909)
Deferred pension outflows	105,721
Increase (decrease) in liabilities and deferred inflows of resources:	
Accounts payable	(2,612)
Salaries payable	1,079
Compensated absences payable	(820)
Net pension liability	(118,730)
Deferred pension inflows	(49,011)
Net Cash Provided (Used) by Operating Activities	<u>\$ (14,389)</u>
Reconciliation of Cash and Equivalents to the Balance Sheet	
Cash and pooled investments	\$ 21,430
Petty cash and change funds	1,350
Restricted cash and pooled investments	2,036
Total cash and cash equivalents	<u>\$ 24,816</u>

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

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FIDUCIARY FUNDS

**AITKIN COUNTY
AITKIN, MINNESOTA
STATEMENT OF FIDUCIARY NET POSITION
AGENCY FUNDS
DECEMBER 31, 2017**

Assets

Cash and pooled investments	\$ 1,087,727
Due from other governments	<u>36,313</u>
Total Assets	<u>\$ 1,124,040</u>

Liabilities

Accounts payable	\$ 85,840
Due to other governments	<u>1,038,200</u>
Total Liabilities	<u>\$ 1,124,040</u>

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

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**AITKIN COUNTY
AITKIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS**

1. Summary of Significant Accounting Policies

Aitkin County's (the County) financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as of and for the year ended December 31, 2017. 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

Aitkin County was established May 23, 1857, and is an organized county having the powers, duties, and privileges granted counties by Minn. Stat. ch. 373. As required by accounting principles generally accepted in the United States of America, these financial statements present Aitkin County. Aitkin County has no component units. 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.

Joint Ventures, Jointly-Governed Organizations, and Related Organization

The County participates in several joint ventures described in Note 6.B. The County also participates in a jointly-governed organization described in Note 6.C. and a related organization described in Note 6.D.

B. Basic Financial Statements

1. Government-Wide Statements

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

**AITKIN COUNTY
AITKIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

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

The statement of activities demonstrates the degree to which the direct expenses of each function of the County's governmental activities and its business-type activities are offset by program revenues. Direct expenses are those clearly identifiable with a specific function or activity. Program revenues include: (1) fees, fines, and charges paid by the recipients of goods, services, or privileges provided by a given function or activity; and (2) grants and contributions restricted to meeting the operational or capital requirements of a particular function or activity. Revenues not classified as program revenues, including all taxes, are presented as general revenues.

2. Fund Financial Statements

The fund financial statements provide information about the County's funds, including its fiduciary funds. Separate statements for each fund category--governmental, proprietary, and fiduciary--are presented. The emphasis of governmental and proprietary fund financial statements is on major individual governmental and enterprise funds, with each displayed in a separate column 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 all financial resources of the general government, except those accounted for in another fund.

**AITKIN COUNTY
AITKIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

The Road and Bridge Special Revenue Fund is used to account for revenues and expenditures of the County Highway Department, which is responsible for the construction and maintenance of roads, bridges, and other projects affecting County roadways.

The Health and Human Services Special Revenue Fund is used to account for economic assistance, community social services, and public health programs.

The Forfeited Tax Sale Special Revenue Fund is used to account for proceeds from the sale or rental of lands forfeited to the State of Minnesota, pursuant to Minn. Stat. ch. 282. The distribution of the net proceeds, after deducting the expenses of the County for managing the tax-forfeited lands, is governed by Minn. Stat. § 282.08. Title to the tax-forfeited lands remains with the state until sold by the County.

The Capital Projects Special Revenue Fund is used to account for financial resources to be used for capital acquisition, construction, or improvement of capital facilities. Financing is provided by bonds issued by the County.

The County reports the following major enterprise fund:

The Long Lake Conservation Center Enterprise Fund is used to account for the operation of a conservation school primarily for young adults.

Additionally, the County reports the following fund types:

The Environmental Permanent Fund is used to account for funds collected from the sale of County-owned lakeshore leased lots. In accordance with 1998 Minn. Laws ch. 389, art. 16, § 31, the principal on these sales must remain in an environmental trust, and the interest may be spent only on improvements of natural resources.

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

**AITKIN COUNTY
AITKIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS**

1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting

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

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

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

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

**AITKIN COUNTY
AITKIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS**

1. Summary of Significant Accounting Policies (Continued)

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

1. Cash and Cash Equivalents

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

2. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2017. A market approach is used to value all investments other than external investment pools, which are measured at the net asset value. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds receive investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2017 were \$303,433.

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

3. Receivables and Payables

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

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

**AITKIN COUNTY
AITKIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS**

1. Summary of Significant Accounting Policies

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

3. Receivables and Payables (Continued)

Accounts receivable is shown net of an allowance for uncollectibles of \$263,835. No allowances for other receivables have been provided because such amounts are not expected to be material.

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

Special assessments receivable consists of delinquent special assessments payable in the years 2011 through 2017. Unpaid special assessments at December 31 are classified in the financial statements as special assessments - delinquent.

4. Inventories and Prepaid Items

All inventories are valued at cost. The Road and Bridge Special Revenue Fund uses an average cost method to value inventory, and the Long Lake Conservation Center Enterprise Fund uses the first in/first out method. Inventories in governmental funds are reported as expenditures when purchased rather than when consumed. Inventories in proprietary funds and at the government-wide level are reported as expenses when consumed.

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

5. Restricted Assets

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

**AITKIN COUNTY
AITKIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS**

1. Summary of Significant Accounting Policies

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

6. Capital Assets

Capital assets, which include land, construction in progress, buildings, machinery, furniture, equipment, and infrastructure (such as roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements and in the proprietary fund, as well. Capital assets are defined by the government as assets with an initial, individual cost of more than \$3,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value.

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

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

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings	25 - 75
Machinery, furniture, and equipment	3 - 15
Infrastructure	15 - 75

AITKIN COUNTY
AITKIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

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

7. Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated 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, proprietary, and fiduciary fund financial statements. Based on a trend analysis of current usage, the County estimates the entire compensated absences balance will be used in the subsequent year. 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.

8. Pension Plan

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

9. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. Currently, the County has one item, deferred pension outflows, that qualifies

**AITKIN COUNTY
AITKIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS**

1. Summary of Significant Accounting Policies

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

9. Deferred Outflows/Inflows of Resources (Continued)

for reporting in this category. These outflows arise only under the full accrual basis of accounting and consist of pension plan contributions paid subsequent to the measurement date, differences between expected and actual pension plan economic experience, changes in actuarial assumptions, the differences between projected and actual earnings on pension plan investments, and also pension plan changes in proportionate share and, accordingly, are reported only in the statement of net position.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue or reduction of expense) until that time. The County has two such items that qualify for reporting in this category. The governmental funds report unavailable revenue from delinquent taxes receivable, delinquent special assessments receivable, and interest, and grant monies for amounts that are not considered to be available to liquidate liabilities of the current period. The unavailable revenue amount is deferred and recognized as an inflow of resources in the period that the amounts become available. Unavailable revenue arises only under the modified accrual basis of accounting and, accordingly, is reported only in the governmental funds balance sheet. The County also has deferred pension inflows. These inflows arise only under the full accrual basis of accounting and consist of differences between expected and actual pension plan economic experience and also pension plan changes in proportionate share and, accordingly, are reported only in the statement of net position.

10. Long-Term Obligations

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

**AITKIN COUNTY
AITKIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS**

1. Summary of Significant Accounting Policies

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

10. Long-Term Obligations (Continued)

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

11. Classification of Net Position

Net position in the government-wide statements is classified in the following categories:

Investment in capital assets - the amount of net position representing capital assets, net of accumulated depreciation.

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

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

12. Classification of Fund Balances

Fund balance is divided into five classifications based primarily on the extent to which the County is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable - amounts that cannot be spent because they are not in spendable form, such as fund balance associated with inventories, prepaids, or permanent funds, or are legally or contractually required to remain intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash.

**AITKIN COUNTY
AITKIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS**

1. Summary of Significant Accounting Policies

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

12. Classification of Fund Balances (Continued)

Restricted - amounts that are restricted by external parties such as creditors or imposed by grants, law, or legislation.

Committed - amounts that can be used only for the specific purposes determined by a formal action of Aitkin County's highest level of decision-making authority, which is the Aitkin County Board of Commissioners. Fund balance commitments are established, modified, or rescinded by County Board action through a Board resolution.

Assigned - amounts intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount of fund balance that is not restricted or committed. When it is appropriate for fund balance to be assigned, the Board delegates this authority to the County Auditor.

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

In circumstances where an expenditure is to be made for a purpose for which amounts are available in multiple fund balance classifications, the order in which resources will be expended is as follows: restricted, committed, and then assigned; unless the specific items have been identified in another classification.

The County has adopted a minimum fund balance policy for the General Fund. The County Board has determined it needs to maintain a minimum level of unassigned fund balance in the General Fund of 35 to 50 percent of the prior year's General Fund total operating expenditures. At December 31, 2017, the unassigned fund balance for the General Fund was below the minimum fund balance level.

**AITKIN COUNTY
AITKIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS**

1. Summary of Significant Accounting Policies

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

13. Use of Estimates

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

E. Prior Period Adjustment

Beginning net position and fund balances for Governmental Activities and the Health and Human Services Special Revenue Fund, respectively, were restated for amounts that should have been recognized as revenue in the previous year.

	Governmental Activities
Net Position as Previously Stated	\$ 117,495,792
Prior Period Adjustment	122,483
Net Position - as Restated	\$ 117,618,275
	Health and Human Services
Fund Balance - January 1	\$ 3,720,112
Prior Period Adjustment	122,483
Fund Balance - January 1, as Restated	\$ 3,842,595

**AITKIN COUNTY
AITKIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS**

2. Stewardship, Compliance, and Accountability

A. Deficit Fund Equity

Ditch Special Revenue Fund

Six of 13 drainage systems of the Ditch Special Revenue Fund have incurred expenditures in excess of revenues and available resources. These deficits will be eliminated with future special assessment levies against benefited properties. The following summary shows the fund balance as of December 31, 2017:

Account balances	\$ 57,066
Account deficits	<u>(12,017)</u>
Fund Balance	<u>\$ 45,049</u>

Capital Projects Special Revenue Fund

The Capital Project Special Revenue Fund had a fund deficit as of December 31, 2017 of \$365,563. The Capital Projects Fund will be eliminated with future tax revenues.

**AITKIN COUNTY
AITKIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS**

2. Stewardship, Compliance, and Accountability

B. Expenditures in Excess of Budget

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

	Expenditures		Final Budget		Excess
Special Revenue Funds :					
Forest Development	\$ 587,647	\$	577,681	\$	9,966
Unorganized Road, Bridge and Fire	118,338		78,075		40,263
Ditch	12,878		-		12,878

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Government-wide statement of net position

Governmental activities	
Cash and Pooled investments	\$ 25,183,979
Petty cash and change funds	6,000
Cash with fiscal agent	103,363
Business-type activities	
Cash and Pooled investments	21,430
Petty cash and change funds	1,350
Cash and Pooled investments - restricted assets	2,036
Statement of fiduciary net position	
Cash and pooled investments	1,087,727
Total Cash and Investments	\$ 26,405,885

**AITKIN COUNTY
AITKIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

a. Deposits

The County is authorized by Minn. Stat. §§ 118A.02 and 118A.04 to designate a depository for public funds and to invest in certificates of deposit. The County is required by Minn. Stat. § 118A.03 to protect deposits with insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit at the close of the financial institution's banking day, not covered by insurance or bonds.

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

Custodial Credit Risk

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. It is the County's policy that collateral or bonds will be required for all uninsured amounts on deposit, and the additional insurance will be documented to show compliance with state law and a perfected security interest under federal law. As of December 31, 2017, the County's deposits were not exposed to custodial credit risk.

**AITKIN COUNTY
AITKIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

b. Investments

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

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as “high risk” by Minn. Stat. § 118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers’ acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

**AITKIN COUNTY
AITKIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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 minimizes its exposure to interest rate risk by investing in both short-term and long-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Credit Risk

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

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities in the possession of an outside party. The County's policy is that brokers may hold County investments only to the extent there is Securities Investor Protection Corporation (SIPC) coverage and excess SIPC coverage available, with the exception of investments held within the MAGIC Fund. As of December 31, 2017, none of the County's investments were subject to custodial credit risk.

**AITKIN COUNTY
AITKIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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. It is the County's policy that investments in the MAGIC Fund, U.S. Treasury securities, U.S. agency securities, and obligations backed by U.S. Treasury and/or U.S. agency securities may be held without limit, and corporate securities may be held up to \$2,000,000 per issuer.

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

Investment Type	Credit Risk		Concentration Risk Over 5 Percent of Portfolio	Interest Rate Risk Maturity Date	Carrying (Fair) Value
	Credit Rating	Rating Agency			
Federal Home Loan Mortgage Corporation Pool	AA+	S&P		10/27/2023	\$ 1,486,380
Federal Home Loan Mortgage Corporation Pool	AA+	S&P		8/23/2023	1,960,540
Total Federal Home Loan Mortgage Corporation Pool			25.73%		\$ 3,446,920
Federal Home Loan Bank Bonds	AA+	S&P		12/22/2021	\$ 986,690
Federal Home Loan Bank Bonds	AA+	S&P		10/27/2023	1,953,240
Total Federal Home Loan Bank Bonds			21.95%		\$ 2,939,930
Federal Home Loan Bank Note	AA+	S&P	18.73%	3/9/2018	\$ 2,508,903
Federal National Mortgage Association	AA+	S&P		7/27/2021	\$ 985,220
Federal National Mortgage Association	AA+	S&P		8/24/2021	1,978,860
Total Federal National Mortgage Association			22.13%		\$ 2,964,080
Total U.S. government agency securities					\$ 11,859,833

**AITKIN COUNTY
AITKIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Concentration of Credit Risk (Continued)

<u>Investment Type</u>	<u>Credit Risk</u>		<u>Concentration Risk</u>	<u>Interest Rate Risk</u>	<u>Carrying (Fair) Value</u>
	<u>Credit Rating</u>	<u>Rating Agency</u>	<u>Over 5 Percent of Portfolio</u>	<u>Maturity Date</u>	
Investment pools/mutual funds					
Wells Fargo Brokerage Money Market	N/R	N/A		N/A	\$ 1,460,279
MAGIC Fund	N/R	N/A		N/A	74,187
Total investment pools/mutual funds					<u>\$ 1,534,466</u>
Total investments					\$ 13,394,299
Deposits					12,900,873
Petty cash and change funds					7,350
Cash with fiscal agent					<u>103,363</u>
Total Cash and Investments					<u>\$ 26,405,885</u>

N/A - Not Applicable
N/R - Not Rated
S&P - Standard and Poor's

c. Fair Value Measure

The County uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures.

The County follows an accounting standard that defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value, and requires expanded disclosures about fair value measurements. In accordance with this standard, the County has categorized its investments, based on the priority of the inputs to the valuation technique, into a three-level hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

**AITKIN COUNTY
AITKIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

c. Fair Value Measure (Continued)

Financial assets and liabilities recorded on the combined statements of financial position are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Financial asset and liabilities are valued using inputs that are adjusted quoted prices in active markets accessible at the measurement date of identical financial assets and liabilities.

Level 2 – Financial assets and liabilities are valued based on quoted prices for similar assets, or inputs that are observable, either directly or indirectly for substantially the full term through corroboration with observable market data.

Level 3 – Financial assets and liabilities are valued using pricing inputs which are unobservable for the asset, inputs that reflect the reporting entity’s own assumptions about the assumptions market participants and would use in pricing the asset.

Assets measured at fair value on a recurring basis:

<u>Type</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Federal Home Loan Mortgage Corporation	\$ -	\$ 3,446,920	\$ -	\$ 3,446,920
Federal National Mortgage Association	-	2,964,080	-	2,964,080
Federal Home Loan Bank	-	5,448,833	-	5,448,833
Negotiable CD's	-	1,460,279	-	1,460,279
Total Investments at Fair Value	<u>\$ -</u>	<u>\$ 13,320,112</u>	<u>\$ -</u>	<u>13,320,112</u>
Investments measured at net asset value (NAV)				
MAGIC Portfolio				\$ 74,187
Total Investments				<u>\$ 13,394,299</u>
Deposits				12,900,875
Petty Cash				7,350
Cash with Fiscal Agent				<u>103,363</u>
Total Deposits and Investments				<u>\$ 26,405,887</u>

**AITKIN COUNTY
AITKIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

c. Fair Value Measure (Continued)

All level 2 debt securities are valued using a market approach by utilizing quoted prices for identical securities in markets that are not active.

The County invests in the MAGIC Fund external local government investment pool, which is quoted at net asset value (NAV). The County invests in this pool for the purpose of the joint investment of the County's money with those other counties to enhance the investment earnings accruing to each member. The MAGIC portfolio is valued using amortized cost. Shares of the MAGIC portfolio are available to be redeemed upon proper notice without restrictions under normal operating conditions. There are no limits to the number of redemptions that can be made as long as the County has a sufficient number of shares to meet their redemption request. The MAGIC Fund's Board of Trustees can suspend the right of withdrawal or postpone the date of payment if the Trustees determine that there is an emergency that makes the sale of a portfolio's securities or determination of its net asset value not reasonably practical.

The County invests in a money market fund for the generation of income. Shares of the fund are available to be redeemed upon proper notice without restrictions under normal operating conditions. There are no limits to the number of redemptions that can be made as long as the County has sufficient shares to meet their redemption request.

**AITKIN COUNTY
AITKIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS**

3. Detailed Notes on All Funds

A. Assets

2. Receivables

Receivables, net of uncollectible amounts, as of December 31, 2017, for the County's governmental activities are as follows:

	<u>Total Receivables</u>	<u>Amounts Not Scheduled for Collection During the Subsequent Year</u>
Governmental Activities		
Taxes	\$ 537,214	\$ -
Special assessments	12,439	-
Accounts	2,700,566	-
Accrued interest	80,975	-
Loans	87,871	51,181
Due from other governments	<u>1,467,797</u>	<u>-</u>
Total Governmental Activities	<u>\$ 4,886,862</u>	<u>\$ 51,181</u>

An allowance for uncollectible accounts receivable related to timber sales is included in the above figures. The allowance at December 31, 2017, is \$263,835.

Loans Receivable

The County has entered into an agreement with the Minnesota Department of Agriculture and a local lending institution to jointly administer a loan program to individuals to implement projects that prevent or mitigate nonpoint source water pollution. The County is responsible for collecting any delinquent loans transferred back to the County.

**AITKIN COUNTY
AITKIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets

Capital asset activity for the year ended December 31, 2017, was as follows:

Governmental Activities

	Beginning Balance	Increase	Decrease	Ending balance
Capital assets not depreciated				
Land	\$ 3,584,449	\$ -	\$ -	\$ 3,584,449
Construction in progress	419,999	538,191	220,581	737,609
Total capital assets not depreciated	<u>\$ 4,004,448</u>	<u>\$ 538,191</u>	<u>\$ 220,581</u>	<u>\$ 4,322,058</u>
Capital assets depreciated				
Buildings	\$ 15,499,090	\$ 3,497	\$ -	\$ 15,502,587
Machinery, furniture, and equipment	13,336,601	282,734	910,219	12,709,116
Infrastructure	111,407,633	5,442,681	-	116,850,314
Total capital assets depreciated	<u>\$ 140,243,324</u>	<u>\$ 5,728,912</u>	<u>\$ 910,219</u>	<u>\$ 145,062,017</u>
Less: accumulated depreciation for				
Buildings	\$ 8,207,102	\$ 379,082	\$ -	\$ 8,586,184
Machinery, furniture, and equipment	8,466,091	799,584	910,219	8,355,456
Infrastructure	27,601,117	2,281,935	-	29,883,052
Total accumulated depreciation	<u>\$ 44,274,310</u>	<u>\$ 3,460,601</u>	<u>\$ 910,219</u>	<u>\$ 46,824,692</u>
Total capital assets depreciated, net	<u>\$ 95,969,014</u>	<u>\$ 2,268,311</u>	<u>\$ -</u>	<u>\$ 98,237,325</u>
Governmental Activities Capital Assets, Net	<u>\$ 99,973,462</u>	<u>\$ 2,806,502</u>	<u>\$ 220,581</u>	<u>\$ 102,559,383</u>

**AITKIN COUNTY
AITKIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

Business-Type Activities

	Beginning Balance	Increase	Decrease	Ending balance
Capital assets not depreciated				
Land	\$ 15,400	\$ -	\$ -	\$ 15,400
Capital assets depreciated				
Buildings	\$ 6,226,824	\$ -	\$ -	\$ 6,226,824
Machinery, furniture, and equipment	168,497	8,702	12,513	164,686
Total Capital assets depreciated	\$ 6,395,321	\$ 8,702	\$ 12,513	\$ 6,391,510
Less: accumulated depreciation for				
Buildings	\$ 2,930,286	\$ 156,085	\$ -	\$ 3,086,371
Machinery, furniture, and equipment	145,329	10,840	13,083	143,086
Total accumulated depreciation	\$ 3,075,615	\$ 166,925	\$ 13,083	\$ 3,229,457
Total capital assets depreciated, net	\$ 3,319,706	\$ (158,223)	\$ (570)	\$ 3,162,053
Governmental Activities Capital Assets, Net	\$ 3,335,106	\$ (158,223)	\$ (570)	\$ 3,177,453

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

Governmental Activities	
General government	\$ 403,578
Public safety	256,417
Highways and streets, including depreciation of infrastructure assets	2,677,866
Sanitation	12,371
Human services	41,007
Culture and recreation	10,659
Conservation of natural resources	58,703
Total Depreciation Expense - Governmental Activities	\$ 3,460,601
Business-Type Activities	
Long Lake Conservation Center	\$ 166,925

**AITKIN COUNTY
AITKIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS**

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

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

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	<u>Purpose</u>
Road and Bridge Fund	Nonmajor governmental funds	\$ 35,966	Services Provided
Capital Projects	General Fund	\$ 234,917	Cover Capital Projects cash deficit
Nonmajor governmental funds	Forfeited Tax Sale	\$ 178,734	Forfeited tax sale apportionment
General Fund	Forfeited Tax Sale	\$ 141,832	Forfeited tax sale apportionment
Total Due To/From Other Funds		<u>\$ 591,449</u>	

1. Due To/From Other Funds

2. Interfund Transfers

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

Interfund Transfers

Transfer to nonmajor governmental funds from Forfeited Tax Sale Fund	<u>\$ 12,877</u>	Forfeited tax sale apportionment
Total Interfund Transfers	<u>\$ 12,877</u>	

**AITKIN COUNTY
AITKIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS**

3. Detailed Notes on All Funds (Continued)

C. Liabilities and Deferred Inflows of Resources

1. Due to Other Governments

Aitkin County was deemed responsible for repaying Anoka Metro Regional Treatment Center for a balance of \$297,367. The County Board approved monthly payments of \$500 to pay off the outstanding balance until paid in full. The outstanding balance as of December 31, 2017 is \$289,367.

2. Long-Term Debt

Governmental Activities

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2017</u>
		\$717 -			
AgBMP septic loans	2026	\$18,415	0.00	<u>\$ 343,707</u>	<u>\$ 191,234</u>

3. Debt Service Requirements

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

Governmental Activities

<u>Year Ending December 31,</u>	<u>AgBMP Septic Loans</u>	
	<u>Principal</u>	<u>Interest</u>
2018	\$ 36,690	\$ -
2019	35,871	-
2020	31,311	-
2021	29,337	-
2022	17,409	-
2023 - 2027	<u>40,616</u>	<u>-</u>
Totals	<u>\$ 191,234</u>	<u>\$ -</u>

**AITKIN COUNTY
AITKIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources (Continued)

4. Changes in Long-Term Liabilities

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

Governmental Activities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
AgBMP septic loans	\$ 217,046	\$ 11,890	\$ 37,702	\$ 191,234	\$ 36,690
Compensated absences	1,109,821	1,368,490	1,288,745	1,189,566	1,189,566
Governmental Activities					
Long-Term Liabilities	<u>\$ 1,326,867</u>	<u>\$ 1,380,380</u>	<u>\$ 1,326,447</u>	<u>\$ 1,380,800</u>	<u>\$ 1,226,256</u>

Business-Type Activities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Compensated absences	<u>\$ 25,306</u>	<u>\$ 23,868</u>	<u>\$ 24,688</u>	<u>\$ 24,486</u>	<u>\$ 24,486</u>

The AgBMP septic loans are paid from the General Fund. Compensated absences are paid from the General Fund; the Road and Bridge, Health and Human Services, and Forest Development Special Revenue Funds; and the Long Lake Conservation Center Enterprise Fund.

5. Construction Commitments

The County has active construction projects as of December 31, 2017. The remaining commitment for highway projects is state-funded and, therefore, not obligations of the County at December 31, 2017.

**AITKIN COUNTY
AITKIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources (Continued)

6. Deferred Inflows of Resources

Deferred inflows of resources consist of taxes, special assessments, interest, and state and federal grants receivable not collected soon enough after year-end to pay liabilities of the current period. Deferred inflows of resources at December 31, 2017, are summarized below by fund:

	Taxes	Special Assessments	Interest	Grants	Sub-Total	Property Taxes Received for Future	Grand Total
Major governmental funds							
General	\$ 318,425	\$ -	\$ 36,285	\$ 17,293	\$ 372,003	\$ 337,710	\$ 709,713
Road and Bridge	105,870	-	-	768,374	874,244	110,564	984,808
Health and Human Services	109,648	-	-	193,716	303,364	119,886	423,250
Forfeited Tax Sale	2,634,798	-	-	-	2,634,798	-	2,634,798
Nonmajor governmental funds							
Unorganized Road, Bridge, and Fire Ditch	3,271	-	-	-	3,271	-	3,271
	-	12,439	-	-	12,439	-	12,439
Total	\$ 3,172,012	\$ 12,439	\$ 36,285	\$ 979,383	\$ 4,200,119	\$ 568,160	\$ 4,768,279

**AITKIN COUNTY
AITKIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description

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

General Employees Retirement Plan (accounted for in the General Employees Fund) has multiple benefit structures with members belonging to the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan, for which benefits vest after five years of credited service.

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

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

**AITKIN COUNTY
AITKIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans (Continued)

Benefits Provided

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

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

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for General Employees Retirement Plan Coordinated and Basic Plan members. Members hired prior to July 1, 1989, receive the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years of service and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. Only Method 2 is used for members hired after June 30, 1989. For Public Employees Police and Fire Plan members, the annuity accrual rate is 3.0 percent of average salary for each year of service. For Public Employees Correctional Plan members, the annuity accrual rate is 1.9 percent of average salary for each year of service.

**AITKIN COUNTY
AITKIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Benefits Provided (Continued)

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

Contributions

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the state legislature. General Employees Retirement Plan Basic members and Coordinated members were required to contribute 9.10 percent and 6.50 percent, respectively, of their annual covered salary in 2017. Public Employees Police and Fire Plan members were required to contribute 10.80 percent of their annual covered salary in 2017. Public Employees Correctional Plan members were required to contribute 5.83 percent of their annual covered salary in 2017.

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

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

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

**AITKIN COUNTY
AITKIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Contributions (Continued)

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

General Employees Retirement Plan	\$	721,215
Public Employees Police and Fire Plan		207,528
Public Employees Correctional Plan		114,546

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

Pension Costs

General Employees Retirement Plan

At December 31, 2017, the County reported a liability of \$9,301,392 for its proportionate share of the General Employees Retirement Plan's net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the County's proportion was 0.1457 percent. It was 0.1450 percent measured as of June 30, 2016. The County recognized pension expense of \$702,251 for its proportionate share of the General Employees Retirement Plan's pension expense.

The County also recognized \$3,378 as revenue, which results in a reduction of the net pension liability, for its proportionate share of the State of Minnesota's contribution to the General Employees Retirement Plan, which qualifies as a special funding situation. Legislation requires the State of Minnesota to contribute \$6 million to the General Employees Retirement Plan.

**AITKIN COUNTY
AITKIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Pension Costs

General Employees Retirement Plan (Continued)

County's proportionate share of the net pension liability	\$ 9,301,392
State of Minnesota's proportionate share of the net pension liability associated with the County	<u>116,957</u>
Total	<u>\$ 9,418,349</u>

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

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences Between Expected and Actual Economic Experience	\$ 306,546	\$ 598,382
Changes in Actuarial Assumptions	1,544,232	932,465
Net Difference Between Projected and Actual Investment Earnings	60,074	-
Changes in Proportion	29,653	184,817
Contributions Paid to PERA Subsequent to the Measurement Date	369,680	-
Total	<u>\$ 2,310,185</u>	<u>\$ 1,715,664</u>

The \$369,680 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended December 31</u>	<u>Pension Expense Amount</u>
2018	\$ 275,492
2019	510,433
2020	(166,257)
2021	(394,827)

**AITKIN COUNTY
AITKIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Pension Costs (Continued)

Public Employees Police and Fire Plan

At December 31, 2017, the County reported a liability of \$1,647,145 for its proportionate share of the Public Employees Police and Fire Plan's net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the County's proportion was 0.122 percent. It was 0.123 percent measured as of June 30, 2016. The County recognized pension expense of \$220,834 for its proportionate share of the Public Employees Police and Fire Plan's pension expense.

The County also recognized \$10,980 as revenue, which results in a reduction of the net pension liability, for its proportionate share of the State of Minnesota's on-behalf contribution to the Public Employees Police and Fire Plan. Legislation requires the State of Minnesota to contribute \$9 million to the Police and Fire Plan each year, starting in fiscal year 2014, until the plan is 90 percent funded.

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

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual		
Economic Experience	\$ 37,914	\$ 440,346
Changes in Actuarial Assumptions	2,155,618	2,338,538
Net Difference Between Projected and Actual		
Investment Earnings	22,622	-
Changes in Proportion	21,601	81,122
Contributions Paid to PERA Subsequent to the Measurement Date	106,554	-
Total	<u>\$ 2,344,309</u>	<u>\$ 2,860,006</u>

**AITKIN COUNTY
AITKIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Pension Costs

Public Employees Police and Fire Plan (Continued)

The \$106,554 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	Pension Expense Amount
2018	16,284
2019	16,284
2020	(44,096)
2021	(147,845)
2022	(462,878)

Public Employees Correctional Plan

At December 31, 2017, the County reported a liability of \$57,924 for its proportionate share of the Public Employees Correctional Plan's net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the County's proportion was 0.650 percent. It was 0.670 percent measured as of June 30, 2016. The County recognized pension expense of \$123,411 for its proportionate share of the Public Employees Correctional Plan's pension expense.

**AITKIN COUNTY
AITKIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Pension Costs

Public Employees Correctional Plan (Continued)

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

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual		
Economic Experience	\$ 1,280	\$ 30,360
Changes in Actuarial Assumptions	1,039,612	322,467
Net Difference Between Projected and Actual		
Investment Earnings	-	5,421
Changes in Proportion	-	56,071
Contributions Paid to PERA Subsequent to the Measurement Date	57,924	-
Total	<u>\$ 1,098,816</u>	<u>\$ 414,319</u>

The \$57,924 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	Pension Expense Amount
2018	\$ 397,700
2019	410,919
2020	(130,476)
2021	(51,570)

**AITKIN COUNTY
AITKIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans (Continued)

Total Pension Expense

The total pension expense for all plans recognized by the County for the year ended December 31, 2017, was \$1,020,179.

Actuarial Assumptions

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

Inflation	2.50% per Year
Salary Increases	3.25% per Year
Investment Rate of Return	7.50%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants in the General Employees Retirement Plan were based on RP-2014 tables, while mortality rates for Public Employees Police and Fire Plan and Public Employees Correctional Plan were based on RP-2000 tables for males or females, as appropriate, with slight adjustments. For the General Employees Retirement Plan and the Public Employees Police and Fire Plan, cost of living benefit increases for retirees are assumed to be 1.0 percent. Cost of living benefit increases for retirees are assumed to be 2.5 percent for the Public Employees Correctional Plan.

Actuarial assumptions used in the June 30, 2017, valuation were based on the results of actuarial experience studies. The experience study in the General Employees Retirement Plan was for the period 2015 through 2019. The experience study for the Public Employees Police and Fire Plan was for the period 2016 through 2021. Experience studies have not been prepared for the Public Employees Correctional Plan, but assumptions are reviewed annually.

**AITKIN COUNTY
AITKIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Actuarial Assumptions (Continued)

The long-term expected rate of return on pension plan investments is 7.5 percent. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Stocks	39 %	5.10 %
International Stocks	19	5.30
Bonds	20	0.75
Alternative Assets	20	5.90
Cash	2	0.00
Totals	<u>100 %</u>	

**AITKIN COUNTY
AITKIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent in 2017, no change from the 7.50 percent used in 2016. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, the fiduciary net position of the General Employees Retirement Plan was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. In the Public Employees Police and Fire Plan and the Public Employees Correctional Plan, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members through June 30, 2061, and June 30, 2063, respectively. Beginning in fiscal years ended June 30, 2062, for the Police and Fire Plan and June 30, 2064, for the Public Employees Correctional Plan, when projected benefit payments exceed the Plans' projected fiduciary net position, benefit payments were discounted at the municipal bond rate of 3.56 percent based on an index of 20-year general obligation bonds with an average AA credit rating at the measurement date. An equivalent single discount rate of 5.96 percent for the Public Employees Police and Fire Plan and 5.96 percent for the Public Employees Correctional Plan was determined that produced approximately the same present value of the projected benefits when applied to all years of projected benefits as the present value of projected benefits using 7.50 percent applied to all years of projected benefits through the point of asset depletion and 3.56 percent thereafter.

Changes in Actuarial Assumptions

The following changes in actuarial assumptions occurred in 2017:

General Employees Retirement Plan

- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent through 2044 and 2.50 percent per year thereafter.

**AITKIN COUNTY
AITKIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans (Continued)

Changes in Actuarial Assumptions

General Employees Retirement Plan (Continued)

- The Combined Service Annuity (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and non-vested deferred members. The revised CSA loads are now 0.0 percent for non-vested deferred member liability.

Public Employees Police and Fire Plan

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2064 and 2.50 percent per year thereafter.
- Assumed salary increases were changed as recommended in the June 30, 2016 experience study. The net effect is proposed rates that average 0.34 percent lower than the previous rates.
- Assumed rates of retirement were changed, resulting in fewer retirements.
- The Combined Service Annuity (CSA) load was 30 percent for vested and non-vested deferred members. The CSA has been changed to 33 percent for vested members and 2 percent for non-vested members.
- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the mortality tables assumed for healthy retirees.
- Assumed termination rates were decreased to 3.0 percent for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall.
- Assumed percentage of married female members was decreased from 65 percent to 60 percent.

**AITKIN COUNTY
AITKIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS**

Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans (Continued)

Changes in Actuarial Assumptions

Public Employees Police and Fire Plan (Continued)

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

Public Employees Correctional Plan

- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016 and is applied to healthy and disabled members. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the RP-2017 disabled annuitant mortality table (with future mortality improvement according to MP-2016).
- The Combined Service Annuity (CSA) load was 30 percent vested and non-vested, deferred members. The CSA has been changed to 35 percent for vested members and 1 percent for non-vested members.
- The Single Discount Rate was changed from 5.31 percent per annum to 5.96 percent per annum.

**AITKIN COUNTY
AITKIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans (Continued)

Pension Liability Sensitivity

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

	Proportionate Share of the					
	General Employees Retirement Plan		Police and Fire Retirement Plan		Correctional Retirement Plan	
	Discount Rate	Net Pension Liability	Discount Rate	Net Pension Liability	Discount Rate	Net Pension Liability
1% Decrease	6.50%	\$ 14,427,150	6.50%	\$ 3,102,055	4.96%	\$ 3,052,699
Current	7.50%	9,301,392	7.50%	1,647,145	5.96%	1,852,507
1% Increase	8.50%	5,105,028	8.50%	446,037	6.96%	915,740

Pension Plan Fiduciary Net Position

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

B. Defined Contribution Plan

Five Board members of Aitkin County are covered by the Public Employees Defined Contribution Plan, a multiple-employer deferred compensation plan administered by PERA. The plan is established and administered in accordance with Minn. Stat. ch. 353D, which may be amended by the state legislature. The plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code, and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

**AITKIN COUNTY
AITKIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS**

4. Employee Retirement Systems and Pension Plans

B. Defined Contribution Plan (Continued)

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

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

Contribution Amount		Percentage of Covered Payroll		Required
Employee	Employer	Employee	Employer	Rate
\$ 6,982	\$ 6,982	5%	5%	5%

5. Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. To manage these risks, the County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Intergovernmental Trust (MCIT). MCIT is a public entity risk pool currently operated as a common risk management and insurance program for its members. The County is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. For other risk, the County carries commercial insurance. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

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

**AITKIN COUNTY
AITKIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS**

5. Risk Management (Continued)

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

6. 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.

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

B. Joint Ventures

Northeast Minnesota Office of Job Training

Aitkin, Carlton, Cook, Itasca, Koochiching, Lake, and St. Louis Counties (excluding the City of Duluth) entered into a joint powers agreement, pursuant to Minn. Stat. § 471.59, for the purpose of developing and implementing a private and public job training program. The United States Congress, through the Job Training Partnership Act of 1982, authorized states to establish “service delivery areas” to provide programs to achieve full employment through the use of grants. The counties identified above are defined as a “service delivery area,” and the Northeast Minnesota Office of Job Training is designated as the grant recipient and administrator for the service delivery area. The County is not a funding mechanism for this organization.

The governing body is composed of seven members, one member from the Board of Commissioners of each of the participating counties.

Separate financial information can be obtained from:

Northeast Minnesota Office of Job Training
820 North 9th Street, Suite 210
Virginia, Minnesota 55792

**AITKIN COUNTY
AITKIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

Northern Counties Land Use Coordinating Board

The Northern Counties Land Use Coordinating Board was established through a joint powers agreement, pursuant to Minn. Stat. § 471.59, for the purpose of helping to formulate land use plans for the protection, sustainable use, and development of lands and natural resources.

The joint powers are Aitkin, Cook, Koochiching, Lake, Lake of the Woods, Pennington, Roseau, and St. Louis Counties. Three elected County Commissioners from St. Louis County and two from each of the other counties comprise the membership of the Board. St. Louis County handles all of the financial transactions for this organization through its Northern Counties Land Use Board Agency Fund.

Aitkin County provided no funding to this organization during 2017.

Separate financial information can be obtained from:

Northern Counties Land Use Coordinating Board
St. Louis County Courthouse
100 North 5th Avenue West, #214
Duluth, Minnesota 55802

Joint Counties Natural Resources Board

The Joint Counties Natural Resources Board was formed in 1985 under the authority of the Joint Powers Act, pursuant to Minn. Stat. § 471.59, and includes Aitkin, Beltrami, Clearwater, Koochiching, Lake of the Woods, Mahnommen, Marshall, and Roseau Counties. The purpose of the Joint Counties Natural Resources Board is to gather information on and formulate policies for the development, utilization, and protection of natural resources in this area of Minnesota and to ensure that there is an interrelated plan for the use and protection of both public and private resources.

The Joint Counties Natural Resources Board is composed of at least one resident of each county appointed by its respective County Board, as provided in the Joint Counties Natural Resources Board's bylaws.

**AITKIN COUNTY
AITKIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Joint Counties Natural Resources Board (Continued)

In the event of dissolution of the Joint Counties Natural Resources Board, the net position of the Joint Counties Natural Resources Board at that time shall be distributed to the respective member counties in proportion to the contribution of each. Aitkin County provided \$1,000 to this organization during 2017.

The Joint Counties Natural Resources Board has no long-term debt. Financing is provided by appropriations from member counties.

Complete financial information can be obtained from:

Mr. Wayne Bendickson
Treasurer
Joint County Natural Resources Board
Box 808
Baudette, Minnesota 56623

Aitkin-Itasca-Koochiching Community Health Services Board

Aitkin, Itasca, and Koochiching Counties entered into a joint powers agreement, creating and operating the Aitkin-Itasca-Koochiching Community Health Services Board, effective January 1, 1977. This agreement is entered into under the authority of the Community Health Services Act of 1976 and is pursuant to the provisions of Minn. Stat. § 471.59 for the development and maintenance of an integrated system of community health services.

The Community Health Services Board is composed of two members from Aitkin and Koochiching Counties and three members from Itasca County, each appointed by the participating counties. Itasca County maintains the accounting records of the Community Health Services Board. Funding is obtained through federal, state, local, and private sources. Aitkin County provided no funding to this organization during 2017.

**AITKIN COUNTY
AITKIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Aitkin-Itasca-Koochiching Community Health Services Board (Continued)

Complete financial information can be obtained from:

Aitkin-Itasca-Koochiching Community Health Services Board
Community Health Board Administrator
1209 S.E. 2nd Avenue
Grand Rapids, Minnesota 55744

Mississippi Headwaters Board

The Mississippi Headwaters Board was established on February 22, 1980, by Aitkin, Beltrami, Cass, Clearwater, Crow Wing, Hubbard, Itasca, and Morrison Counties, pursuant to the provisions of Minn. Stat. § 471.59. The purpose of the Board is to prepare, adopt, and implement a comprehensive land use plan designed to protect and enhance the Mississippi River and related shoreland areas within the counties.

The Mississippi Headwaters Board consists of eight members, one appointed from each participating county. Crow Wing County maintains the accounting records of the Board. Funding is obtained through federal, state, local, and private sources. Aitkin County provided \$1,500 to this organization during 2017.

Complete financial information can be obtained from:

Mississippi Headwaters Board
Land Services Building
322 Laurel Street
Brainerd, Minnesota 56401
Email: mhb@co.crow-wing.mn.us

Snake River Watershed Management Board

The Snake River Watershed Management Board was established in April 1983 by Aitkin, Kanabec, Mille Lacs, and Pine Counties, pursuant to the provisions of Minn. Stat. § 471.59. The purpose of the Board is to coordinate the member counties' water plans and to develop objectives to promote sound hydrologic management of water and related land resources.

**AITKIN COUNTY
AITKIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Snake River Watershed Management Board (Continued)

The four-member Board consists of one County Commissioner from each of the participating counties. The Kanabec County Auditor is the fiscal agent for the Board. The Board is funded through an annual budget and participation in the administrative cost in the following percentages:

Aitkin County	20.8 %
Kanabec County	49.5
Mille Lacs County	9.2
Pine County	20.2

Aitkin County provided \$10,079 to this organization during 2017. Upon dissolution, the personal property shall be returned to the member county contributing the same.

Complete financial information can be obtained from:

Snake River Watershed Management Board
Kanabec County Courthouse
18 North Vine Street
Mora, Minnesota 55051

Minnesota Counties Information System (MCIS)

Aitkin, Carlton, Cass, Chippewa, Cook, Crow Wing, Dodge, Itasca, Koochiching, Lac qui Parle, Lake, Sherburne, and St. Louis Counties entered into a joint powers agreement, pursuant to Minn. Stat. § 471.59, for the purpose of operating and maintaining data processing facilities and management information systems for use by its members.

MCIS is governed by a 13-member Board, composed of a member appointed by each of the participating county's Board of Commissioners. Financing is obtained through user charges to the member. Cass County is the fiscal agent for MCIS.

Each county's share of the assets and liabilities cannot be accurately determined since it will depend on the number of counties that are members when the agreement is dissolved.

**AITKIN COUNTY
AITKIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Minnesota Counties Information System (MCIS) (Continued)

Separate financial information can be obtained from:

Minnesota Counties Information System
413 Southeast 7th Avenue
Grand Rapids, Minnesota 55744

East Central Regional Library

The East Central Regional Library was established by a joint powers agreement among Aitkin, Chisago, Isanti, Kanabec, Mille Lacs, and Pine Counties to provide an efficient and improved regional public library service. The Library Board comprises 18 members--one County Board member and two appointees from each member county. Aitkin County's contribution for 2017 was \$225,882.

Complete financial statements of the East Central Regional Library can be obtained from:

East Central Regional Library
244 South Birch
Cambridge, Minnesota 55008

Northeast Minnesota Regional Radio Board

The Northeast Minnesota Regional Radio Board was established through a joint powers agreement, pursuant to Minn. Stat. §§ 471.59 and 403.39, to provide for regional administration of enhancements to the Statewide Public Safety Radio and Communication System (ARMER) and to enhance and improve interoperable public safety communications.

**AITKIN COUNTY
AITKIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Northeast Minnesota Regional Radio Board (Continued)

The joint powers are the Counties of Aitkin, Carlton, Cass, Cook, Crow Wing, Itasca, Kanabec, Koochiching, Lake, Pine, and St. Louis and the Cities of Duluth, Hibbing, International Falls, and Virginia. Control of the Northeast Minnesota Regional Radio Board is vested in a Board of Directors composed of one County Commissioner from each of the member counties and one City Council member from each of the member cities. In addition, there is one member from the Northeast Minnesota Regional Advisory Committee, one member from the Northeast Minnesota Regional Radio System User Committee, and one member from the Northeast Minnesota Owners and Operators Committee who are also voting members of the Board.

Itasca County is the fiscal agent for the Northeast Minnesota Regional Radio Board. Funding is provided by grants and contributions from participating members. Aitkin County contributed no funding in 2017.

**AITKIN COUNTY
AITKIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Northeast Minnesota Regional Radio Board (Continued)

Separate financial information can be obtained from:

Itasca County
123 N.E. 4th Street
Grand Rapids, Minnesota 55744-2847

Aitkin Municipal Airport Commission

The Aitkin Municipal Airport Commission is authorized by Minn. Stat. ch. 360. The Airport Commission is governed by a five-member Board of Directors--three members are appointed by the Aitkin County Board and two are appointed by the City of Aitkin. The proprietary interest in the Airport Commission's assets is divided two-thirds to Aitkin County and one-third to the City of Aitkin as per the contractual agreement. All cash of the Airport Commission is on deposit with the City of Aitkin at December 31, 2017. The City of Aitkin has opted to report the activities of the Aitkin Municipal Airport Commission as a discrete component unit in its annual financial report.

Investment in the joint venture on the statement of net position is 66.67 percent of the County's undivided interest of the Airport Commission. The investment in the Airport Commission was valued at \$1,501,852 on December 31, 2017, and is reported as an investment in joint venture on the government-wide statement of net position.

Complete financial statements of the City of Aitkin can be obtained from:

City of Aitkin
109 First Avenue N.W.
Aitkin, Minnesota 56431

C. Jointly-Governed Organization

Aitkin County Family Services Collaborative

The Aitkin County Family Services Collaborative was established to create opportunities to enhance family strengths and support through service coordination and access to informal communication. Aitkin County has no operational or financial control over the Collaborative. Aitkin County is the fiscal agent for the Collaborative and accounts for it in an agency fund.

**AITKIN COUNTY
AITKIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS**

6. Summary of Significant Contingencies and Other Items

D. Related Organization

Aitkin County Housing and Redevelopment Authority

The Aitkin County Housing and Redevelopment Authority (HRA) is a separate legal entity as authorized under Minn. Stat. ch. 469. The HRA operates a low-income housing program and elderly housing in the County. The HRA Board is appointed by the County Board. Aitkin County does not provide funding, has no obligation for the debt of the HRA, and cannot impose its will on the HRA.

E. Tax-Forfeited Land

The County manages approximately 221,200 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.

7. Subsequent Event

Subsequent to December 31, 2017, the County issued \$10,390,000 in 2018A General Obligation Capital Improvement Plan Bond. The bond proceeds are used to finance the construction of an addition to the existing County Courthouse; public safety and security improvements to the existing County Courthouse; the remodeling of facilities and the demolition of the West Annex addition to the courthouse; and other related building and grounds improvements. Payments on this debt begin February 1, 2019.

REQUIRED SUPPLEMENTARY INFORMATION

**AITKIN COUNTY
AITKIN, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 8,044,951	\$ 8,044,951	\$ 7,297,738	\$ (747,213)
Licenses and permits	303,905	303,905	430,156	126,251
Intergovernmental	2,957,251	2,957,251	3,747,024	789,773
Charges for services	1,199,607	1,199,607	1,315,533	115,926
Gifts and contributions	1,500	1,500	9,550	8,050
Investment earnings	310,000	310,000	288,142	(21,858)
Miscellaneous	617,083	617,083	600,207	(16,876)
Total Revenues	\$ 13,434,297	\$ 13,434,297	\$ 13,688,350	\$ 254,053
Expenditures				
Current				
General government				
Commissioners	\$ 265,298	\$ 265,298	\$ 228,187	\$ 37,111
Courts	95,900	95,900	86,219	9,681
County administration	421,770	421,770	395,128	26,642
County auditor	505,911	505,911	611,080	(105,169)
Motor vehicle	153,110	153,110	132,745	20,365
County treasurer	266,296	266,296	258,671	7,625
County assessor	806,925	806,925	781,736	25,189
Elections	68,281	68,281	19,092	49,189
Data processing	515,713	515,713	521,215	(5,502)
Central services	232,410	232,410	109,768	122,642
County attorney	998,211	998,211	953,089	45,122
County recorder	250,630	250,630	303,349	(52,719)
Planning and zoning	442,437	442,437	461,702	(19,265)
Buildings and plant	72,000	72,000	55,857	16,143
Maintenance	327,323	327,323	355,963	(28,640)
Veterans service officer	129,159	129,159	138,559	(9,400)
Motor pool	56,425	56,425	51,249	5,176
Housing and development	1,800	1,800	1,190	610
Total General Government	\$ 5,609,599	\$ 5,609,599	\$ 5,464,799	\$ 144,800

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

**AITKIN COUNTY
AITKIN, MINNESOTA
BUDGETARY COMPARISON SCHEDULE (CONTINUED)
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Public safety				
County sheriff	\$ 2,226,244	\$ 2,226,244	\$ 2,262,975	\$ (36,731)
Boat and water safety	86,241	86,241	91,594	(5,353)
Snowmobile	33,711	33,711	29,068	4,643
Coroner	58,000	58,000	53,220	4,780
E-911 system	90,000	90,000	105,294	(15,294)
Corrections (Jail)	2,730,847	2,730,847	2,933,347	(202,500)
Community corrections (Sheriff)	996,743	996,743	888,375	108,368
Crime victim	69,449	69,449	56,146	13,303
Civil defense	47,994	47,994	50,298	(2,304)
Other public safety	28,366	28,366	41,370	(13,004)
Total public safety	\$ 6,367,595	\$ 6,367,595	\$ 6,511,687	\$ (144,092)
Sanitation				
Solid waste	\$ 296,635	\$ 296,635	\$ 309,647	\$ (13,012)
Environmental health	72,176	72,176	70,291	1,885
Total sanitation	\$ 368,811	\$ 368,811	\$ 379,938	\$ (11,127)
Health				
Water wells	\$ 6,500	\$ 6,500	\$ 4,832	\$ 1,668
Culture and recreation				
Parks	\$ 509,939	\$ 509,939	\$ 388,947	\$ 120,992
Regional library	291,282	291,282	291,103	179
Tourism	15,000	15,000	14,257	743
Total culture and recreation	\$ 816,221	\$ 816,221	\$ 694,307	\$ 121,914
Conservation of natural resources				
Cooperative extension	\$ 62,088	\$ 62,088	\$ 55,349	\$ 6,739
Soil and water conservation	109,613	109,613	109,788	(175)
Agricultural inspections	4,800	4,800	-	4,800
Agricultural society/County fair	21,548	21,548	23,880	(2,332)
Total conservation of natural resources	\$ 198,049	\$ 198,049	\$ 189,017	\$ 9,032

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

**AITKIN COUNTY
AITKIN, MINNESOTA
BUDGETARY COMPARISON SCHEDULE (CONTINUED)
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Economic development				
Airports	\$ 28,007	\$ 28,007	\$ 28,007	\$ -
Other	41,446	41,446	99,318	(57,872)
Total economic development	<u>\$ 69,453</u>	<u>\$ 69,453</u>	<u>\$ 127,325</u>	<u>\$ (57,872)</u>
Debt service				
Principal	\$ -	\$ -	\$ 37,702	\$ (37,702)
Total Expenditures	<u>\$ 13,436,228</u>	<u>\$ 13,436,228</u>	<u>\$ 13,409,607</u>	<u>\$ 26,621</u>
Excess of Revenues Over (Under) Expenditures	\$ (1,931)	\$ (1,931)	\$ 278,743	\$ 280,674
Other Financing Sources (Uses)				
Loans issued	\$ -	\$ -	\$ 11,890	\$ 11,890
Net Change in Fund Balance	\$ (1,931)	\$ (1,931)	\$ 290,633	\$ 292,564
Fund Balance - January 1	<u>9,526,235</u>	<u>9,526,235</u>	<u>9,526,235</u>	<u>-</u>
Fund Balance - December 31	<u>\$ 9,524,304</u>	<u>\$ 9,524,304</u>	<u>\$ 9,816,868</u>	<u>\$ 292,564</u>

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

**AITKIN COUNTY
AITKIN, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 2,507,026	\$ 2,507,026	\$ 2,339,972	\$ (167,054)
Intergovernmental	6,396,311	6,396,311	5,874,195	(522,116)
Charges for services	413,000	413,000	405,629	(7,371)
Miscellaneous	20,000	20,000	77,062	57,062
Total Revenues	\$ 9,336,337	\$ 9,336,337	\$ 8,696,858	\$ (639,479)
Expenditures				
Current				
Highways and streets				
Administration	\$ 473,917	\$ 473,917	\$ 490,097	\$ (16,180)
Engineering	511,643	511,643	397,153	114,490
Maintenance	2,900,978	2,900,978	2,756,551	144,427
Construction	5,382,800	5,382,800	4,961,875	420,925
Equipment and maintenance shops	555,200	555,200	129,680	425,520
Total highways and streets	\$ 9,824,538	\$ 9,824,538	\$ 8,735,356	\$ 1,089,182
Intergovernmental				
Highways and streets	390,000	390,000	378,264	11,736
Total Expenditures	\$ 10,214,538	\$ 10,214,538	\$ 9,113,620	\$ 1,100,918
Net Change in Fund Balance	\$ (878,201)	\$ (878,201)	\$ (416,762)	\$ 461,439
Fund Balance - January 1	6,856,222	6,856,222	6,856,222	-
Increase (decrease) in inventories	-	-	239,995	239,995
Fund Balance - December 31	\$ 5,978,021	\$ 5,978,021	\$ 6,679,455	\$ 701,434

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

AITKIN COUNTY
AITKIN, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
HEALTH AND HUMAN SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 2,448,402	\$ 2,448,402	\$ 2,532,871	\$ 84,469
Intergovernmental	3,372,769	3,372,769	3,572,458	199,689
Charges for services	332,700	332,700	374,831	42,131
Miscellaneous	279,163	279,163	200,206	(78,957)
Total Revenues	\$ 6,433,034	\$ 6,433,034	\$ 6,680,366	\$ 247,332
Expenditures				
Current				
Human services				
Income maintenance	\$ 1,919,667	\$ 1,919,667	\$ 1,783,187	\$ 136,480
Social services	3,952,285	3,952,285	4,013,791	(61,506)
Total human services	\$ 5,871,952	\$ 5,871,952	\$ 5,796,978	\$ 74,974
Health				
Women, infants, and children	\$ 5,512	\$ 5,512	\$ 7,458	\$ (1,946)
Nursing service	27,030	27,030	44,351	(17,321)
Transportation	37,000	37,000	34,080	2,920
Maternal and child health	18,371	18,371	10,874	7,497
Health	-	-	1,171	(1,171)
Miscellaneous	873,169	873,169	752,230	120,939
Total health	\$ 961,082	\$ 961,082	\$ 850,164	\$ 110,918
Total Expenditures	\$ 6,833,034	\$ 6,833,034	\$ 6,647,142	\$ 185,892
Net Change in Fund Balance	\$ (400,000)	\$ (400,000)	\$ 33,224	\$ 433,224
Fund Balance - January 1	3,720,112	3,720,112	3,720,112	-
Prior Period Adjustment, See Note 1.E	122,483	122,483	122,483	-
Fund Balance - January 1, as Restated	3,842,595	3,842,595	3,842,595	-
Fund Balance - December 31	\$ 3,442,595	\$ 3,442,595	\$ 3,875,819	\$ 433,224

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

**AITKIN COUNTY
AITKIN, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
FORFEITED TAX SALE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Intergovernmental	\$ 335,000	\$ 335,000	\$ 354,340	\$ 19,340
Charges for services	30,000	30,000	32,012	2,012
Miscellaneous	1,704,000	1,704,000	1,438,616	(265,384)
Total Revenues	\$ 2,069,000	\$ 2,069,000	\$ 1,824,968	\$ (244,032)
Expenditures				
Current				
General government				
Law library	\$ 30,000	\$ 30,000	\$ 25,168	\$ 4,832
Maintenance	-	-	1,728	(1,728)
Total general government	\$ 30,000	\$ 30,000	\$ 26,896	\$ 3,104
Conservation of natural resources				
County development	\$ 346,932	\$ 346,932	\$ 219,334	\$ 127,598
Forfeited tax	1,700,000	1,700,000	1,289,138	410,862
Total conservation of natural resources	\$ 2,046,932	\$ 2,046,932	\$ 1,508,472	\$ 538,460
Total Expenditures	\$ 2,076,932	\$ 2,076,932	\$ 1,535,368	\$ 541,564
Excess of Revenues Over (Under) Expenditures	\$ (7,932)	\$ (7,932)	\$ 289,600	\$ 297,532
Other Financing Sources (Uses)				
Transfers out	-	-	(12,877)	(12,877)
Net Change in Fund Balance	\$ (7,932)	\$ (7,932)	\$ 276,723	\$ 284,655
Fund Balance - January 1	1,622,231	1,622,231	1,622,231	-
Fund Balance - December 31	\$ 1,614,299	\$ 1,614,299	\$ 1,898,954	\$ 284,655

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

**AITKIN COUNTY
AITKIN, MINNESOTA
SCHEDULE OF THE COUNTY'S PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY**

GENERAL EMPLOYEES RETIREMENT PLAN

Measurement Date	Employer's Portion of the Net Pension Liability	Employer's Proportionate Share of the Net Pension Liability	State's Proportionate Share of the Net Pension Liability Associated with Aitkin County	Employer's Proportionate Share of the Net Pension Liability and the State's Related Share of the Net Pension Liability	Covered Payroll	Employer's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2017	0.1457%	\$ 9,301,392	\$ 116,947	\$ 9,418,339	\$ 9,361,951	99.35%	75.90%
2016	0.1450%	11,773,281	153,770	11,927,051	8,997,417	130.85%	68.91%
2015	0.1481%	7,675,311	N/A	7,675,311	8,702,625	88.20%	78.19%

POLICE AND FIRE PLAN

Measurement Date	Employer's Portion of the Net Pension Liability	Employer's Proportionate Share of the Net Pension Liability	Covered Payroll	Employer's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2017	0.122%	\$ 1,647,145	\$ 1,250,643	131.70%	85.43%
2016	0.123%	4,936,202	1,186,142	416.16%	63.88%
2015	0.132%	1,499,829	1,205,275	124.44%	86.61%

PUBLIC EMPLOYEES CORRECTIONAL PLAN

Measurement Date	Employer's Portion of the Net Pension Liability	Employer's Proportionate Share of the Net Pension Liability	Covered Payroll	Employer's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2017	0.650%	\$ 1,852,507	\$ 1,298,980	142.61%	67.89%
2016	0.670%	2,447,604	1,269,269	192.84%	58.16%
2015	0.700%	108,220	1,262,333	8.57%	96.95%

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

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

**AITKIN COUNTY
AITKIN, MINNESOTA
SCHEDULE OF CONTRIBUTIONS**

GENERAL EMPLOYEES RETIREMENT PLAN

<u>Year Ending</u>	<u>Statutorily Required Contributions</u>	<u>Actual Contributions in Relation to Statutorily Required Contributions</u>	<u>Contribution (Deficiency) Excess</u>	<u>Covered Payroll</u>	<u>Actual Contributions as a Percentage of Covered Payroll</u>
2017	\$ 721,215	\$ 721,215	\$ -	\$ 9,612,600	7.50%
2016	694,156	694,156	\$ -	9,255,429	7.50%
2015	666,739	666,739	-	8,889,853	7.50%

POLICE AND FIRE PLAN

<u>Year Ending</u>	<u>Statutorily Required Contributions</u>	<u>Actual Contributions in Relation to Statutorily Required Contributions</u>	<u>Contribution (Deficiency) Excess</u>	<u>Covered Payroll</u>	<u>Actual Contributions as a Percentage of Covered Payroll</u>
2017	\$ 207,528	\$ 207,528	\$ -	\$ 1,281,040	16.20%
2016	198,277	198,277	-	1,223,931	16.20%
2015	196,140	196,140	-	1,210,738	16.20%

PUBLIC EMPLOYEES CORRECTIONAL PLAN

<u>Year Ending</u>	<u>Statutorily Required Contributions</u>	<u>Actual Contributions in Relation to Statutorily Required Contributions</u>	<u>Contribution (Deficiency) Excess</u>	<u>Covered Payroll</u>	<u>Actual Contributions as a Percentage of Covered Payroll</u>
2017	\$ 114,546	\$ 114,546	\$ -	\$ 1,309,101	8.75%
2016	113,950	113,950	-	1,302,270	8.75%
2015	111,052	111,052	-	1,269,158	8.75%

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

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

**AITKIN COUNTY
AITKIN, MINNESOTA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2017**

1. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year-end.

By July of each year, all departments submit requests for appropriations to the County Administrator so that a budget can be prepared. Before September 30, the proposed budget is presented to the County Board for review. A final budget is adopted by the Board and certified to the Auditor no later than December 31.

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

2. Excess of Expenditures Over Appropriations

The following funds had expenditures in excess of budget for the year ended December 31, 2017. These expenditures in excess of appropriations were funded by revenues that exceeded the revenue budget.

	<u>Expenditures</u>		<u>Final Budget</u>		<u>Excess</u>
Forest Development Special Revenue Fund	\$ 587,647	\$	577,681	\$	9,966
Unorganized Road, Bridge and Fire Special Revenue Fund	118,338		78,075		40,263
Ditch Special Revenue Fund	12,878		-		12,878

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

**AITKIN COUNTY
AITKIN, MINNESOTA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2017**

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

The following changes were reflected in the valuation performed on behalf of the Public Employees Retirement Association for the year ended December 31, 2017.

General Employees Retirement Plan

- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent through 2044 and 2.50 percent per year thereafter.
- The Combined Service Annuity (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and non-vested deferred members. The revised CSA loads are now 0.0 percent for non-vested deferred member liability.

Public Employees Police and Fire Plan

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2064 and 2.50 percent per year thereafter.
- Assumed salary increases were changed as recommended in the June 30, 2016 experience study. The net effect is proposed rates that average 0.34 percent lower than the previous rates.
- Assumed rates of retirement were changed, resulting in fewer retirements.
- The Combined Service Annuity (CSA) load was 30 percent for vested and non-vested deferred members. The CSA has been changed to 33 percent for vested members and 2 percent for non-vested members.
- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the mortality tables assumed for healthy retirees.

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

**AITKIN COUNTY
AITKIN, MINNESOTA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2017**

Public Employees Police and Fire Plan (Continued)

- Assumed termination rates were decreased to 3.0 percent for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall.
- Assumed percentage of married female members was decreased from 65 percent to 60 percent.
- Assumed age difference was changed from separate assumptions for male members (wives assumed to be three years younger) and female members (husbands assumed to be four years older) to the assumption that males are two years older than females.
- The assumed percentage of female members electing Joint and Survivor annuities was increased.

Public Employees Correctional Plan

- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016 and is applied to healthy and disabled members. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the RP-2017 disabled annuitant mortality table (with future mortality improvement according to MP-2016).
- The Combined Service Annuity (CSA) load was 30 percent vested and non-vested, deferred members. The CSA has been changed to 35 percent for vested members and 1 percent for non-vested members.
- The Single Discount Rate was changed from 5.31 percent per annum to 5.96 percent per annum.

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SUPPLEMENTARY INFORMATION

GOVERNMENTAL FUNDS

**AITKIN COUNTY
AITKIN, MINNESOTA
DESCRIPTION OF FUNDS**

The Forest Development Special Revenue Fund is used to account for funds used in developing forests in the County. Financing is provided by forfeited tax settlements, grants, and payments in lieu of taxes.

The Unorganized Road, Bridge, and Fire Special Revenue Fund is used to account for funds used to provide road maintenance and fire protection for unorganized townships. Financing is provided by property taxes and grants.

The Ditch Special Revenue Fund is used to account for funds used for public improvements and services for the ditch system. Financing is provided by special assessments against the benefited property owners.

The Environmental Permanent Fund is used to account for funds collected from the sale of County-owned lakeshore leased lots. In accordance with 1998 Minn. Laws ch. 389, art. 16, § 31, the principal on these sales must remain in an environmental trust, and the interest may be spent only on improvement of natural resources.

**AITKIN COUNTY
AITKIN, MINNESOTA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2017**

	Forest Development	Special Unorganized Road, Bridge, and Fire
<u>Assets</u>		
Cash and pooled investments	\$ 695,193	\$ 667,118
Taxes receivable		
Delinquent	-	3,271
Special assessments receivable		
Delinquent	-	-
Due from other funds	171,976	6,758
	171,976	6,758
Total Assets	\$ 867,169	\$ 677,147
 <u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>		
Liabilities		
Accounts payable	\$ -	\$ 215
Salaries payable	16,151	-
Due to other funds	-	35,966
	-	35,966
Total Liabilities	\$ 16,151	\$ 36,181
Deferred Inflows of Resources		
Unavailable revenue	\$ -	\$ 3,271
	-	3,271
Fund Balances		
Restricted for		
Unorganized road, bridge, and fire	\$ -	\$ 637,695
Ditch maintenance and repairs	-	-
Environmental uses	-	-
Assigned for		
Forest development	851,018	-
Unassigned	-	-
	-	-
Total Fund Balances	\$ 851,018	\$ 637,695
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 867,169	\$ 677,147

Revenue Funds

<u>Revenue Funds</u>			<u>Permanent Fund</u>	<u>Total Nonmajor</u>
<u>Ditch</u>	<u>Total</u>		<u>Environmental</u>	<u>Governmental</u>
				<u>Funds</u>
\$ 45,049	\$ 1,407,360	\$ 495,481	\$ 1,902,841	
-	3,271	-	3,271	
12,439	12,439	-	12,439	
-	178,734	-	178,734	
<u>\$ 57,488</u>	<u>\$ 1,601,804</u>	<u>\$ 495,481</u>	<u>\$ 2,097,285</u>	
\$ -	\$ 215	\$ -	\$ 215	
-	16,151	-	16,151	
-	35,966	-	35,966	
<u>\$ -</u>	<u>\$ 52,332</u>	<u>\$ -</u>	<u>\$ 52,332</u>	
\$ 12,439	\$ 15,710	\$ -	\$ 15,710	
\$ -	\$ 637,695	\$ -	\$ 637,695	
57,066	57,066	-	57,066	
-	-	495,481	495,481	
-	851,018	-	851,018	
(12,017)	(12,017)	-	(12,017)	
<u>\$ 45,049</u>	<u>\$ 1,533,762</u>	<u>\$ 495,481</u>	<u>\$ 2,029,243</u>	
<u>\$ 57,488</u>	<u>\$ 1,601,804</u>	<u>\$ 495,481</u>	<u>\$ 2,097,285</u>	

**AITKIN COUNTY
AITKIN, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2017**

	<u>Forest Development</u>	<u>Special Unorganized Road, Bridge, and Fire</u>
Revenues		
Taxes	\$ -	\$ 72,551
Special assessments	-	-
Licenses and permits	175	-
Intergovernmental	229,972	64,684
Investment earnings	-	-
Miscellaneous	179,135	6,778
Total Revenues	<u>\$ 409,282</u>	<u>\$ 144,013</u>
Expenditures		
Current		
General government	\$ -	\$ 2,760
Public safety	-	28,802
Highways and streets	-	86,776
Conservation of natural resources	587,647	-
Total Expenditures	<u>\$ 587,647</u>	<u>\$ 118,338</u>
Excess of Revenues Over (Under) Expenditures	<u>\$ (178,365)</u>	<u>\$ 25,675</u>
Other Financing Sources (Uses)		
Transfers in	<u>\$ -</u>	<u>\$ -</u>
Net Change in Fund Balance	<u>\$ (178,365)</u>	<u>\$ 25,675</u>
Fund Balance - January 1	<u>1,029,383</u>	<u>612,020</u>
Fund Balance - December 31	<u>\$ 851,018</u>	<u>\$ 637,695</u>

Revenue Funds

<u>Revenue Funds</u>			<u>Permanent Fund Environmental</u>	<u>Total Nonmajor Governmental Funds</u>
<u>Ditch</u>	<u>Total</u>			
\$ -	\$ 72,551	\$ -	\$ 72,551	
860	860	-	860	
-	175	-	175	
-	294,656	-	294,656	
380	380	14,911	15,291	
-	185,913	-	185,913	
<u>\$ 1,240</u>	<u>\$ 554,535</u>	<u>\$ 14,911</u>	<u>\$ 569,446</u>	
\$ -	\$ 2,760	\$ -	\$ 2,760	
-	28,802	-	28,802	
-	86,776	-	86,776	
<u>12,878</u>	<u>600,525</u>	<u>6,810</u>	<u>607,335</u>	
<u>\$ 12,878</u>	<u>\$ 718,863</u>	<u>\$ 6,810</u>	<u>\$ 725,673</u>	
\$ (11,638)	\$ (164,328)	\$ 8,101	\$ (156,227)	
<u>\$ 12,877</u>	<u>\$ 12,877</u>	<u>\$ -</u>	<u>\$ 12,877</u>	
\$ 1,239	\$ (151,451)	\$ 8,101	\$ (143,350)	
<u>43,810</u>	<u>1,685,213</u>	<u>487,380</u>	<u>2,172,593</u>	
<u>\$ 45,049</u>	<u>\$ 1,533,762</u>	<u>\$ 495,481</u>	<u>\$ 2,029,243</u>	

**AITKIN COUNTY
AITKIN, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
FOREST DEVELOPMENT SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Licenses and permits	\$ 1,000	\$ 1,000	\$ 175	\$ (825)
Intergovernmental	180,000	180,000	229,972	49,972
Miscellaneous	329,975	329,975	179,135	(150,840)
Total Revenues	\$ 510,975	\$ 510,975	\$ 409,282	\$ (101,693)
Expenditures				
Current				
Conservation of natural resources				
Forest resource	\$ 142,765	\$ 142,765	\$ 160,743	\$ (17,978)
Reforestation	220,080	220,080	186,062	34,018
Memorial forest	179,324	179,324	208,723	(29,399)
Forest road	35,512	35,512	32,119	3,393
Total Expenditures	\$ 577,681	\$ 577,681	\$ 587,647	\$ (9,966)
Net Change in Fund Balance	\$ (66,706)	\$ (66,706)	\$ (178,365)	\$ (111,659)
Fund Balance - January 1	1,029,383	1,029,383	1,029,383	-
Fund Balance - December 31	\$ 962,677	\$ 962,677	\$ 851,018	\$ (111,659)

**AITKIN COUNTY
AITKIN, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
UNORGANIZED ROAD, BRIDGE, AND FIRE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 78,075	\$ 78,075	\$ 72,551	\$ (5,524)
Intergovernmental	-	-	64,684	64,684
Miscellaneous	-	-	6,778	6,778
Total Revenues	<u>\$ 78,075</u>	<u>\$ 78,075</u>	<u>\$ 144,013</u>	<u>\$ 65,938</u>
Expenditures				
Current				
General government				
Other general government	\$ 2,700	\$ 2,700	\$ 2,760	\$ (60)
Public safety				
Emergency services	30,875	30,875	28,802	2,073
Highways and streets				
Other highways and streets	44,500	44,500	86,776	(42,276)
Total Expenditures	<u>\$ 78,075</u>	<u>\$ 78,075</u>	<u>\$ 118,338</u>	<u>\$ (40,263)</u>
Net Change in Fund Balance	\$ -	\$ -	\$ 25,675	\$ 25,675
Fund Balance - January 1	<u>612,020</u>	<u>612,020</u>	<u>612,020</u>	<u>-</u>
Fund Balance - December 31	<u>\$ 612,020</u>	<u>\$ 612,020</u>	<u>\$ 637,695</u>	<u>\$ 25,675</u>

**AITKIN COUNTY
AITKIN, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
DITCH SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Special assessments	\$ -	\$ -	\$ 860	\$ 860
Investment earnings	-	-	380	380
Total Revenues	\$ -	\$ -	\$ 1,240	\$ 1,240
Expenditures				
Current				
Conservation of natural resources				
Other	-	-	12,878	(12,878)
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ (11,638)	\$ (11,638)
Other Financing Sources (Uses)				
Transfers in	-	-	12,877	12,877
Net Change in Fund Balance	\$ -	\$ -	\$ 1,239	\$ 1,239
Fund Balance - January 1	43,810	43,810	43,810	-
Fund Balance - December 31	\$ 43,810	\$ 43,810	\$ 45,049	\$ 1,239

**AITKIN COUNTY
AITKIN, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
ENVIRONMENTAL PERMANENT FUND
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Investment earnings	\$ 10,000	\$ 10,000	\$ 14,911	\$ 4,911
Expenditures				
Current				
Conservation of natural resources				
Land use	\$ 10,000	\$ 10,000	\$ 6,810	\$ 3,190
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ 8,101	\$ 8,101
Other Financing Sources (Uses)				
Transfers out	\$ -	\$ -	\$ -	\$ -
Net Change in Fund Balance	\$ -	\$ -	\$ 8,101	\$ 8,101
Fund Balance - January 1	<u>487,380</u>	<u>487,380</u>	<u>487,380</u>	<u>-</u>
Fund Balance - December 31	<u>\$ 487,380</u>	<u>\$ 487,380</u>	<u>\$ 495,481</u>	<u>\$ 8,101</u>

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FIDUCIARY FUNDS

**AITKIN COUNTY
AITKIN, MINNESOTA
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Balance January 1	Additions	Deductions	Balance December 31
<u>AGENCY</u>				
<u>Assets</u>				
Cash and pooled investments	\$ <u>590,915</u>	\$ <u>10,902,266</u>	\$ <u>10,572,507</u>	\$ <u>920,674</u>
<u>Liabilities</u>				
Due to other governments	\$ <u>590,915</u>	\$ <u>10,902,266</u>	\$ <u>10,572,507</u>	\$ <u>920,674</u>
 <u>COLLABORATIVE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ <u>79,371</u>	\$ <u>62,400</u>	\$ <u>55,931</u>	\$ <u>85,840</u>
<u>Liabilities</u>				
Accounts payable	\$ <u>79,371</u>	\$ <u>62,400</u>	\$ <u>55,931</u>	\$ <u>85,840</u>
 <u>STATE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ <u>149,968</u>	\$ <u>3,319,949</u>	\$ <u>3,352,391</u>	\$ <u>117,526</u>
<u>Liabilities</u>				
Due to other governments	\$ <u>149,968</u>	\$ <u>3,319,949</u>	\$ <u>3,352,391</u>	\$ <u>117,526</u>

**AITKIN COUNTY
AITKIN, MINNESOTA
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES (CONTINUED)
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Balance January 1	Additions	Deductions	Balance December 31
<u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ (32,328)	\$ 28,632,134	\$ 28,636,119	\$ (36,313)
Due from other governments	32,328	3,985	-	36,313
Total Assets	\$ -	\$ 28,636,119	\$ 28,636,119	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 28,636,119	\$ 28,636,119	\$ -
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 787,926	\$ 42,916,749	\$ 42,616,948	\$ 1,087,727
Due from other governments	32,328	3,985	-	36,313
Total Assets	\$ 820,254	\$ 42,920,734	\$ 42,616,948	\$ 1,124,040
<u>Liabilities</u>				
Accounts payable	\$ 79,371	\$ 62,400	\$ 55,931	\$ 85,840
Due to other governments	740,883	42,858,334	42,561,017	1,038,200
Total Liabilities	\$ 820,254	\$ 42,920,734	\$ 42,616,948	\$ 1,124,040

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OTHER SCHEDULES

**AITKIN COUNTY
AITKIN, MINNESOTA
SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>Governmental Funds</u>	<u>Enterprise Fund</u>	<u>Total Primary Government</u>
Appropriations and Shared Revenue			
State			
Highway users tax	\$ 5,557,783	\$ -	\$ 5,557,783
PERA rate reimbursement	56,976	-	56,976
Disparity reduction aid	10,541	-	10,541
Police aid	139,955	-	139,955
County program aid	624,126	-	624,126
Market value credit	184,256	-	184,256
Disaster Abatement	2,104	-	2,104
SCORE	68,711	-	68,711
Riparian Aid	30,000	-	30,000
Taconite credit	602,729	-	602,729
Enhanced 911	81,757	-	81,757
Aquatic invasive species	21,598	-	21,598
Total Appropriations and Shared Revenue	\$ 7,380,536	\$ -	\$ 7,380,536
Reimbursement for Services			
State			
Minnesota Department of Human Services	\$ 939,104	\$ -	\$ 939,104
Payments			
Local			
Payments in lieu of taxes	\$ 1,272,228	\$ -	\$ 1,272,228
Grants			
State			
Minnesota Department/Board of			
Corrections	\$ 307,642	\$ -	\$ 307,642
Public Safety	188,595	-	188,595
Trial Courts	79,327	-	79,327
Health	131,528	-	131,528
Natural Resources	907,425	-	907,425
Human Services	687,777	-	687,777
Peace Officers Board	5,087	-	5,087
Veterans Affairs	10,000	-	10,000
Water and Soil Resources	92,732	-	92,732
Total State	\$ 2,410,113	\$ -	\$ 2,410,113

**AITKIN COUNTY
AITKIN, MINNESOTA
SCHEDULE OF INTERGOVERNMENTAL REVENUE (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>Governmental Funds</u>	<u>Enterprise Fund</u>	<u>Total Primary Government</u>
Grants (Continued)			
Federal			
U.S. Department of			
Agriculture	\$ 214,111	\$ 4,696	\$ 218,807
Justice	60,776	-	60,776
Transportation	13,713	-	13,713
Health and Human Services	1,532,466	-	1,532,466
Homeland Security	19,626	-	19,626
	<u>1,840,692</u>	<u>4,696</u>	<u>1,845,388</u>
Total Federal	\$ 1,840,692	\$ 4,696	\$ 1,845,388
Total State and Federal Grants	\$ 4,250,805	\$ 4,696	\$ 4,255,501
Total Intergovernmental Revenue	\$ 13,842,673	\$ 4,696	\$ 13,847,369

**AITKIN COUNTY
AITKIN, MINNESOTA
BALANCE SHEET – BY DITCH
DITCH SPECIAL REVENUE FUND
DECEMBER 31, 2017**

	<u>Assets</u>			<u>Total</u>
	<u>Cash</u>	<u>Special Assessments Receivable</u>	<u>Due from Other Ditches</u>	
County Ditches				
5	\$ -	\$ -	\$ -	\$ -
24	-	369	1,500	1,869
28	-	-	-	-
29	80	-	-	80
30	26,760	1,294	11,861	39,915
34	-	978	-	978
36	2,755	1,208	-	3,963
37	-	8,426	-	8,426
42	-	-	-	-
43	-	-	-	-
63	1,661	-	-	1,661
66	1,279	-	-	1,279
Judicial Ditch				
2	12,514	164	-	12,678
Total	<u>\$ 45,049</u>	<u>\$ 12,439</u>	<u>\$ 13,361</u>	<u>\$ 70,849</u>

<u>Liabilities</u> <u>Due to</u> <u>Other Ditches</u>	<u>Deferred</u> <u>Inflows of</u> <u>Resources</u> <u>Unavailable</u> <u>Revenue</u>	<u>Fund</u> <u>Balances</u> <u>Restricted/</u> <u>(Unassigned)</u>	<u>Total</u> <u>Liabilities,</u> <u>Deferred Inflows</u> <u>of Resources,</u> <u>and Fund</u> <u>Balance</u>
\$ 7,250	\$ -	\$ (7,250)	\$ -
-	369	1,500	1,869
1,287	-	(1,287)	-
-	-	80	80
-	1,294	38,621	39,915
65	978	(65)	978
65	1,208	2,690	3,963
2,173	8,426	(2,173)	8,426
935	-	(935)	-
76	-	(76)	-
-	-	1,661	1,661
1,510	-	(231)	1,279
-	164	12,514	12,678
<u>\$ 13,361</u>	<u>\$ 12,439</u>	<u>\$ 45,049</u>	<u>\$ 70,849</u>

**AITKIN COUNTY
AITKIN, MINNESOTA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

Federal Grantor Pass-Through Agency Program or Cluster Title	Federal CFDA Number	Pass-Through Grant Numbers	Expenditures	Passed Through to Subrecipients
U.S. Department of Agriculture				
Passed Through Minnesota Department of Education Special Milk Program for Children	10.556	1000003368	\$ 4,696	\$ -
Passed Through Aitkin-Itasca-Koochiching Community Health Services Board Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	32573	93,285	-
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	172MN101S2514	<u>153,084</u>	<u>-</u>
Total U.S. Department of Agriculture			<u>\$ 251,065</u>	<u>\$ -</u>
U.S. Department of Justice				
Direct Bulletproof Vest Partnership Program	16.607	N/A	\$ 2,926	\$ -
Passed Through Minnesota Department of Public Safety Crime Victim Assistance	16.575	F-CVS-2017- AITKINAO	<u>69,033</u>	<u>-</u>
Total U.S. Department of Justice			<u>\$ 71,959</u>	<u>\$ -</u>
U.S. Department of Transportation				
Passed Through Minnesota Department of Public Safety State and Community Highway Safety	20.600	Not provided	<u>\$ 13,713</u>	<u>\$ -</u>
U.S. Department of Health and Human Services				
Passed Through Aitkin-Itasca-Koochiching Community Health Services Board Public Health Emergency Preparedness	93.069	65449	\$ 24,522	\$ -
Temporary Assistance for Needy Families (Total Temporary Assistance for Needy Families 93,558 \$190,904)	93.558	12-700-00053	30,865	-
Maternal and Child Health Services Block Grant to the States	93.994	12-700-00053	26,034	-

**AITKIN COUNTY
AITKIN, MINNESOTA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2017**

Federal Grantor Pass-Through Agency Program or Cluster Title	Federal CFDA Number	Pass-Through Grant Numbers	Expenditures		Passed Through to Subrecipients
U.S. Department of Health and Human Services (Continued)					
Passed Through Minnesota Department of Human Services					
Promoting Safe and Stable Families	93.556	G-1601MNFPS	\$	16,286	\$ -
Temporary Assistance for Needy Families	93.558	1601MNTANF	\$ 51,605		
(Total Temporary Assistance for Needy Families 93.558 \$190,904)		1601MFTANF	<u>108,434</u>	160,039	-
Child Support Enforcement	93.563	1704MNCSES	30,524		
		1704MNCES	<u>361,814</u>	392,338	-
Refugee and Entrant Assistance - State Administered Programs	93.566	1701MNRCA		389	-
Child Care and Development Block Grant	93.575	G1701MNCDF		3,204	-
Community-Based Child Abuse Prevention Grants	93.590	G-1502MNFPG		1,116	-
Stephanie Tubbs Jones Child Welfare Services Program	93.645	G-1701MNCWSS		4,793	-
Foster Care - Title IV-E	93.658	1701MNFOST		96,041	-
Social Services Block Grant	93.667	17-01MNSOSR		112,787	-
Chafee Foster Care Independence Program	93.674	G-1701MNCILP		4,696	-
Children's Health Insurance Program	93.767	1705MNS021		149	-
Medical Assistance Program (Medicaid Cluster)	93.778	05-1705MNSADM	730,899		
		05-1705MNSMAP	<u>5,604</u>	<u>736,503</u>	-
Total U.S. Department of Health and Human Services			\$ 1,609,762	\$ -	
U.S. Department of Homeland Security					
Passed Through Minnesota Department of Public Safety					
Emergency Management Performance Grants	97.042	Not provided	\$ 19,626		\$ -
Total U.S. Department of Homeland Security			\$ 19,626	\$ -	
Total Federal Awards			\$ 1,966,125	\$ -	

**AITKIN COUNTY
AITKIN, MINNESOTA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2017**

1. Reporting Entity

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

2. Basis of Presentation

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

3. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the basis of accounting used by the individual funds of Aitkin County. Governmental funds use the modified accrual basis of accounting. Proprietary funds use the full accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Aitkin County has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

4. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 1,845,388
Grants received more than 60 days after year-end, unavailable in 2017	
Special Supplemental Nutrition Program for Women, Infants, and Children	56,783
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	29,972
Crime Victim Assistance	11,183
Public Health Emergency Preparedness	12,358
Promoting Safe and Stable Families	1,030
Temporary Assistance for Needy Families	39,422
Child Support Enforcement	49,346
Stephanie Tubbs Jones Child Welfare Services Program	679
Foster Care - Title IV-E	18,707
Chafee Foster Care Independence Program	1,145
Grants unavailable in 2016, recognized as revenue in 2017	
Special Supplemental Nutrition Program for Women, Infants, and Children	(54,497)
Public Health Emergency Preparedness	(9,510)
Temporary Assistance for Needy Families	(33,702)
Promoting Safe and Stable Families	(448)
Child Care and Development Block Grant	(231)
Community-Based Child Abuse Prevention Grants	(246)
Stephanie Tubbs Jones Child Welfare Services Program	(312)
Chafee Foster Care Independence Program	(942)
Expenditures Per Schedule of Expenditures of Federal Awards	<u>\$ 1,966,125</u>

REPORTS RELATED TO *GOVERNMENT AUDITING STANDARDS* AND SINGLE AUDIT



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**INDEPENDENT AUDITORS' 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
Aitkin County
Aitkin, Minnesota

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, the business-type activities, each major fund, and the aggregate remaining fund information of Aitkin County, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise Aitkin County's basic financial statements, and have issued our report thereon dated September 27, 2018. Our report includes a reference to other auditors who audited the financial statements of the Aitkin Airport Commission (Airport), included in the financial statements of the City of Aitkin, Minnesota, as a discrete component unit, as described in our report on the County's financial statements. The Airport, in which Aitkin County has an equity interest, is a joint venture of Aitkin County and the City of Aitkin County. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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 have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as item 2017-001 and 2017-002 to be material weaknesses. 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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2017-003 to 2017-006 to be significant deficiencies.

Compliance and Other Matters

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

Aitkin County's Responses to Findings

Aitkin County's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Aitkin 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 it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Brainerd, Minnesota
September 27, 2018

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

Board of County Commissioners
Aitkin County
Aitkin, Minnesota

Report on Compliance for Each Major Federal Program

We have audited Aitkin County's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Aitkin County's major federal programs for the year ended December 31, 2017. Aitkin County's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Aitkin County's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Aitkin 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 qualified and unmodified opinions on compliance for major federal programs. However, our audit does not provide a legal determination of Aitkin County's compliance.

Basis for Qualified Opinion on Medical Assistance Program (CFDA No.93.778)

As described in the accompanying schedule of findings and questioned costs, Aitkin County did not comply with requirements regarding CFDA No. 93.788, Medical Assistance Program, as described in finding number 2017-007 for Eligibility. Compliance with such requirements is necessary, in our opinion, for Aitkin County to comply with the requirements applicable to that program.

Board of County Commissioners
Aitkin County

Qualified Opinion on Medical Assistance Program (CFDA No. 93.778)

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, Aitkin County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on Medical Assistance Program for the year ended December 31, 2017.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, Aitkin 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 other major federal programs identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs for the year ended December 31, 2017.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2017-008 and 2017-009. Our opinion on each major federal program is not modified with respect to these matters.

Aitkin County's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Aitkin County's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control Over Compliance

Management of Aitkin 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 Aitkin County's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Aitkin County's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2017-007 to be a material weakness.

Report on Internal Control Over Compliance (Continued)

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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2017-008 and 2017-009 to be significant deficiencies.

Aitkin County's Responses to Findings

Aitkin County's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Aitkin County's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

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



CliftonLarsonAllen LLP

Brainerd, Minnesota
September 27, 2018

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**AITKIN COUNTY
AITKIN, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2017**

SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditor's report issued: *Unmodified*

Internal control over financial reporting:

- Material weakness(es) identified? X yes no
- Significant deficiency(ies) identified? X yes no

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? X yes no
- Significant deficiency(ies) identified? X yes no

Type of auditor's report issued on compliance for major programs: *Unmodified for all major programs, except for the Medical Assistance Program, which is qualified.*

Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance? X yes no

Identification of major programs:

CFDA Numbers

93.563
93.778

Name of Federal Program or Cluster

Child Support
Medical Assistance Program (Medical Cluster)

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? yes X no

**AITKIN COUNTY
AITKIN, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2017**

MATERIAL WEAKNESSES- FINANCIAL REPORTING:

2017-001 AUDIT ADJUSTMENTS

Criteria: County management is responsible for establishing and maintaining internal controls for the proper recording of all the County's accounting transactions, including account coding and reporting of accruals and net position.

Condition and Context: As part of the audit, we proposed material audit adjustments to adjust construction in progress, record the net pension liability and related deferred inflows and outflows of resources, and record unearned revenue, along with a prior period audit adjustment to restate the beginning balance of net position and fund balance.

Possible Effect: The design of the internal controls over recording transactions and year-end accruals limits the ability of the County to provide accurate accrual basis financial information.

Cause: The County has a limited number of personnel.

Repeat Finding: Prior year finding identified as Finding 2015-002.

Recommendation: We recommend County management and financial personnel continue to increase their awareness and knowledge of all procedures and processes involved in recording transactions, accruals, and reclassifications and develop internal control policies to ensure proper recording of these items.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS:

Contact Person: Kirk Peysar, County Auditor

Corrective Action Planned: A corrective action plan is in place.

Anticipated Completion Date: December 31, 2018

**AITKIN COUNTY
AITKIN, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2017**

MATERIAL WEAKNESSES- FINANCIAL REPORTING (CONTINUED):

2017-002 FINANCIAL REPORTING PROCESS

Criteria: County management is responsible for establishing and maintaining internal controls, including monitoring, and for the fair presentation of the financial statements in accordance with applicable accounting and reporting standards.

Condition and Context: As part of the audit, management requested us to prepare a draft of the financial statements, including the related note to the financial statements. The County does not have an internal control policy in place over preparation or review of the annual financial statements that would enable management to prepare the financial statements and related note disclosures in accordance with applicable accounting and reporting standards. Management reviews and accepts responsibility for the financial statements.

Possible Effect: The potential exists that a material misstatement of the annual financial statements could occur and not be prevented or detected by the County's internal controls.

Cause: The County has a limited number of personnel.

Repeat Finding: Not applicable.

Recommendation: We recommend the County continue to evaluate their internal staff capacity to determine if an internal control policy over the preparation of the financial statements and other areas is beneficial.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS:

Contact Person: Kirk Peysar, County Auditor

Corrective Action Planned: A corrective action plan is in place.

Anticipated Completion Date: December 31, 2018

**AITKIN COUNTY
AITKIN, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2017**

SIGNIFICANT DEFICIENCIES - FINANCIAL REPORTING:

2017-003 COMPUTER RISK MANAGEMENT

Criteria: The County's management is responsible for identifying and managing the risks associated with its computer system. Computer risk management suggests that a formal plan be developed to identify the risks associated with the County's information system and document the internal controls implemented to address the identified risks.

Condition and Context: The County has internal controls in place for its computer system. However a formal risk assessment of existing controls over significant functions of the computer system has not been completed.

Possible Effect: Unprotected risks could result in a loss or compromise of data that could negatively influence County operations.

Cause: County management and staff are aware of the various risks associated with the County's computer system. However, a formal plan to identify and manage those risks has not been developed.

Repeat Finding: Prior year finding identified as Finding 2006-008.

Recommendation: We recommend County management document the significant internal controls in its computer system. We further recommend a formal plan be developed that calls for assessing and monitoring significant internal controls on a regular basis, but no less than annually. The assessment of risks should be documented and procedures implemented to address those risks found.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS:

Contact Person: Kirk Peysar, County Auditor

Corrective Action Planned: A corrective action plan is in place.

Anticipated Completion Date: December 31, 2018

**AITKIN COUNTY
AITKIN, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2017**

SIGNIFICANT DEFICIENCIES - FINANCIAL REPORTING (CONTINUED):

2017-004 ACCOUNTING POLICIES AND PROCEDURES MANUAL

Criteria: The County should have identified its significant internal controls and have the controls documented in the County's accounting policies and procedures. The County's management is responsible for assessing and monitoring its internal controls, this also includes the documentation of the risk assessment and monitoring procedures.

Condition and Context: The County has internal controls in place, however the significant controls have not been documented. The risk assessment and monitoring procedures over the significant internal controls has also not been documented. Monitoring of internal controls is necessary to determine if the controls in place are operating effectively.

Possible Effect: As a result of this condition, the County's practices may not be followed as intended by management, and employees may not understand the purpose of internal controls. The lack of risk assessment and monitoring procedures increases the risk of fraud.

Cause: The County adopted the General Operations Policy on January 24, 2017 that includes provisions for accounting policies and procedures. However, it does not include risk assessment and monitoring procedures.

Repeat Finding: Prior year finding identified as Finding 2006-003.

Recommendation: We recommend County Auditor's Office continue to take necessary steps in implementing procedures to document the significant internal controls in its accounting system. We also recommend that a formal plan be developed that calls for assessing and monitoring the significant internal controls on a regular basis, no less than annually.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS:

Contact Person: Kirk Peysar, County Auditor

Corrective Action Planned: A corrective action plan is in place.

Anticipated Completion Date: December 31, 2018

**AITKIN COUNTY
AITKIN, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2017**

SIGNIFICANT DEFICIENCIES - FINANCIAL REPORTING (CONTINUED):

2017-005 SEGREGATION OF DUTIES

Criteria: County management should be aware of the need to have adequate segregation of duties regarding the processing of transactions for the County. In addition, County management should be aware that the concentration of duties and responsibilities in one or a very few individuals is not desirable from an internal control perspective.

Condition and Context: Adequate segregation of the accounting functions necessary to ensure adequate internal accounting control, is not in place for various County departments.

Possible Effect: The design of the internal controls over financial reporting could affect the ability of the County to record, process, summarize and report financial data consistently with the assertions of management in the financial statements. In addition, this lack of segregation of duties may result in the County's inability to prevent/detect misappropriation of County assets.

Cause: The County has a limited number of personnel within several County departments.

Repeat Finding: Prior year finding identified as Finding 1996-005.

Recommendation: We recommend County management be aware of the lack of segregation of duties within the accounting functions and assess whether additional segregation of duties is cost beneficial. If additional segregation is not possible, we recommend County management implement some oversight procedures to ensure the internal control policies and procedures are being implemented by County staff.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS:

Contact Person: Kirk Peysar, County Auditor

Corrective Action Planned: A corrective action plan is in place.

Anticipated Completion Date: December 31, 2018

**AITKIN COUNTY
AITKIN, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2017**

SIGNIFICANT DEFICIENCIES - FINANCIAL REPORTING (CONTINUED):

2017-006 SEGREGATION OF DUTIES- HEALTH AND HUMAN SERVICES VENDOR SETUP

Criteria: A good system of internal control provides for an adequate segregation of duties so that no one individual has the ability to both process disbursements and set up new vendors.

Condition and Context: During our review of the Health and Human Services disbursement process, it was noted that individuals have the ability to both process disbursements and set up new vendors.

Possible Effect: Fictitious vendors could be added to the accounting system, increasing the likelihood of the County processing improper payments.

Cause: The County has a limited number of personnel and it does not have the economic resources needed to hire additional accounting staff in order to adequately segregate duties in every department.

Repeat Finding: Prior year finding identified as Finding 2013-001.

Recommendation: We recommend County re-evaluate whether segregation of duties between disbursements and vendor set up is possible. Formal written procedures should be developed to monitor new vendors entered into the system and should be included in the County's accounting policies and procedures manual.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS:

Contact Person: Kirk Peysar, County Auditor

Corrective Action Planned: A corrective action plan is in place.

Anticipated Completion Date: December 31, 2018

**AITKIN COUNTY
AITKIN, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2017**

MAJOR PROGRAM MATERIAL WEAKNESS OVER INTERNAL CONTROL:

2017-007 ELIGIBILITY

Federal Agency: U.S. Department of Health and Human Services

Federal Program Titles: Medical Assistance Program

CFDA Numbers: 93.778

Pass-Through Agency: Minnesota Department of Human Services

Pass-Through Numbers: 1505MNADM

Award Period: Year-Ended December 31, 2017

Type of Finding: Material Weakness in Internal Control over Compliance

Criteria: County's must establish and maintain effective internal control over the federal award that provides reasonable assurance that the County is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award.

Condition and Context: The Minnesota Department of Human Services (DHS) maintains the computer system, MAXIS, which is used by the County to support the eligibility determination process. The following exceptions were detected in out sample of 60 cases tested:

- Five casefiles had supporting asset documents that did not match MAXIS.
- One casefile had no supporting asset documents but had asset information listed in MAXIS.
- Two casefiles had no proof or documentation that proved the participant was a U.S. citizen but was receiving Medical Assistance.
- One casefile was showing prospective income for a participant in MAXIS but it did not match to the supporting documentation.
- We also noted there is no formal process to perform periodic reviews of the Medical Assistance Program Casefiles.

Possible Effect: Inadequate documentation or the improper input of the information into MAXIS increases the risk that participants will receive benefits when they are not eligible. The lack of a documented review process increases the probability that errors will go undetected.

Cause: County program personnel entering case information into MAXIS did not ensure all required information was input into MAXIS correctly or that all required information was obtained and/or retained. The County does not have a formal process to perform periodic reviews of casefiles.

**AITKIN COUNTY
AITKIN, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2017**

MAJOR PROGRAM MATERIAL WEAKNESS OVER INTERNAL CONTROL (CONTINUED)

2017-007 ELIGIBILITY (CONTINUED)

Repeat Finding: Prior year finding identified as Finding 2011-004.

Questioned Costs: Unable to be determined.

Recommendation: We recommend the County implement procedures to perform regular internal reviews on case files to determine that proper policies and procedures are being followed in determining eligibility.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS:

Contact Person: Cynthia Bennett, Director of Health and Human Services

Corrective Action Planned: A corrective action plan is in place.

Anticipated Completion Date: December 31, 2018

**AITKIN COUNTY
AITKIN, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2017**

MAJOR PROGRAM SIGNIFICANT DEFICIENCIES OVER INTERNAL CONTROL:

2017-008 LACK OF REVIEW OVER QUARTERLY LCTS REPORTS

Federal Agency: U.S. Department of Health and Human Services

Federal Program Titles: Medical Assistance Program

CFDA Numbers: 93.778

Pass-Through Agency: Minnesota Department of Human Services

Pass-Through Numbers: 1505MNADM

Award Period: Year-Ended December 31, 2017

Type of Finding: Significant Deficiency in Internal Control over Compliance

Criteria: The County is required to have a reviewer independent of the preparer of the quarterly LCTS reports review the reports prior to the reports being submitted to DHS. The County is also required to monitor for accuracy of the documentation submitted to the County that makes up the quarterly reports.

Condition and Context: During our testing of the quarterly reports, it was noted the County is does not have an independent person of the preparer reviewing the LCTS quarterly reports submitted to DHS. It was also noted that the County is not requiring the collaborative members to provide supporting documentation to determine accuracy of the reports filed.

Possible Effect: Errors on the LCTS reports could result in the County receiving either more or less federal funding than can be justified based on actual activity. Lack of a review and lack of support increases the risk that reports will not be submitted as required or will be incorrect.

Cause: There are no policies and procedures in place for the County to conduct reviews of the quarterly reports. The County was not aware of the requirement regarding monitoring for accuracy of the documents submitted by the collaborative members.

Repeat Finding: Prior year finding identified as Finding 2016-002.

Recommendation: We recommend the County implement policies and procedures to ensure the LCTS quarterly reports are review accuracy and the documents submitted by the collaborative member be monitored for accuracy. Evidence of reviews should be maintained on file.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS:

Contact Person: Cynthia Bennett, Director of Health and Human Services

Corrective Action Planned: A corrective action plan is in place.

Anticipated Completion Date: December 31, 2018

**AITKIN COUNTY
AITKIN, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2017**

MAJOR PROGRAM SIGNIFICANT DEFICIENCIES OVER INTERNAL CONTROL (CONTINUED):

2017-009 ACCURATE LISTING OF EMPLOYEES FOR RANDOM MOMENT STUDIES

Federal Agency: U.S. Department of Health and Human Services

Federal Program Titles: Medical Assistance Program

CFDA Numbers: 93.778

Pass-Through Agency: Minnesota Department of Human Services

Pass-Through Numbers: 1505MNADM

Award Period: Year-Ended December 31, 2017

Type of Finding: Significant Deficiency in Internal Control over Compliance

Criteria: The County maintains a list of all employees subject to random moment studies, which the State uses as a basis for determining salary reimbursement under federal programs.

Condition and Context: During our testing of the random moment studies listing, it was noted that 1 employee were included on the listing however, they were not included in correct pay code.

Possible Effect: The County could receive an incorrect federal funding allocation on incorrect employee information provided to the state for reimbursement.

Cause: County staff input error of payroll codes.

Repeat Finding: Not applicable

Recommendation: We recommend the County implement procedures to ensure the quarterly listing provided to the state is an accurate listing of employees working on income maintenance programs.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS:

Contact Person: Cynthia Bennett, Director of Health and Human Services

Corrective Action Planned: A corrective action plan is in place.

Anticipated Completion Date: December 31, 2018

**AITKIN COUNTY
AITKIN, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2017**

OTHER ITEMS FOR CONSIDERATION – MINNESOTA LEGAL COMPLIANCE

**2017-010 DITCH SPECIAL REVENUE FUND & CAPITAL PROJECTS SPECIAL REVENUE FUND –
DEFICIT FUND BALANCE**

Criteria: Assets should exceed liabilities in order for the County to meet its obligations and maintain a positive fund balance.

Condition: The County had ditches and capital projects where the liabilities and deferred inflows exceeded assets, resulting in a deficit fund balance account.

Possible Effect: The County is not in compliance with Minnesota State Statutes.

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

Repeat Finding: Prior year finding identified as Finding 1999-003

Recommendation: We recommend the County eliminate the ditch and capital project fund deficits by borrowing from an eligible ditch system or fund with a surplus fund balance.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS:

Contact Person: Kirk Peysar, Auditor

Corrective Action Planned: A corrective action plan is in place.

Anticipated Completion Date: December 31, 2018

**AITKIN COUNTY
AITKIN, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2017**

OTHER ITEMS FOR CONSIDERATION – MINNESOTA LEGAL COMPLIANCE (CONTINUED):

2017-011 PUBLISHING OF CLAIMS

Criteria: Minnesota Statutes §375.12 requires that when the County discloses the official proceedings of board meetings in the newspaper, “all claims exceeding \$2,000 and ... the total number of claims that did not exceed \$2,000” (their total dollar amount) be disclosed.

Condition: The County is not publishing claims with the board minutes in accordance with state statutes.

Possible Effect: The County is not in compliance with Minnesota State Statutes.

Cause: Not known.

Repeat Finding: Not applicable.

Recommendation: We recommend the County publish the claims in the newspaper in accordance with state statutes.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS:

Contact Person: Kirk Peysar, Auditor

Corrective Action Planned: A corrective action plan is in place.

Anticipated Completion Date: December 31, 2018

**AITKIN COUNTY
AITKIN, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2017**

PREVIOUSLY REPORTED ITEMS RESOLVED – SIGNIFICANT DEFICIENCIES – FINANCIAL REPORTING

2016-001 PENSION PLAN ENROLLMENT

The County had two employees not enrolled in the proper pension retirement plan.



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INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE

Board of County Commissioners
Aitkin County

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and the aggregate remaining fund information of Aitkin County (the County,) Minnesota as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 27, 2018.

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

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 Counties*, except as described in the Schedule of Findings and Recommendations as items 2017-010 and 2017-011. 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, insofar as they relate to accounting matters.

The County's written responses to the legal compliance findings identified in our audit are described in the schedule of findings and questioned costs. The County's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

The purpose of this report is solely to describe the scope of our testing of compliance relating to the provisions of the *Minnesota Legal Compliance Audit Guide for Counties* and the results of that testing, and not to provide an opinion on compliance. Accordingly, this report is not suitable for any other purpose.

CliftonLarsonAllen LLP

Brainerd, Minnesota
September 27, 2018