STATE OF MINNESOTA

Office of the State Auditor

Rebecca Otto
State Auditor

POLK COUNTY
CROOKSTON, MINNESOTA

YEAR ENDED DECEMBER 31, 2016

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

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

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POLK COUNTY
CROOKSTON, MINNESOTA

Year Ended December 31, 2016

Audit Practice Division
Office of the State Auditor
State of Minnesota

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POLK COUNTY
CROOKSTON, MINNESOTA

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Introductory Section

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POLK COUNTY
CROOKSTON, MINNESOTA

ORGANIZATION
DECEMBER 31, 2016

		Term Expires
Elected		
Commissioners		
District 1	Craig Buness*	January 2017
District 2	Warren Strandell	January 2019
District 3	Nick Nicholas**	January 2017
District 4	Joan Lee	January 2019
District 5	Don Diedrich	January 2017
Attorney	Gregory A. Widseth	January 2019
County Sheriff	Barbara Erdman	January 2019
Appointed		
County Administrator	Charles S. Whiting	Indefinite
County Engineer	Richard Sanders	April 2019
Finance Director	Ron Denison	Indefinite
Director of Assessment Services	Robert Wagner	December 2016
Director of Property Records	Michelle Cote	Indefinite
Veterans Service Officer	Kurtis Ellefson	November 2020
Environmental Services Administrator	Jon Steiner	Indefinite
Medical Examiner	Mary Ann Sens, M.D.	December 2016
Surveyor	Garrett Borowicz	Indefinite
Welfare Board		
Commissioner	Nick Nicholas	January 2017
Commissioner	Joan Lee	January 2019
Commissioner	Don Diedrich	January 2017
Commissioner	Craig Buness	January 2017
Lay-Board Member	Paula Waters	July 2017
Lay-Board Member	Cathy Gutterud	July 2018

*Chair
**Vice Chair

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Financial Section

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REBECCA OTTO
STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Polk County
Crookston, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Polk County, Minnesota, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, as listed in the table of contents.

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control

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relevant to the County's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Polk County as of December 31, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Polk County's basic financial statements. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2017, on our consideration of Polk County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Polk County's internal control over financial reporting and compliance.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (SEFA) as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) is presented for purposes of additional analysis and is not a required part of the basic financial statements. The SEFA is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the SEFA is fairly stated in all material respects in relation to the basic financial statements as a whole.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 26, 2017

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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POLK COUNTY
CROOKSTON, MINNESOTA

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

INTRODUCTION

Polk County's Management's Discussion and Analysis (MD&A) provides an overview of financial activities for the fiscal year ended December 31, 2016. 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 and the notes to the financial statements.

FINANCIAL HIGHLIGHTS

- Governmental activities' total net position is $139,792,209, of which Polk County has a net investment in capital assets of $130,730,234, and $5,177,554 is restricted to specific purposes/uses.

- Business-type activities' total net position is $6,547,591. Net investment in capital assets represents $5,858,715.

- Polk County's net position (governmental activities and business-type activities) totals $146,339,900 for the year ended December 31, 2016. Net investment in capital assets represents $136,588,949 of the total, $5,177,554 of the total net position is restricted for specific uses, and $4,573,397 is unrestricted.

- The net cost of Polk County's governmental activities for the year ended December 31, 2016, was $24,092,140. General property tax revenues and other revenue sources totaling $25,664,638 funded the total net cost of $24,092,140.

- Polk County's governmental funds' fund balances decreased by $3,013,316. This decrease was the result of a General Fund balance decrease of $3,239,345, a Road and Bridge Special Revenue Fund balance increase of $731,991, a Social Services Special Revenue Fund balance decrease of $768,396, a Public Safety Special Revenue Fund balance increase of $386,450, a Ditch Debt Service Fund balance decrease of $70,260, and a decrease in other governmental funds' fund balances of $53,756.

- The General Fund balance decreased by $3,239,345. The decrease was due primarily to the planned capital project expenditures totaling $2,996,231 in the General Fund buildings department. Bonds had been issued to fund the capital projects, and those bond proceeds were received in November 2015.

- The Road and Bridge Special Revenue Fund balance increased by $731,991 due to an excess of revenues over expenditures of $686,263 and an increase in inventories of $45,728.

- The Social Services Special Revenue Fund balance decreased by $768,396 due to a planned use of fund balance for capital items of $250,000, and State and Federal funding that was less than the projected in the budget.

- The Public Safety Special Revenue Fund balance increased by $386,450 due to excess revenues over expenditures of $386,450. State police aid revenues exceeded budget, and personnel expenditures were under budget.

- The Ditch Debt Service Fund balance decreased by $70,260 due to the excess of debt service expenditures over annual revenues from special assessments.

- The fund balance as of December 31, 2016, for all other governmental funds decreased by $53,756 due to excess of expenditures over revenues.

OVERVIEW OF THE FINANCIAL STATEMENTS

Polk County's MD&A serves as an introduction to the basic financial statements. Polk 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, the Schedule of Funding Progress - Other Postemployment Benefits, and schedules of the County's proportionate share of net pension liability and of the County's contributions for the defined benefit pension plans are required to accompany the basic financial statements and, therefore, are included as required supplementary information. The following chart demonstrates how the different pieces are inter-related.

Management's Discussion and Analysis	
Government-Wide Financial Statements	**Fund Financial Statements**
Notes to the Financial Statements	
Required Supplementary Information (Other than Management's Discussion and Analysis)	

Polk County presents two government-wide financial statements. They are the Statement of Net Position and the Statement of Activities. These two government-wide financial statements provide information about the activities of the County as a whole and present a longer-term view of the County's finances. The fund financial statements follow these two government-wide financial statements. For governmental activities, these statements tell how the County financed these services in the short term as well as what remains for future spending. Fund financial statements also report the operations in more detail than the government-wide statements by providing information about the most significant/major funds. For proprietary activities, these statements provide detailed financial information relating to the waste management operations and facilities.

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

The government-wide financial statements are designed to provide readers with a broad overview of Polk County's finances in a manner similar to a private-sector business.

The Statement of Net Position and the Statement of Activities report information about the County as a whole and about its activities in a way that helps the reader determine whether its financial condition has improved or declined as a result of the current year's activities. These statements include all assets, deferred outflows of resources, liabilities, and deferred inflows of resources using the full accrual basis of accounting, which is similar to the accounting method used by most private-sector companies.

These two statements consider all of Polk County's current year revenues and expenses regardless of when the County receives the revenue or pays the expenditure. The statements also report the County's net position and changes in it.

You can think of net position--the difference between assets and deferred outflows of resources and 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 an indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the property tax base and the general economic conditions of the State and County, to assess the overall health of Polk County.

In the Statement of Net Position and the Statement of Activities, we divide Polk 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 fees to cover the costs of certain services it provides. Included here are the operations of the Landfill and Resource Recovery.

Fund Financial Statements

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

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

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

The County reports three governmental fund types: General, Special Revenue, and Debt Service. Information is presented separately in the Governmental Funds Balance Sheet and in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance for the General Fund, the Road and Bridge Special Revenue Fund, the Social Services Special Revenue Fund, the Public Safety Special Revenue Fund, and the Ditch Debt Service Fund, all of which are considered to be major funds. Data from the other four Special Revenue Funds and the other two Debt Service Funds are combined into a single, aggregated presentation.

Individual fund data for each of these nonmajor funds is provided in combining statements after the notes to the financial statements.

Polk County adopts annual budgets for its governmental funds, except the Ditch Special Revenue Fund, Ditch Debt Service Fund, Rhinehart Project Debt Service Fund, and Union Lake/Lake Sarah Debt Service Fund. Budgetary comparisons have been provided for these funds to demonstrate compliance with their budgets.

Proprietary Funds--Polk County maintains two proprietary funds. The Landfill Enterprise Fund is used to account for all funds to be used for the maintenance of the sanitary landfill. Funding is derived from user fees and intergovernmental revenue from the State of Minnesota. The Resource Recovery Enterprise Fund is used to account for all funds to be used for the maintenance of the solid waste incinerator and up-front separation. Funding is derived from bond issue proceeds, user fees, and intergovernmental revenue from the State of Minnesota. Proprietary funds provide the same type of information as the government-wide financial statements, and are included in the Statement of Net Position and the Statement of Activities as business-type activities. Both of the enterprise funds are considered to be major funds.

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

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found beginning on page 37 of this report.

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

THE COUNTY AS A WHOLE

Polk County's combined net position for the year ended December 31, 2016, was $146,339,900. The analysis focuses on the net position (Table 1) and changes in net position (Table 2) of the County's governmental and business-type activities.

Table 1
Net Position

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
Assets						
Current and other assets	$ 34,747,870	$ 38,362,679	$ 5,253,341	$ 5,390,916	$ 40,001,211	$ 43,753,595
Capital assets	146,985,431	142,969,028	5,858,715	5,815,449	152,844,146	148,784,477
Total Assets	$ 181,733,301	$ 181,331,707	$ 11,112,056	$ 11,206,365	$ 192,845,357	$ 192,538,072
Deferred Outflows of Resources						
Deferred pension outflows	$ 12,542,847	$ 2,260,039	$ 742,115	$ 166,037	$ 13,284,962	$ 2,426,076
Liabilities						
Long-term debt outstanding	$ 49,454,648	$ 41,567,127	$ 4,834,394	$ 4,088,687	$ 54,289,042	$ 45,655,814
Other liabilities	2,247,480	2,469,565	268,600	176,909	2,516,080	2,646,474
Total Liabilities	$ 51,702,128	$ 44,036,692	$ 5,102,994	$ 4,265,596	$ 56,805,122	$ 48,302,288
Deferred Inflows of Resources						
Deferred pension inflows	$ 2,781,811	$ 1,335,343	$ 203,486	$ 110,237	$ 2,985,297	$ 1,445,580
Net Position						
Net investment in capital assets	$ 130,730,234	$ 129,979,141	$ 5,858,715	$ 5,815,449	$ 136,588,949	$ 135,794,590
Restricted	5,177,554	11,870,370	-	-	5,177,554	11,870,370
Unrestricted	3,884,421	(3,629,800)	688,976	1,181,120	4,573,397	(2,448,680)
Total Net Position	$ 139,792,209	$ 138,219,711	$ 6,547,691	$ 6,996,569	$ 146,339,900	$ 145,216,280

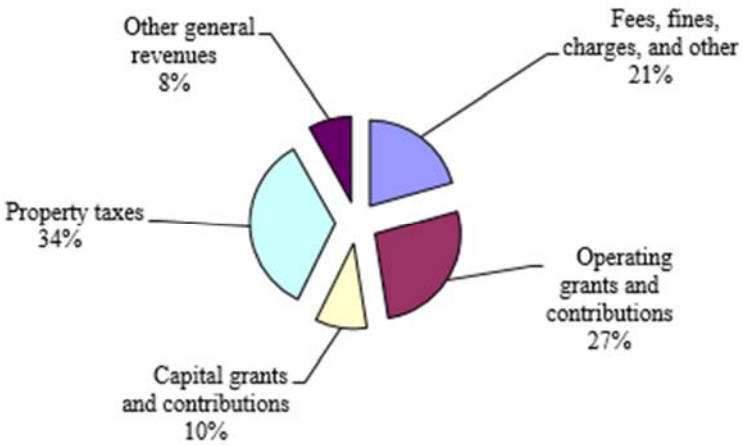
Polk County's total net position for the year ended December 31, 2016, is $146,339,900. Unrestricted net position totaling $4,573,397 is available to finance day-to-day operations. Of the unrestricted net position, $3,884,421 is available for governmental activities, and $688,976 is available for business-type activities. As of December 31, 2015, Polk County's total net position was $145,216,680. The $1,123,620 increase is due primarily to the increase in net investment in capital assets.

Table 2
Changes in Net Position

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
Revenues						
Program revenues						
Fees, fines charges and other	$ 7,027,974	$ 6,582,088	$ 5,376,956	$ 7,237,667	$ 12,404,930	$ 13,819,755
Operating grants and contributions	16,173,010	17,313,091	-	-	16,173,010	17,313,091
Capital grants and contributions	5,860,548	5,684,674	-	-	5,860,548	5,684,674
General revenues						
Property taxes	20,788,617	20,562,897	-	-	20,788,617	20,562,897
Other taxes	2,550,846	2,664,575	-	-	2,550,846	2,664,575
Grants and contributions	2,229,875	2,361,579	12,004	5,165	2,241,879	2,366,744
Other general revenues	95,300	108,018	23,668	7,814	118,968	115,832
Total Revenues	$ 54,726,170	$ 55,276,922	$ 5,412,628	$ 7,250,646	$ 60,138,798	$ 62,527,568
Expenditures						
Program Expenses						
General Government	$ 9,606,004	$ 8,702,839	$ -	$ -	$ 9,606,004	$ 8,702,839
Public Safety	11,296,132	10,269,080	-	-	11,296,132	10,269,080
Highways and Streets	8,619,542	17,120,885	-	-	8,619,542	17,120,885
Sanitation	2,633,676	2,617,271	-	-	2,633,676	2,617,271
Human Services	16,224,791	15,705,596	-	-	16,224,791	15,705,596
Health	2,805,195	2,734,481	-	-	2,805,195	2,734,481
Culture and Recreation	643,697	641,049	-	-	643,697	641,049
Conservation of Natural Resources	846,315	2,453,864	-	-	846,315	2,453,864
Economic Development	8,630	8,100	-	-	8,630	8,100
Interest	469,690	548,060	-	-	469,690	548,060
Resource Recovery	-	-	3,691,597	3,581,867	3,691,597	3,581,867
Landfill	-	-	2,169,909	139,198	2,169,909	139,198
Total Program Expenses	$ 53,153,672	$ 60,801,225	$ 5,861,506	$ 3,721,065	$ 59,015,178	$ 64,522,290
Increase (Decrease) in Net Position	$ 1,572,498	$ (5,524,303)	$ (448,878)	$ 3,529,581	$ 1,123,620	$ (1,994,722)

Polk County's total revenues for the year ended December 31, 2016, were $60,138,798, which is a decrease from the total revenues from 2015 of $2,388,770. The total cost of programs and services for the year ended December 31, 2016, were $59,015,178, which is a decrease over the total cost of programs in 2015 of $5,507,112. In 2016, the net position for governmental activities increased by $1,572,498 and the net position for business-type activities decreased by $448,878, for a total County increase of $1,123,620. The governmental activities expenditures decreased significantly due mostly to less project expenses in highways and streets, while revenues increased slightly in general government fees and charges. In the business-type activities, landfill expenses exceeded revenues from fees and charges, but in 2015 fees and charge had vastly exceeded expenses.

Total County Revenues
(Percent of Total)



Governmental Activities

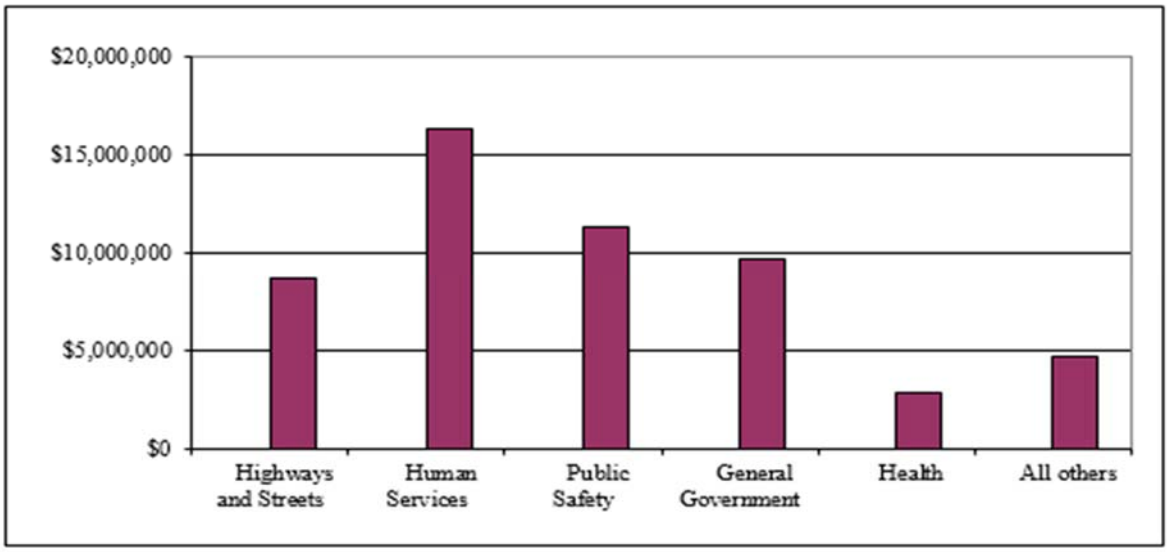
Revenues for Polk County's governmental activities for the year ended December 31, 2016, were $54,726,170. Costs for all governmental activities for the year ended December 31, 2016, were $53,153,672. As shown in the Statement of Activities, the amount that County taxpayers ultimately financed for these governmental activities through local property taxation was $20,788,617, because $7,027,974 of the costs were paid by those who directly benefited from the programs, and $22,033,558 was paid by other governments and organizations that subsidized certain programs with grants and contributions. Polk County paid for the remaining "public benefit" portion of governmental activities with $4,876,021 in general revenues, primarily grants and contributions not restricted to specific programs or services, and with other revenues such as investment income, mortgage registration tax, and deed tax.

Table 3 presents the cost of each of Polk 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 placed on the County's taxpayers by each of these functions.

Table 3
Governmental Activities

	Total Cost of Services 2016	Net Cost of Services 2016
Program Expenses		
Highways and Streets	$ 8,619,542	$ (2,363,339)
Human Services	16,224,791	5,645,027
Public Safety	11,296,132	9,628,145
General Government	9,606,004	7,856,891
Health	2,805,195	951,817
All others	4,602,008	2,373,599
Total Program Expenses	$ 53,153,672	$ 24,092,140

Governmental Activities Expenses
2016



Business-Type Activities

Revenues of Polk County's business-type activities (see Table 2) for the year ended December 31, 2016, were $5,412,628. This compares with total revenues of $7,250,646 for the year ended December 31, 2015. A single unusually large receipt of approximately $2,900,000 in 2015 accounts for more than the 2016 decrease of $1,838,018.

Expenses of business-type activities (see Table 2) for the year ended December 31, 2016, were $5,861,506. This compares with total expenses of $3,721,065 for the year ended December 31, 2015. Expenses increased by $2,140,441. In 2015, the landfill had recognized a negative expense of $1,110,887 because of a change in method of estimation for closure/postclosure/contingency expense. Additionally, the landfill had $597,182 more capital improvement expenses in 2016 than in 2015.

The County's Funds

As Polk County completed the year, its governmental funds, as presented in the balance sheet, reported a combined fund balance of $27,092,920, which is less than last year's total of $30,106,236. The decreased fund balance of $3,013,316 is due primarily to use of fund balance in the General Fund for building capital improvement projects. A capital improvement bond issue of $2,985,000 was sold in 2015 to pay for these improvements. The bond proceeds were received in November of 2015 and expended mostly in 2016.

As you will note, there were changes within individual funds. The overall fund balance change represented a 10.0 percent decrease. Included in this year's total fund balance is the General Fund balance of $12,170,721, a decrease of $3,239,345 from 2015. The General Fund balance is classified as either nonspendable - $305,677, restricted for specific purposes - $319,058, committed for specific purposes - $562,239, assigned to specific uses - $354,142, or unassigned - $10,629,605. An excess of revenues over expenditures and an increase in inventory in the Road and Bridge Fund caused an increase of $731,991. An excess of expenditures over revenues in the Social Services Fund caused a decrease of $768,396. An excess of revenues over expenditures in the Public Safety Fund caused an increase of $386,450. The fund balance in the Ditch Debt Service Fund had a decrease due to expenditures over revenues of $70,260.

General Fund Budgetary Highlights

The Polk County Board of Commissioners, over the course of a budget year, may amend/revise the County's overall operating budget of the General Fund to reflect changes in revenue sources and expenditures that were not anticipated when the budget was established in the prior year. In 2016, the Board of Commissioners did not make any significant budget revisions to the General Fund budget.

If the Board had made significant changes to the budget as originally adopted on Tuesday, December 14, 2015, these budget amendments/revisions would have fallen into one of three categories: new information changing original budget estimations, greater than anticipated revenues or expenditures, or final agreement reached on employee contracts.

In Polk County's General Fund, the actual revenues exceeded the budgeted revenues by $111,001. Total actual expenditures in the General Fund exceeded the budgeted expenditures by $57,383.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2016, Polk County had $152,844,146 invested in a broad range of capital assets, including land, buildings, highways and streets, and equipment (see Table 4). This amount represents a net increase (including additions and deductions) of $4,059,669, or a 2.73 percent increase, from last year.

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
Land	$ 9,294,819	$ 9,217,723	$ 261,118	$ 11,085	$ 9,555,937	$ 9,228,808
Construction in progress	7,342,976	1,088,054	-	-	7,342,976	1,088,054
Land improvements	1,119,703	1,247,419	91,779	102,075	1,211,482	1,349,494
Buildings and improvements	28,505,574	30,101,655	1,665,996	1,744,553	30,171,570	31,846,208
Machinery, furniture, and equipment	3,995,583	4,368,009	3,221,699	3,451,972	7,217,282	7,819,981
Infrastructure	96,726,776	96,946,168	-	-	96,726,776	96,946,168
Landfill	-	-	618,123	505,764	618,123	505,764
Totals	$ 146,985,431	$ 142,969,028	$ 5,858,715	$ 5,815,449	$ 152,844,146	$ 148,784,477

During calendar year 2016, Polk County's governmental activities' capital assets, net of depreciation, increased a total of $4,016,403. Depreciation expenses for the year in the categories of land improvements, buildings and improvements, machinery, furniture, and equipment, and infrastructure exceeded the new additions but construction in progress grew by $6,254,922 due to building projects and land increased by $77,096. Road and Bridge work in the year was mostly repairs and maintenance with limited new construction. More new construction that does reach the capitalization threshold is scheduled for the coming years.

More detailed information about Polk County's capital assets can be found in Note 3.A.3. to the financial statements.

Bonded Debt

As of December 31, 2016, Polk County had $23,828,338 in bonds and notes outstanding, compared with $27,037,176 as of December 31, 2015, a decrease of 11.9 percent--as shown in Table 5.

Table 5
Outstanding Debt at Year-End

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2,015
Bonds payable						
General obligation bonds	$ 23,510,000	$ 26,645,000	$ -	$ -	$ 23,510,000	$ 26,645,000
Plus: Unamortized premium	318,338	392,176	-	-	318,338	392,176
Totals	$ 23,828,338	$ 27,037,176	$ -	$ -	$ 23,828,338	$ 27,037,176

The State limits the amount of net debt that the County can issue to three percent of the market value of all taxable property. Polk County's outstanding net debt is significantly below this $169,628,850 State-imposed limit. The County's financial advisor annually reviews the outstanding debt issues to determine which, if any, issues should be considered for refinancing.

Other obligations include compensated absences, other postemployment benefits liability, and landfill closure and postclosure care costs. The notes to the financial statements (Notes 3.C.2-5) provide detailed information about the County's long-term liabilities.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

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

- The County depends on financial resources flowing from, or associated with, both the Federal Government and the State of Minnesota. Because of this dependency, the County is subject to changes in specific flows of intergovernmental revenues based on modifications to Federal and State laws and Federal and State appropriations. It is also subject to changes in investment earnings and asset values associated with U.S. Treasury Securities because of actions by foreign governments and other holders of publicly held U.S. Treasury Securities.

- The unemployment rate for Polk County was 4.5 percent as of December 2016. This is consistent with the 2015 rate of 4.5 percent, higher than the statewide rate of 4.1 percent and lower than the national average rate of 4.9 percent.

- Polk County's population at December 2016 was 31,647, an increase of 47 since the 2010 census. This ranks Polk County 31st out of the 87 counties in the State of Minnesota.

- Reviewing revenue sources and considering cost-effective and efficient means for the delivery of Polk County programs and services will influence the development of future budgets.

- On December 20, 2016, Polk County set its 2017 revenue and expenditure budgets.

REQUESTS FOR INFORMATION

This annual financial report is designed to provide a general overview of Polk County for all those with an interest in the County's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Chuck Whiting, Polk County Administrator, 612 North Broadway, Room 211, Crookston, Minnesota 56716, or call Ron Denison, Finance Director, at 218-470-8363.

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BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

POLK COUNTY
CROOKSTON, MINNESOTA

EXHIBIT 1

STATEMENT OF NET POSITION
DECEMBER 31, 2016

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and pooled investments	$ 24,034,189	$ 3,029,716	$ 27,063,905
Investments	1,365,713	-	1,365,713
Taxes receivable delinquent	475,194	-	475,194
Special assessments receivable			
Delinquent	267,501	-	267,501
Noncurrent	3,466,972	-	3,466,972
Accounts receivable	293,454	118,431	411,885
Accrued interest receivable	28,937	20,345	49,282
Internal balances	(182,155)	182,155	-
Due from other governments	4,332,067	268,329	4,600,396
Inventories	665,998	-	665,998
Restricted assets			
Permanently restricted			
Cash and pooled investments	-	1,634,365	1,634,365
Capital assets			
Non-depreciable	16,637,795	261,118	16,898,913
Depreciable - net of accumulated depreciation	130,347,636	5,597,597	135,945,233
Total Assets	**$ 181,733,301**	**$ 11,112,056**	**$ 192,845,357**
Deferred Outflows of Resources			
Deferred pension outflows	**$ 12,542,847**	**$ 742,115**	**$ 13,284,962**

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

POLK COUNTY
CROOKSTON, MINNESOTA

EXHIBIT 1
(Continued)

STATEMENT OF NET POSITION
DECEMBER 31, 2016

	Governmental Activities	Business-Type Activities	Total
Liabilities			
Accounts payable	$ 891,207	$ 232,581	$ 1,123,788
Salaries payable	466,703	34,456	501,159
Contracts payable	402,396	-	402,396
Due to other governments	271,409	1,563	272,972
Accrued interest payable	215,765	-	215,765
Long-term liabilities			
Due within one year	3,811,886	80,303	3,892,189
Due in more than one year	21,301,426	2,911,445	24,212,871
Net other postemployment benefits obligation	610,647	45,264	655,911
Net pension liability	23,730,689	1,797,382	25,528,071
Total Liabilities	**$ 51,702,128**	**$ 5,102,994**	**$ 56,805,122**
Deferred Inflows of Resources			
Deferred pension inflows	**$ 2,781,811**	**$ 203,486**	**$ 2,985,297**
Net Position			
Net investment in capital assets	$ 130,730,234	$ 5,858,715	$ 136,588,949
Restricted for			
General government	321,483	-	321,483
Public safety	374,387	-	374,387
Highways and streets	1,183,707	-	1,183,707
Conservation of natural resources	1,410,147	-	1,410,147
Debt service	1,887,830	-	1,887,830
Unrestricted	3,884,421	688,976	4,573,397
Total Net Position	**$ 139,792,209**	**$ 6,547,691**	**$ 146,339,900**

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

POLK COUNTY
CROOKSTON, MINNESOTA

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016

Functions/Programs	Expenses	Fees Charges, Fines, and Other
Primary Government		
Governmental activities		
General government	$ 9,606,004	$ 1,247,643
Public safety	11,296,132	1,503,418
Highways and streets	8,619,542	566,294
Sanitation	2,633,676	946,336
Human services	16,224,791	1,045,745
Health	2,805,195	585,690
Culture and recreation	643,697	129,913
Conservation of natural resources	846,315	1,002,935
Economic development	8,630	-
Interest	469,690	-
Total governmental activities	**$ 53,153,672**	**$ 7,027,974**
Business-type activities		
Resource Recovery	$ 3,691,597	$ 3,740,217
Landfill	2,169,909	1,636,739
Total business-type activities	**$ 5,861,506**	**$ 5,376,956**
Total Primary Government	**$ 59,015,178**	**$ 12,404,930**

General Revenues
Property taxes
Taxes - other
Wheelage tax
Grants and contributions not restricted to specific programs
Payments in lieu of tax
Investment earnings

Total general revenues

Change in net position

Net Position - Beginning

Net Position - Ending

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

Program Revenues		Net (Expense) Revenue and Change in Net Position		
Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
$ 501,470	$ -	$ (7,856,891)	$ -	$ (7,856,891)
164,569	-	(9,628,145)	-	(9,628,145)
4,556,039	5,860,548	2,363,339	-	2,363,339
149,225	-	(1,538,115)	-	(1,538,115)
9,534,019	-	(5,645,027)	-	(5,645,027)
1,267,688	-	(951,817)	-	(951,817)
-	-	(513,784)	-	(513,784)
-	-	156,620	-	156,620
-	-	(8,630)	-	(8,630)
-	-	(469,690)	-	(469,690)
$ 16,173,010	**$ 5,860,548**	**$ (24,092,140)**	**$ -**	**$ (24,092,140)**
$ -	$ -	$ -	$ 48,620	$ 48,620
-	-	-	(533,170)	(533,170)
$ -	**$ -**	**$ -**	**$ (484,550)**	**$ (484,550)**
$ 16,173,010	**$ 5,860,548**	**$ (24,092,140)**	**$ (484,550)**	**$ (24,576,690)**
		$ 20,788,617	$ -	$ 20,788,617
		2,229,233	-	2,229,233
		321,613	-	321,613
		2,229,875	12,004	2,241,879
		2,800	-	2,800
		92,500	23,668	116,168
		$ 25,664,638	**$ 35,672**	**$ 25,700,310**
		$ 1,572,498	**$ (448,878)**	**$ 1,123,620**
		138,219,711	**6,996,569**	**145,216,280**
		$ 139,792,209	**$ 6,547,691**	**$ 146,339,900**

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

POLK COUNTY
CROOKSTON, MINNESOTA

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2016

	General	Road and Bridge
Assets		
Cash and pooled investments	$ 11,506,855	$ 771,716
Petty cash and change funds	3,700	-
Undistributed cash in agency funds	409,803	1,558
Investments	156,026	-
Taxes receivable delinquent	372,560	32,458
Special assessments		
Delinquent	-	-
Noncurrent	-	-
Accounts receivable	35,904	900
Accrued interest receivable	28,069	-
Due from other funds	89,685	25,497
Due from other governments	211,479	1,796,431
Advance to other funds	303,252	-
Inventories	-	665,998
Total Assets	**$ 13,117,333**	**$ 3,294,558**
Liabilities, Deferred Inflows of Resources, and Fund Balances		
Liabilities		
Accounts payable	$ 244,948	$ 128,315
Salaries payable	127,107	48,881
Contracts payable	244,053	158,343
Due to other funds	13,654	213
Due to other governments	9,081	9,176
Advance from other funds	-	-
Total Liabilities	**$ 638,843**	**$ 344,928**
Deferred Inflows of Resources		
Unavailable revenues	**$ 307,769**	**$ 1,039,724**

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

Social Services	Public Safety	Ditch Debt Service	Other Governmental Funds	Total Governmental Funds
$ 3,397,781	$ 3,104,681	$ 786,255	$ 3,962,029	$ 23,529,317
-	250	-	770	4,720
3,108	-	15,202	70,481	500,152
-	93,493	737,072	379,122	1,365,713
64,986	-	-	5,190	475,194
-	-	11,511	255,990	267,501
-	-	3,330,484	136,488	3,466,972
197,859	11,670	-	47,121	293,454
-	-	-	868	28,937
-	-	-	76,482	191,664
1,831,806	31,586	-	460,765	4,332,067
-	-	-	-	303,252
-	-	-	-	665,998
$ 5,495,540	**$ 3,241,680**	**$ 4,880,524**	**$ 5,395,306**	**$ 35,424,941**
$ 318,359	$ 60,828	$ -	$ 138,757	$ 891,207
121,706	119,697	-	49,312	466,703
-	-	-	-	402,396
29,977	16,218	-	313,757	373,819
243,198	1,540	-	8,414	271,409
-	-	7,855	295,397	303,252
$ 713,240	**$ 198,283**	**$ 7,855**	**$ 805,637**	**$ 2,708,786**
$ 377,068	**$ -**	**$ 3,341,614**	**$ 557,060**	**$ 5,623,235**

POLK COUNTY
CROOKSTON, MINNESOTA

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2016

	General	Road and Bridge
Liabilities, Deferred Inflows of Resources, and Fund Balances (Continued)		
Fund Balances		
Nonspendable		
Inventories	$ -	$ 665,998
Advances to other funds	303,252	-
Missing heirs	2,425	-
Restricted		
County state-aid highway system	-	52,522
Debt service	-	-
DARE	-	-
Ditch maintenance and construction	-	-
Dive rescue team	-	-
Drug task force	-	-
DWI forfeitures	-	-
E-911	-	-
Gravel pit restoration	-	210,522
Handgun permits	-	-
Law library	41,139	-
Recorder's compliance	71,356	-
Recorder's technology equipment	206,563	-
Committed		
Insurance	557,756	-
Maple Lake Park reforestation	4,483	-
Assigned		
Forfeited tax sales	354,142	-
Public safety	-	-
Highways and streets	-	980,864
Human services	-	-
Health	-	-
Sanitation	-	-
Culture and recreation	-	-
Unassigned	10,629,605	-
Total Fund Balances	**$ 12,170,721**	**$ 1,909,906**
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	**$ 13,117,333**	**$ 3,294,558**

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

EXHIBIT 3
(Continued)

Social Services	Public Safety	Ditch Debt Service	Other Governmental Funds	Total Governmental Funds
$ -	$ -	$ -	$ -	$ 665,998
-	-	-	-	303,252
-	-	-	-	2,425
-	-	-	-	52,522
-	-	1,538,910	348,920	1,887,830
-	8,271	-	-	8,271
-	-	-	1,410,147	1,410,147
-	1,538	-	-	1,538
-	1,992	-	-	1,992
-	7,565	-	-	7,565
-	182,904	-	-	182,904
-	-	-	-	210,522
-	172,117	-	-	172,117
-	-	-	-	41,139
-	-	-	-	71,356
-	-	-	-	206,563
-	-	-	-	557,756
-	-	-	-	4,483
-	-	-	-	354,142
-	2,669,010	-	-	2,669,010
-	-	-	-	980,864
4,405,232	-	-	-	4,405,232
-	-	-	524,893	524,893
-	-	-	2,073,364	2,073,364
-	-	-	32,735	32,735
-	-	(7,855)	(357,450)	10,264,300
$ 4,405,232	**$ 3,043,397**	**$ 1,531,055**	**$ 4,032,609**	**$ 27,092,920**
$ 5,495,540	**$ 3,241,680**	**$ 4,880,524**	**$ 5,395,306**	**$ 35,424,941**

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POLK COUNTY
CROOKSTON, MINNESOTA

EXHIBIT 4

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

Fund balances - total governmental funds (Exhibit 3)		**$ 27,092,920**
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.		146,985,431
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		5,623,235
Deferred outflows of resources resulting from pension obligations are not available resources and, therefore, are not reported in the governmental funds.		12,542,847
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
General obligation bonds	$ (23,510,000)	
Net other postemployment benefits obligation	(610,647)	
Bond premiums	(318,338)	
Accrued interest payable	(215,765)	
Compensated absences	(1,284,974)	
Net pension liability	(23,730,689)	(49,670,413)
Deferred inflows resulting from pension obligations are not due and payable in the current period and, therefore, are not reported in the governmental funds.		(2,781,811)
Net Position of Governmental Activities (Exhibit 1)		**$ 139,792,209**

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

POLK COUNTY
CROOKSTON, MINNESOTA

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

	General	Road and Bridge
Revenues		
Taxes	$ 5,508,249	$ 2,896,252
Special assessments	-	-
Licenses and permits	7,510	52,305
Intergovernmental	2,337,569	10,213,090
Charges for services	876,047	452,234
Fines and forfeits	12,291	-
Investment earnings	89,423	-
Gifts and contributions	-	-
Miscellaneous	571,605	163,205
Total Revenues	**$ 9,402,694**	**$ 13,777,086**
Expenditures		
Current		
General government	$ 10,546,902	$ -
Public safety	267,407	-
Highways and streets	-	10,641,479
Sanitation	-	-
Human services	-	-
Health	10,000	-
Culture and recreation	331,904	-
Conservation of natural resources	342,918	-
Economic development	8,630	-
Intergovernmental		
Highways and streets	-	1,173,594
Debt service		
Principal	850,000	1,215,000
Interest	284,278	60,750
Total Expenditures	**$ 12,642,039**	**$ 13,090,823**
Net Change in Fund Balance	**$ (3,239,345)**	**$ 686,263**
Fund Balance - January 1	**15,410,066**	**1,177,915**
Increase (decrease) in inventories	**-**	**45,728**
Fund Balance - December 31	**$ 12,170,721**	**$ 1,909,906**

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

Special Revenue Funds				
Social Services	**Public Safety**	**Ditch Debt Service**	**Other Governmental Funds**	**Total**
$ 4,236,829	$ 7,551,132	$ -	$ 1,572,539	$ 21,765,001
-	-	1,000,915	1,755,220	2,756,135
-	-	-	56,285	116,100
9,750,697	438,206	-	1,338,704	24,078,266
690,006	329,975	-	691,052	3,039,314
-	5,691	-	-	17,982
68	278	892	1,839	92,500
18,450	-	-	-	18,450
323,722	1,139,774	182,419	777,247	3,157,972
$ 15,019,772	**$ 9,465,056**	**$ 1,184,226**	**$ 6,192,886**	**$ 55,041,720**
$ -	$ -	$ -	$ 338,255	$ 10,885,157
-	9,078,606	-	-	9,346,013
-	-	-	-	10,641,479
-	-	-	2,581,543	2,581,543
15,788,168	-	-	-	15,788,168
-	-	-	2,641,258	2,651,258
-	-	-	252,495	584,399
-	-	94,587	308,426	745,931
-	-	-	-	8,630
-	-	-	-	1,173,594
-	-	957,272	112,728	3,135,000
-	-	202,627	11,937	559,592
$ 15,788,168	**$ 9,078,606**	**$ 1,254,486**	**$ 6,246,642**	**$ 58,100,764**
$ (768,396)	**$ 386,450**	**$ (70,260)**	**$ (53,756)**	**$ (3,059,044)**
5,173,628	**2,656,947**	**1,601,315**	**4,086,365**	**30,106,236**
-	-	-	**-**	**45,728**
$ 4,405,232	**$ 3,043,397**	**$ 1,531,055**	**$ 4,032,609**	**$ 27,092,920**

POLK COUNTY
CROOKSTON, MINNESOTA

EXHIBIT 6

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

Net change in fund balances - total governmental funds (Exhibit 5)		**$ (3,059,044)**
Amounts reported for governmental activities in the statement of activities are different because:		
In the funds, under the modified accrual basis, receivables not available for expenditure are deferred. In the statement of activities, those revenues are recognized when earned. The adjustment to revenue between the fund statements and the statement of activities is the increase or decrease in revenue deferred as unavailable.		
Deferred inflows of resources - December 31	$ 5,623,235	
Deferred inflows of resources - January 1	(6,018,707)	(395,472)
Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Expenditures for general capital assets and infrastructure	$ 10,474,972	
Current year depreciation	(6,458,569)	4,016,403
Issuing long-term debt provides current financial resources to governmental funds, while the repayment of debt consumes current financial resources. Neither transaction, however, has any effect on net position. Also, governmental funds report the net effect of issuance costs, 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.		
Principal repayments		
General obligation bonds		3,135,000
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		
Change in accrued interest payable	$ 16,064	
Change in compensated absences	(52,562)	
Change in net other postemployment benefits obligation	(89,979)	
Change in net pension liability	(10,953,818)	
Change in deferred outflows of resources	10,282,808	
Change in deferred inflows of resources	(1,446,468)	
Change in unamortized premiums on general obligation bonds	73,838	
Change in inventories	45,728	(2,124,389)
Change in Net Position of Governmental Activities (Exhibit 2)		**$ 1,572,498**

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

PROPRIETARY FUNDS

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POLK COUNTY
CROOKSTON, MINNESOTA

EXHIBIT 7

STATEMENT OF FUND NET POSITION
ENTERPRISE FUNDS
DECEMBER 31, 2016

	Resource Recovery	Landfill	Totals
Assets			
Current assets			
Cash and pooled investments	$ 477,863	$ 2,551,753	$ 3,029,616
Petty cash and change funds	-	100	100
Accounts receivable	100,385	18,046	118,431
Accrued interest receivable	117	20,228	20,345
Due from other funds	242,884	8,819	251,703
Due from other governments	142,956	125,373	268,329
Advance to other funds	-	175,402	175,402
Total current assets	**$ 964,205**	**$ 2,899,721**	**$ 3,863,926**
Restricted assets			
Cash and pooled investments	**$ -**	**$ 1,634,365**	**$ 1,634,365**
Noncurrent assets			
Capital assets			
Nondepreciable	$ 11,085	$ 250,033	$ 261,118
Depreciable - net	4,172,725	1,424,872	5,597,597
Total noncurrent assets	**$ 4,183,810**	**$ 1,674,905**	**$ 5,858,715**
Total Assets	**$ 5,148,015**	**$ 6,208,991**	**$ 11,357,006**
Deferred Outflows of Resources			
Deferred pension outflows	**$ 631,432**	**$ 110,683**	**$ 742,115**

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

POLK COUNTY
CROOKSTON, MINNESOTA

EXHIBIT 7
(Continued)

STATEMENT OF FUND NET POSITION
ENTERPRISE FUNDS
DECEMBER 31, 2016

	Resource Recovery	Landfill	Totals
Liabilities			
Current liabilities			
Accounts payable	$ 128,756	$ 103,825	$ 232,581
Salaries payable	30,183	4,273	34,456
Compensated absences payable	68,251	12,052	80,303
Due to other funds	43,514	26,034	69,548
Due to other governments	296	1,267	1,563
Total current liabilities	**$ 271,000**	**$ 147,451**	**$ 418,451**
Noncurrent liabilities			
Compensated absences payable	$ 189,839	$ 30,021	$ 219,860
Advance from other funds	175,402	-	175,402
Closure costs payable	-	614,529	614,529
Postclosure care costs payable	-	1,568,946	1,568,946
Contingency costs payable	-	508,110	508,110
Net other postemployment benefits obligation	41,720	3,544	45,264
Net pension liability	1,549,541	247,841	1,797,382
Total noncurrent liabilities	**$ 1,956,502**	**$ 2,972,991**	**$ 4,929,493**
Total Liabilities	**$ 2,227,502**	**$ 3,120,442**	**$ 5,347,944**
Deferred Inflows of Resources			
Deferred pension inflows	**$ 174,981**	**$ 28,505**	**$ 203,486**
Net Position			
Investment in capital assets	$ 4,183,810	$ 1,674,905	$ 5,858,715
Unrestricted	(806,846)	1,495,822	688,976
Total Net Position	**$ 3,376,964**	**$ 3,170,727**	**$ 6,547,691**

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

POLK COUNTY
CROOKSTON, MINNESOTA

EXHIBIT 8

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
ENTERPRISE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016

	Resource Recovery	Landfill	Totals
Operating Revenues			
Charges for services	$ 3,247,301	$ 1,633,261	$ 4,880,562
Miscellaneous	492,916	3,478	496,394
Total Operating Revenues	**$ 3,740,217**	**$ 1,636,739**	**$ 5,376,956**
Operating Expenses			
Personnel services	$ 1,730,809	$ 358,978	$ 2,089,787
Other services and charges	242,352	1,419,279	1,661,631
Supplies	310,270	7,196	317,466
Utilities	605,433	10,496	615,929
Repairs and maintenance	120,659	-	120,659
Transportation and disposal	159,142	39,641	198,783
Closure/postclosure/contingency	-	89,133	89,133
Depreciation	522,932	245,186	768,118
Total Operating Expenses	**$ 3,691,597**	**$ 2,169,909**	**$ 5,861,506**
Operating Income (Loss)	**$ 48,620**	**$ (533,170)**	**$ (484,550)**
Nonoperating Revenues (Expenses)			
Intergovernmental	$ 10,547	$ 1,457	$ 12,004
Interest income restricted for sanitation	1,538	22,130	23,668
Total Nonoperating Revenues (Expenses)	**$ 12,085**	**$ 23,587**	**$ 35,672**
Change in Net Position	**$ 60,705**	**$ (509,583)**	**$ (448,878)**
Net Position - January 1	**3,316,259**	**3,680,310**	**6,996,569**
Net Position - December 31	**$ 3,376,964**	**$ 3,170,727**	**$ 6,547,691**

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

POLK COUNTY
CROOKSTON, MINNESOTA

EXHIBIT 9

STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016
Increase (Decrease) in Cash and Cash Equivalents

	Resource Recovery	Landfill	Totals
Cash Flows from Operating Activities			
Receipts from customers and users	$ 3,771,632	$ 1,708,523	$ 5,480,155
Payments to suppliers	(1,568,639)	(1,394,823)	(2,963,462)
Payments to employees	(1,495,713)	(334,493)	(1,830,206)
Net cash provided by (used in) operating activities	**$ 707,280**	**$ (20,793)**	**$ 686,487**
Cash Flows from Noncapital Financing Activities			
Intergovernmental	**$ 10,547**	**$ 1,457**	**$ 12,004**
Cash Flows from Capital and Related Financing Activities			
Purchases of capital assets	**$ (241,441)**	**$ (569,943)**	**$ (811,384)**
Cash Flows from Investing Activities			
Investment earnings received	**$ 1,477**	**$ 9,320**	**$ 10,797**
Net Increase (Decrease) in Cash and Cash Equivalents	**$ 477,863**	**$ (579,959)**	**$ (102,096)**
Cash and Cash Equivalents at January 1	**-**	**4,766,177**	**4,766,177**
Cash and Cash Equivalents at December 31	**$ 477,863**	**$ 4,186,218**	**$ 4,664,081**
Cash and Cash Equivalents - Exhibit 7			
Cash and pooled investments	$ 477,863	$ 2,551,753	$ 3,029,616
Petty cash and change funds	-	100	100
Restricted cash and pooled investments	-	1,634,365	1,634,365
Total Cash and Cash Equivalents	**$ 477,863**	**$ 4,186,218**	**$ 4,664,081**

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

POLK COUNTY
CROOKSTON, MINNESOTA

EXHIBIT 9
(Continued)

STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016
Increase (Decrease) in Cash and Cash Equivalents

	Resource Recovery	Landfill	Totals
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities			
Operating income (loss)	**$ 48,620**	**$ (533,170)**	**$ (484,550)**
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities			
Depreciation expense	$ 522,932	$ 245,186	$ 768,118
(Increase) decrease in accounts receivable	(7,286)	33,159	25,873
(Increase) decrease in due from other governments	15,027	(69,842)	(54,815)
(Increase) decrease in due from other funds	23,674	108,467	132,141
(Increase) decrease in deferred pension outflows	(486,882)	(89,196)	(576,078)
Increase (decrease) in accounts payable	3,223	74,633	77,856
Increase (decrease) in salaries payable	10,937	1,973	12,910
Increase (decrease) in compensated absences - current	9,255	1,093	10,348
Increase (decrease) in due to other funds	(60,972)	6,123	(54,849)
Increase (decrease) in due to other governments	(108)	1,033	925
Increase (decrease) in compensated absences - long-term	29,412	2,433	31,845
Increase (decrease) in net other postemployment benefits obligation	11,887	844	12,731
Increase (decrease) in net pension liability	508,551	93,099	601,650
Increase (decrease) in deferred pension inflows	79,010	14,239	93,249
Increase (decrease) in landfill closure/postclosure care costs	-	89,133	89,133
Total adjustments	**$ 658,660**	**$ 512,377**	**$ 1,171,037**
Net Cash Provided by (Used in) Operating Activities	**$ 707,280**	**$ (20,793)**	**$ 686,487**

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

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FIDUCIARY FUNDS

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POLK COUNTY
CROOKSTON, MINNESOTA

EXHIBIT 10

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
DECEMBER 31, 2016

	Tri-County Community Corrections Investment Trust	Agency Funds
Assets		
Cash and pooled investments	$ 1,692,504	$ 1,757,010
Accounts receivable	-	48,936
Due from other governments	-	314,631
Total Assets	**$ 1,692,504**	**$ 2,120,577**
Liabilities		
Accounts payable	$ -	$ 207,301
Due to other governments	-	1,913,276
Total Liabilities	**$ -**	**$ 2,120,577**
Net Position		
Net position, held in trust for pool participants	**$ 1,692,504**	

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

POLK COUNTY
CROOKSTON, MINNESOTA

EXHIBIT 11

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
TRI-COUNTY COMMUNITY CORRECTIONS INVESTMENT TRUST FIDUCIARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2016

Additions		
Contributions from participants	$	9,723,488
Investment earnings		3,389
Total Additions	**$**	**9,726,877**
Deductions		
Pool participant withdrawals		9,700,141
Change in Net Position	**$**	**26,736**
Net Position - Beginning of the Year		**1,665,768**
Net Position - End of the Year	**$**	**1,692,504**

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

1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as of and for the year ended December 31, 2016. 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

Polk County was established January 20, 1858, and is an organized county having the powers, duties, and privileges granted counties by Minn. Stat. ch. 373. The County is governed by a five-member Board of Commissioners elected from districts within the County. The Board is organized with a chair and vice chair elected at the annual meeting in January of each year. The County Administrator, appointed by the Board, serves as the clerk of the Board of Commissioners but has no vote.

Joint Ventures, Jointly-Governed Organizations, and Related Organizations

The County participates in several joint ventures described in Note 8.B. The County also participates in the jointly-governed organizations and related organizations described in Note 8.C. and 8.D., respectively.

B. Basic Financial Statements

1. Government-Wide Statements

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

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statement (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) net investment in capital assets, (2) restricted net position, and (3) unrestricted net position. The County first utilizes restricted resources to finance qualifying activities.

The statement of activities demonstrates the degree to which the direct expenses of each function of the County's governmental activities and different business-type activities are offset by program revenues. Direct expenses are those 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 as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor funds.

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

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

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.

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. Revenues include property taxes, intergovernmental assistance, and charges for services.

The Social Services Special Revenue Fund is used to account for and report economic assistance and community social services programs. Revenues include property taxes, intergovernmental assistance, and charges for services.

The Public Safety Special Revenue Fund is used to account for and report all funds to be used for public safety. Some of the activities covered under this fund include County Sheriff, community corrections, County Coroner, civil defense, and boat and water safety. Financing is provided by an annual property tax levy and special appropriations from the State of Minnesota assigned to public safety.

The Ditch Debt Service Fund is used to account for the accumulations of resources and the payment of principal and interest of ditch bond issues.

The County reports the following major enterprise funds:

The Resource Recovery Enterprise Fund is used to account for all funds to be used for the maintenance of the solid waste incinerator and up-front separation. Funding is provided from user fees and intergovernmental revenue from the State of Minnesota.

The Landfill Enterprise Fund is used for all funds to be used for the maintenance of the sanitary landfill. Funding is provided from user fees and intergovernmental revenue from the State of Minnesota.

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

Additionally, the County reports the following fund types:

Investment Trust Fund accounts for the non-pooled investments held on behalf of external participants.

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

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary fund, and fiduciary fund financial statements are reported using the economic resources measurement focus and the full accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. 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. Polk County considers all revenues as available if collected within 60 days after the end of the current period. Property and other taxes, 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.

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.

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

2. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2016, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments of governmental and fiduciary funds are credited to the General Fund. Investment earnings on business-type activities are credited to the Landfill Fund and the Resource Recovery Fund. Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2016 were $89,423.

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

3. Receivables and Payables

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

1. Summary of Significant Accounting Policies

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

3. Receivables and Payables (Continued)

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

No allowance for uncollectible receivables has 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.

4. Special Assessments Receivable

Special assessments receivable consist of delinquent special assessments, payable in the years 2010 through 2016, and noncurrent special assessments payable in 2017, and after.

5. Inventories and Prepaid Items

All inventories are valued at cost using the weighted average method. Inventories in governmental funds are recorded as expenditures when purchased rather than when consumed. Inventories in proprietary funds and at the government-wide level are recorded as expenses when consumed. Inventories, as reported in the fund financial statements, are offset by nonspendable fund balance to indicate that they do not constitute available resources.

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

1. Summary of Significant Accounting Policies

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

6. 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.

7. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide and proprietary fund financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of one year. 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 did not have any capitalized interest.

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

Assets	Years
Infrastructure	50 - 75
Buildings and improvements	10 - 50
Land improvements	10 - 30
Machinery and equipment	3 - 15

1. Summary of Significant Accounting Policies

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

7. Capital Assets (Continued)

The County landfill is depreciated based on capacity used.

8. Unearned Revenue

Governmental funds and government-wide financial statements report unearned revenue in connection with resources that have been received, but not yet earned.

9. Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated annual 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 and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds for up to the annual accrual of vacation and vested sick leave if matured, for example, as a result of employee resignations and retirements. The government-wide statement of net position reports both the current and noncurrent portion of compensated absences. The current portion consists of an amount based on the vacation each employee accrues in one year. For the governmental activities, compensated absences are liquidated through the General Fund and other governmental funds that have personal services. For the business-type activities, compensated absences are liquidated by the Resource Recovery Enterprise Fund and the Landfill Enterprise Fund.

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. Bond issuance costs are immediately expensed.

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/expense.

11. 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. For the governmental activities, the pension liability is liquidated through the General Fund and other governmental funds that have personal services. For the business-type activities, the pension liability is liquidated by the Resource Recovery Enterprise Fund and the Landfill Enterprise Fund.

12. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net 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 will not be recognized as an outflow of resources (expenditure/expense) until then. The County has one item, deferred pension outflows that qualifies 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, changes in actuarial assumptions,

1. Summary of Significant Accounting Policies

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

12. Deferred Outflows/Inflows of Resources (Continued)

changes in proportionate share, and also the differences between projected and actual earnings on pension plan investments and, accordingly, are reported only in the statement of net position.

In addition to liabilities, the statement of net 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. Currently, the County has two types of deferred inflows. The governmental funds report unavailable revenue from delinquent taxes receivable, delinquent and noncurrent special assessments receivable and for amounts that are not considered to be available to liquidate liabilities of the current period. Unavailable revenue arises only under the modified accrual basis of accounting and, accordingly, is reported only in the governmental funds balance sheet. The unavailable revenue amount is deferred and recognized as an inflow of resources in the period that the amounts become available. 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.

13. Classification of Net Position

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

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

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

1. Summary of Significant Accounting Policies

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

13. Classification of Net Position (Continued)

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

14. 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, or are legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items not expected to be converted to cash.

Restricted - amounts in which constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Committed - amounts that can be used for the specific purposes imposed by formal action (resolution) of the County Board. Those committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts.

Assigned - amounts the County intends to use 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 not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the County Administrator and/or County Finance Director, as delegated by the County Board.

1. Summary of Significant Accounting Policies

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

14. Classification of Fund Balances (Continued)

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.

The County applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

15. Minimum Fund Balance

Polk County is committed to maintaining a prudent level of financial resources to protect against the need to reduce service levels because of temporary revenue shortfalls or unpredicted expenditures. Polk County has adopted a minimum fund balance policy to address cash flow or working capital needs. The County is heavily reliant on property tax revenues to fund current operations. However, current property tax revenues are not available for distribution until June. Therefore, the County will maintain an unrestricted fund balance level of no less than six months of the General Fund operating expenditures. At December 31, 2016, unrestricted fund balance for the General Fund was at or above the minimum fund balance level.

16. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources; and disclosure of contingent 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.

2. Stewardship, Compliance, and Accountability

Ditch Fund Deficits

Of 178 drainage systems (Special Revenue and Debt Service), 23 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 balances of the County Ditch Special Revenue Fund and the Ditch Debt Service Fund as of December 31, 2016:

	Ditch Special Revenue	Ditch Debt Service
Account balances	$ 1,410,147	$ 1,538,910
Account deficits	(357,450)	(7,855)
Fund Balance	$ 1,052,697	$ 1,531,055

3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments

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

Governmental and Business-type activities totals	
Cash and pooled investments	$ 27,063,905
Investments	1,365,713
Restricted assets	
Cash and pooled investments	1,634,365
Fiduciary assets	
Cash and pooled investments	
Investment Trust Fund	1,692,504
Agency Funds	1,757,010
Total Cash and Investments	$ 33,513,497

3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

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 for Deposits

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

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;

3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments

b. Investments (Continued)

(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.

The County does not have additional policies for the investment risks described below beyond complying with the requirements of Minnesota statutes.

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. The County does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. At December 31, 2016, the County had three Minnesota Association of Governments Investing for Counties (MAGIC) Cash Management Funds with a total fair value of $17,046,626 and a maturity of less than one year.

3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments

b. Investments (Continued)

Credit Risk

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

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities in the possession of an outside party. The County does not have a policy on custodial credit risk. At December 31, 2016, none of the County's investments were exposed to custodial credit risk.

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the County's investment in a single issuer, excluding U.S. guaranteed investments, external investment pools, and mutual funds. At December 31, 2016, the County's investments were in an external investment pool and, therefore, not subject to concentration of credit risk.

3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments

b. Investments (Continued)

The following table presents the County's deposit and investment balances at December 31, 2016, and information relating to potential investment risk:

Investment Type	Concentration of Credit Risk Over 5 Percent of Portfolio	Interest Rate Risk Maturity Date	Carrying (Fair) Value
Investment pool			
MAGIC Fund	N/A	N/A	$ 17,046,626
Negotiable certificates of deposit			1,656,000
Repurchase agreements			10,778,920
Total investments			$ 29,481,546
Deposits			4,027,131
Petty cash and change funds			4,820
Total Cash and Investments			$ 33,513,497

The County measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy, as follows:

- *Level 1:* Quoted prices for identical investments in active markets;
- *Level 2:* Observable inputs other than quoted market prices; and,
- *Level 3:* Unobservable inputs.

3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments

b. Investments (Continued)

At December 31, 2016, the County had the following recurring fair value measurements.

		Fair Value Measurements Using		
	December 31, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level				
Negotiable certificates of deposit	$ 1,656,000	$ -	$ 1,656,000	$ -
Investments measured at the net asset value (NAV)				
MAGIC Portfolio	$ 17,046,626			
Repurchase agreements	10,778,920			
Total investments measured at the NAV	$ 27,825,546			

All Level 2 debt securities are valued using a matrix pricing technique based on the securities' relationship to benchmark quoted prices.

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

3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments

b. Investments (Continued)

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 repurchase agreements through the bank's sweep accounts. These accounts have daily liquidity and funds can be accessed any time.

2. Receivables

Receivables as of December 31, 2016, for the County's governmental activities and business-type activities are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	$ 475,194	$ -
Special assessments	3,734,473	2,857,964
Accounts	293,454	-
Interest	28,937	-
Due from other governments	4,332,067	-
Total Governmental Activities	$ 8,864,125	$ 2,857,964

3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

2. Receivables (Continued)

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Business-Type Activities		
Accounts	$ 118,431	$ -
Interest	20,345	-
Due from other governments	268,329	-
Total Business-Type Activities	$ 407,105	$ -

3. Capital Assets

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

Governmental Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	$ 9,217,723	$ 77,096	$ -	$ 9,294,819
Construction in progress	1,088,054	7,014,763	759,841	7,342,976
Total capital assets not depreciated	$ 10,305,777	$ 7,091,859	$ 759,841	$ 16,637,795
Capital assets depreciated				
Land improvements	$ 2,127,366	$ 14,200	$ -	$ 2,141,566
Buildings and improvements	43,785,824	226,418	1,454,888	42,557,354
Machinery, furniture, and equipment	13,662,171	1,236,592	727,734	14,171,029
Infrastructure	148,069,766	2,671,710	-	150,741,476
Total capital assets depreciated	$ 207,645,127	$ 4,148,920	$ 2,182,622	$ 209,611,425

3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

3. Capital Assets

Governmental Activities (Continued)

	Beginning Balance	Increase	Decrease	Ending Balance
Less: accumulated depreciation for				
Land improvements	$ 879,947	$ 141,916	$ -	$ 1,021,863
Buildings and improvements	13,684,169	1,822,499	1,454,888	14,051,780
Machinery, furniture, and equipment	9,294,162	1,603,052	721,768	10,175,446
Infrastructure	51,123,598	2,891,102	-	54,014,700
Total accumulated depreciation	$ 74,981,876	$ 6,458,569	$ 2,176,656	$ 79,263,789
Total capital assets depreciated, net	$ 132,663,251	$ (2,309,649)	$ 5,966	$ 130,347,636
Governmental Activities Capital Assets, Net	$ 142,969,028	$ 4,782,210	$ 765,807	$ 146,985,431

Business-Type Activities

	Beginning Balance	Reclassifications	Increase	Decrease	Ending Balance
Capital assets not depreciated					
Land	$ 11,085	$ 211,433	$ 38,600	$ -	$ 261,118
Capital assets depreciated					
Buildings and improvements	$ 4,381,424	$ -	$ 35,359	$ -	$ 4,416,783
Landfill	4,523,919	(211,433)	462,396	-	4,774,882
Machinery, furniture, and equipment	12,924,779	-	275,029	-	13,199,808
Improvements other than buildings	318,274	-	-	-	318,274
Total capital assets depreciated	$ 22,148,396	$ (211,433)	$ 772,784	$ -	$ 22,709,747
Less: accumulated depreciation for					
Buildings and improvements	$ 2,636,871	$ -	$ 113,916	$ -	$ 2,750,787
Landfill	4,018,155	-	138,604	-	4,156,759
Machinery, furniture, and equipment	9,472,807	-	505,302	-	9,978,109
Improvements other than buildings	216,199	-	10,296	-	226,495
Total accumulated depreciation	$ 16,344,032	$ -	$ 768,118	$ -	$ 17,112,150
Total capital assets depreciated, net	$ 5,804,364	$ (211,433)	$ 4,666	$ -	$ 5,597,597
Business-Type Activities Capital Assets, Net	$ 5,815,449	$ -	$ 43,266	$ -	$ 5,858,715

3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

3. Capital Assets (Continued)

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

Governmental Activities		
General government	$	1,259,096
Public safety		1,048,106
Highways and streets, including depreciation of infrastructure assets		3,947,865
Health		1,786
Culture and recreation		93,211
Human services		1,747
Conservation of natural resources		93,312
Sanitation		13,446
Total Depreciation Expense - Governmental Activities	$	6,458,569
Business-Type Activities		
Resource recovery	$	522,932
Landfill		245,186
Total Depreciation Expense - Business-Type Activities	$	768,118

4. Deferred Outflows of Resources

Deferred outflows of resources - deferred pension outflows arise only under the full accrual basis of accounting and consist of pension plan contributions paid subsequent to the measurement date, changes in actuarial assumptions, pension plan changes in proportionate share, and also the differences between projected and actual earnings on pension plan investments and, accordingly, are reported only in the statement of net position. Deferred pension outflows for the year ended December 31, 2016, were $13,284,962.

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables and Payables

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

1. Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
General Fund	Road and Bridge Special Revenue Fund	$ 207
	Social Services Special Revenue Fund	29,977
	Environmental Services Special Revenue Fund	59,501
Total due to General Fund		$ 89,685
Road and Bridge Special Revenue Fund	General Fund	$ 13,634
	Public Safety Special Revenue Fund	8,973
	Ditch Special Revenue Fund	1,773
	Environmental Services Special Revenue Fund	780
	Landfill Enterprise Fund	337
Total due to Road and Bridge Special Revenue Fund		$ 25,497
Environmental Services Special Revenue Fund	General Fund	$ 20
	Road and Bridge Special Revenue Fund	6
	Resource Recovery Enterprise Fund	43,514
	Landfill Enterprise Fund	25,697
Total due to Environmental Services Special Revenue Fund		$ 69,237
Public Health Special Revenue Fund	Public Safety Special Revenue Fund	$ 7,245
Resource Recovery Enterprise Fund	Environmental Services Special Revenue Fund	$ 242,884
Landfill Enterprise Fund	Environmental Services Special Revenue Fund	$ 8,819
Total Due To/From Other Funds		$ 443,367

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

3. Detailed Notes on All Funds

B. Interfund Receivables and Payables (Continued)

2. Advances From/To Other Funds

Receivable Fund	Payable Fund	Amount
General Fund	Ditch Debt Service Fund	$ 7,855
	Ditch Special Revenue Fund	295,397
Total General Fund		$ 303,252
Landfill Enterprise Fund	Resource Recovery Enterprise Fund	175,402
Total Advances From/To Other Funds		$ 478,654

The Ditch Debt Service Fund advance and the Ditch Special Revenue Fund advance are to provide working capital to ditch systems with low reserves and operating costs in excess of revenues.

In 2015, the Resource Recovery Fund bought new recycling equipment. They had a lack of funds so the Landfill Enterprise Fund paid for a portion of it until the CAP grant legislation is passed and distributed to the County.

C. Liabilities and Deferred Inflows of Resources

1. Payables

Payables at December 31, 2016, were as follows:

	Governmental Activities	Business-Type Activities
Accounts	$ 891,207	$ 232,581
Salaries	466,703	34,456
Contracts	402,396	-
Due to other governments	271,409	1,563
Interest	215,765	-
Total Payables	$ 2,247,480	$ 268,600

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources (Continued)

2. Construction Commitments

The County has active construction projects as of December 31, 2016. The projects include the following:

	Spent-to-Date	Remaining Commitment
Governmental Activities		
Server Room	$ 255,050	$ 18,950
Justice Center Building	230,990	57,240
Government Center Building	173,714	143,386
Total Construction Commitments	$ 659,754	$ 219,576

3. Long-Term Debt

Governmental Activities

Bond payments are made from the General Fund and three debt service funds. Information on individual bonds payable was as follows:

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rates (%)	Original Issue Amount	Outstanding Balance December 31, 2016
General obligation bonds					
2015A G.O. Refunding Bonds	2020	$120,000 - $1,165,000	3.00	$ 2,855,000	$ $1,690,000
2015B G.O. Watershed Bonds	2036	$110,000 - $300,000	1.00 - 3.40	1,495,000	1,495,000
2015C G.O. Capital Improvement Plan	2026	$315,000 - $360,000	2.00	2,985,000	2,985,000
2014 G.O. Jail Refunding Bonds	2026	$990,000 - $1,165,000	2.00 - 2.25	9,675,000	9,675,000
2013 G.O. State Aid Highway Bonds	2018	$1,215,000	1.0017	6,075,000	2,430,000

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources

3. Long-Term Debt

Governmental Activities (Continued)

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rates (%)	Original Issue Amount	Outstanding Balance December 31, 2016
2012 G.O. Watershed District Bonds	2033	$135,000 - $140,000	2.5303	2,710,000	2,295,000
2012B G.O. Refunding Bonds	2025	$140,000 - $160,000	1.7573	1,805,000	1,335,000
2012C G.O. Refunding Bonds	2018	$105,000 - $280,000	0.07687	1,035,000	215,000
2009 G.O. Drainage Bonds	2030	$45,000 - $50,000	3.98	925,000	640,000
2009B G.O. Lake Improvement District Bonds	2020	$40,000	1.25 - 3.40	400,000	160,000
2008A Refunding Bonds	2020	$30,000 - $60,000	3.4 - 3.9	595,000	130,000
2006 G.O. Watershed District Bonds	2027	$40,000 - $45,000	3.6 - 4.3	865,000	460,000
Total general obligation bonds				$ 31,420,000	$ 23,510,000
Add: unamortized premium					318,338
Total General Obligation Bonds, Net					$ 23,828,338

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources (Continued)

4. Debt Service Requirements

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

Governmental Activities

Year Ending December 31	General Obligation Bonds Principal	General Obligation Bonds Interest
2017	$ 3,355,000	$ 494,130
2018	3,385,000	420,263
2019	1,920,000	364,630
2020	1,935,000	323,105
2021	1,760,000	284,030
2022 - 2026	9,115,000	843,494
2027 - 2031	1,290,000	220,553
2032 - 2036	750,000	50,316
Total	$ 23,510,000	$ 3,000,521

5. Changes in Long-Term Liabilities

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

Governmental Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
General obligation bonds	$ 26,645,000	$ -	$ 3,135,000	$ 23,510,000	$ 3,355,000
Add: unamortized premium	392,176	-	73,838	318,338	-
Total bonds payable	$ 27,037,176	$ -	$ 3,208,838	$ 23,828,338	$ 3,355,000
Compensated absences	1,232,412	1,634,347	1,581,785	1,284,974	456,886
Governmental Activities Long-Term Liabilities	$ 28,269,588	$ 1,634,347	$ 4,790,623	$ 25,113,312	$ 3,811,886

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources

5. Changes in Long-Term Liabilities (Continued)

Business-Type Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Estimated liability for landfill closure/postclosure care costs	$ 2,602,452	$ 89,133	$ -	$ 2,691,585	$ -
Compensated absences	257,970	150,256	108,063	300,163	80,303
Business-Type Activities Long-Term Liabilities	$ 2,860,422	$ 239,389	$ 108,063	$ 2,991,748	$ 80,303

6. Deferred Inflows of Resources

Deferred inflows of resources - unavailable revenue consists of taxes, special assessments, state and/or federal grants and state highway users tax allotments, and other receivables not collected soon enough after year-end to pay liabilities of the current period.

	Taxes	Special Assessments	Grants and Allotments	Other	Total
Major governmental funds					
General	$ 304,848	$ -	$ 2,921	$ -	$ 307,769
Road and Bridge Special Revenue	30,947	-	920,663	88,114	1,039,724
Social Services Special Revenue	62,024	-	235,328	79,716	377,068
Ditch Debt Service	11,130	3,330,484	-	-	3,341,614
Nonmajor governmental funds					
Agassiz Regional Library	4,414	-	-	-	4,414
Ditch Special Revenue	18,288	136,488	-	-	154,776
Environmental Services	21	203,877	-	-	203,898
Public Health	-	-	171,868	18,441	190,309
Rhinehart Project Debt Service	325	-	-	-	325
Union Lake/Lake Sarah Debt Service	3,338	-	-	-	3,338
Total Unavailable Revenue	$ 435,335	$ 3,670,849	$ 1,330,780	$ 186,271	$ 5,623,235

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

1. Plan Description

All full-time and certain part-time employees of Polk 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 and the Public Employees Police and Fire Plan, which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with Minn. Stat. chs. 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

The General Employees Retirement Plan (accounted for in the General Employees Fund) has multiple benefit structures with members belonging to the Coordinated Plan, the Basic Plan, or the Minneapolis Employees Retirement Fund. Coordinated Plan members are covered by Social Security and Basic Plan and Minneapolis Employees Retirement Fund members are not. The Basic Plan was closed to new members in 1967. The Minneapolis Employees Retirement Fund was closed to new members during 1978 and merged into the General Employees Retirement Plan in 2015. All new members must participate in the Coordinated Plan, for which benefits vest after five years of credited service.

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

2. Benefits Provided

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefit provisions are established by state statute and can be modified only by the state legislature. Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Benefit recipients receive a future annual

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

2. Benefits Provided (Continued)

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. Minneapolis Employees Retirement Fund members have an annuity accrual rate of 2.0 percent of average salary for each of the first ten years of service and 2.5 percent for each remaining year. 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 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 members, normal retirement age is 55, and

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

2. Benefits Provided (Continued)

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.

3. Contributions

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the state legislature. General Employees Retirement Plan Basic members, Coordinated Plan members, and Minneapolis Employees Retirement Fund members were required to contribute 9.10 percent, 6.50 percent, and 9.75 percent, respectively, of their annual covered salary in 2016. Public Employees Police and Fire Plan members were required to contribute 10.80 percent of their annual covered salary in 2016.

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

General Employees Retirement Plan	
Basic Plan members	11.78%
Coordinated Plan members	7.50
Minneapolis Employees Retirement Fund members	9.75
Public Employees Police and Fire Plan	16.20

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

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

General Employees Retirement Plan	$ 1,102,765
Public Employees Police and Fire Plan	320,367

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

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans (Continued)

4. Pension Costs

General Employees Retirement Plan

At December 31, 2016, the County reported a liability of $17,862,909 for its proportionate share of the General Employees Retirement Plan's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the County's proportion was 0.2200 percent. It was 0.2262 percent measured as of June 30, 2015. The County recognized pension expense of $2,381,098 for its proportionate share of the General Employees Retirement Plan's pension expense.

The County also recognized $69,571 as revenue, which results in a reduction of the net pension liability, for its proportionate share of the State of Minnesota's contribution to the General Employees Retirement Plan, which qualifies as a special funding situation. Legislation requires the State of Minnesota to contribute $6 million to the General Employees Retirement Plan each year, starting September 15, 2015, through September 15, 2031.

County's proportionate share of the net pension liability	$	17,862,909
State of Minnesota's proportionate share of the net pension liability associated with the County		233,324
Total	$	18,096,233

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

4. Pension Costs

General Employees Retirement Plan (Continued)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ -	$ 1,461,896
Changes in actuarial assumptions	3,497,573	-
Difference between projected and actual investment earnings	3,413,271	-
Changes in proportion	-	567,463
Contributions paid to PERA subsequent to the measurement date	596,867	-
Total	$ 7,507,711	$ 2,029,359

The $596,867 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	Pension Expense Amount
2017	$ 1,291,999
2018	1,291,999
2019	1,652,247
2020	645,240

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

4. Pension Costs (Continued)

Public Employees Police and Fire Plan

At December 31, 2016, the County reported a liability of $7,665,162 for its proportionate share of the Public Employees Police and Fire Plan's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the County's proportion was 0.191 percent. It was 0.198 percent measured as of June 30, 2015. The County recognized pension expense of $1,365,097 for its proportionate share of the Public Employees Police and Fire Plan's pension expense.

The County also recognized $17,190 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:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ -	$ 889,658
Changes in actuarial assumptions	4,218,474	-
Difference between projected and actual investment earnings	1,180,152	-
Changes in proportion	201,608	66,280
Contributions paid to PERA subsequent to the measurement date	177,017	-
Total	$ 5,777,251	$ 955,938

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

4. Pension Costs

Public Employees Police and Fire Plan (Continued)

The $177,017 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	Pension Expense Amount
2017	$ 1,007,852
2018	1,007,852
2019	1,007,852
2020	909,857
2021	710,883

Total Pension Expense

The total pension expense for all plans recognized by the County for the year ended December 31, 2016, was $3,746,195.

5. Actuarial Assumptions

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

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

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants in the General Employees Retirement Plan were based on RP-2014 tables, while mortality rates for Public

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

5. Actuarial Assumptions (Continued)

Employees Police and Fire 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.

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

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

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:

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

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans (Continued)

6. Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent in 2016, a reduction of the 7.90 percent used in 2015. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, the fiduciary net position of the General Employees Retirement Plan was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. In the Public Employees Police and Fire Plan, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members through June 30, 2056. Beginning in fiscal year ended June 30, 2057, when projected benefit payments exceed the Plan's projected fiduciary net position, benefit payments were discounted at the municipal bond rate of 2.85 percent based on an index of 20-year general obligation bonds with an average AA credit rating at the measurement date. An equivalent single discount rate of 5.60 percent for the Public Employees Police and Fire Plan was determined that produced approximately the same present value of the projected benefits when applied to all years of projected benefits as the present value of projected benefits using 7.50 percent applied to all years of projected benefits through the point of asset depletion and 2.85 percent thereafter.

7. Changes in Actuarial Assumptions

The following changes in actuarial assumptions occurred in 2016:

General Employees Retirement Plan

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

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

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

7. Changes in Actuarial Assumptions

General Employees Retirement Plan (Continued)

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

Public Employees Police and Fire Plan

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

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

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

8. Pension Liability Sensitivity

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

	Proportionate Share of the			
	General Employees Retirement Plan		Public Employees Police and Fire Plan	
	Discount Rate	Net Pension Liability	Discount Rate	Net Pension Liability
1% Decrease	6.50%	$ 25,370,624	4.60%	$ 5,160,786
Current	7.50	17,862,909	5.60	7,665,162
1% Increase	8.50	11,678,594	6.60	10,730,210

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans (Continued)

9. Pension Plan Fiduciary Net Position

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

B. Defined Contribution Plan

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

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

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

	Employee	Employer
Contribution amount	$ 8,338	$ 8,338
Percentage of covered payroll	5%	5%

4. Pension Plans and Other Postemployment Benefits (Continued)

C. Other Postemployment Benefits (OPEB)

Plan Description

Polk County provides a single-employer defined benefit health care plan to eligible retirees and their spouses. The plan offers medical insurance benefits. The County provides benefits for retirees as required by Minn. Stat. § 471.61, subd. 2b.

Funding Policy

The contribution requirements of the plan members and the County are established and may be amended by the Polk County Board of Commissioners. The required contribution is based on projected pay-as-you-go financing requirements. Retirees and their spouses contribute to the health care plan at the same rate as County employees.

This results in the retirees receiving an implicit rate subsidy. For 2016, there were approximately 314 participants in the plan, including 4 retirees and surviving spouses.

For the governmental activities, contributions for the implicit rate subsidy are made by the General Fund and other governmental funds that have personal services. For the business-type activities, there were no contributions made for the implicit rate subsidy in 2016.

Annual OPEB Cost and Net OPEB Obligation

The County's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial accrued liabilities (or funding excess) over a period not to exceed 30 years.

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

Annual OPEB Cost and Net OPEB Obligation (Continued)

The following table shows the components of the County's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the County's net OPEB obligation to the plan.

ARC	$ 175,805
Interest on net OPEB obligation	19,362
Adjustment to ARC	(29,565)
Annual OPEB cost (expense)	$ 165,602
Contributions made during the year	(62,892)
Increase in net OPEB obligation	$ 102,710
Net OPEB Obligation - Beginning of Year	553,201
Net OPEB Obligation - End of Year	$ 655,911

Of the $655,911, $610,647 is reported as governmental activities and $45,264 is reported as business-type activities.

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

Fiscal Year Ended	Annual OPEB Cost	Annual Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2014	$ 198,298	$ 87,158	44.0%	$ 462,652
December 31, 2015	197,374	106,825	54.1	553,201
December 31, 2016	165,602	62,892	38.0	655,911

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB) (Continued)

Funded Status and Funding Progress

As of January 1, 2016, the most recent actuarial valuation date, the plan was zero percent funded. The actuarial liability for benefits was $1,404,705, and the actuarial value of assets was zero, resulting in an unfunded actuarial liability (UAAL) of $1,404,705. The covered payroll (annual payroll of active employees covered by the plan) was $15,587,128, and the ratio of the UAAL to the covered payroll was 9.01 percent.

Actuarial Methods and Assumptions

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

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

In the January 1, 2016, actuarial valuation, the Projected Unit Credit Actuarial Cost Method was used. The actuarial assumptions include a 3.5 percent investment rate of return (net of investment expenses), which is Polk County's implicit rate of return on the General Fund. The annual healthcare cost trend is 6.75 percent initially reduced to an ultimate rate of 5.0 percent over 7 years. The UAAL is being amortized over 30 years on a closed basis. The remaining amortization period at December 31, 2016, was 22 years.

5. Landfill Closure and Postclosure Care Costs

State and federal laws and regulations require the County to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the County reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date.

The $2,691,585 landfill closure, postclosure care, and contingency costs payable at December 31, 2016, represent the cumulative amount reported to date based on the use of 87.1 percent of the estimated capacity of the municipal solid waste portion of the landfill and 39.0 percent of the estimated capacity of the ash portion of the landfill. The County will recognize the remaining estimated cost of closure care, postclosure care, and contingency costs of $538,743 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2016. Based on current capacity, the landfill expects to stop accepting municipal solid waste in 2037 and ash in 2085. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

The County is required by state and federal laws and regulations to make annual contributions to a trust to finance closure and postclosure care. The Board is in compliance with these requirements. At December 31, 2016, investments of $1,634,365 are held for these purposes. Accumulated annual contributions and any payments of landfill postclosure care costs are reported in the Landfill Enterprise Fund. These are reported as restricted assets on the statement of net position. Polk County expects that future inflation costs will be paid from investment earnings on these annual contributions. However, if investment earnings are inadequate or additional postclosure care requirements are determined (due to changes in technology or applicable laws and regulations, for example), these costs may need to be covered by charges to future landfill users or from future tax revenue.

6. 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. The County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Intergovernmental Trust (MCIT). The County is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. 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.

6. Risk Management (Continued)

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at $500,000 per claim in 2016 and $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.

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.

7. Conduit Debt

In 2002, the Villa St. Vincent, a Minnesota non-profit corporation, issued Nursing Home and Multi-Family Housing Revenue Bonds, Series 2002A, in an amount not to exceed $4,990,000, and its Taxable Nursing Home and Multi-Family Housing Revenue Bonds, Series 2002B, in an amount not to exceed $110,000, pursuant to the Finance Act to finance the renovations, equipping, and construction of an addition to the existing nursing care facility. The project is deemed to be in the public interest. The note is secured by the property financed through a series of loan agreements and is payable solely from revenues of the entity. The County, state, or any political subdivision thereof is not obligated in any manner for repayment of the note. Accordingly, the note is not reported as a liability in the accompanying financial statements. As of December 31, 2016, the outstanding principal amount payable was $3,055,000.

8. 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.

8. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities (Continued)

The County, in connection with the normal conduct of its affairs, is involved in various judgments, claims, and litigation. The County Attorney identified no potential claims against the County that would materially affect the financial statements.

B. Joint Ventures

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

The Region Three - Northwest Minnesota Security Emergency Management Organization was formed in 2007 under the authority of the Joint Powers Act, pursuant to Minn. Stat. § 471.59 and Minn. Stat. ch. 12. Members include Becker, Beltrami, Clay, Clearwater, Hubbard, Kittson, Lake of the Woods, Mahnomen, Marshall, Norman, Pennington, Polk, Red Lake, and Roseau Counties. The Board was established to provide for regional coordination of planning, training, purchase of equipment, and allocating emergency services and staff in order to better respond to emergencies and natural or other disasters within the region.

Control is vested in the Board, which is composed of 14 representatives appointed by each Board of County Commissioners. Polk County's responsibility does not extend beyond making this appointment.

The HSEM Region 3 Emergency Managers Joint Powers Board has no long-term debt. Financing will be provided by a Homeland Security Grant Program and other grant programs and awards. Member counties do not receive a financial benefit or burden as a result of membership. In 2016, Polk County did not make a contribution to the Board.

Complete financial information can be obtained from:

Clay County Sheriff's Office
915 - 9th Avenue North
Moorhead, Minnesota 56560

8. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

Marshall and Polk Rural Water System

The Marshall and Polk Rural Water System was organized as a municipal water system under Minn. Stat. ch. 116A in 1976, and covers a portion of Marshall and Polk Counties. The system is responsible for storing, treating and distributing water for participating rural water users and cities within the water district.

General obligation debt issued by Marshall and Polk Counties to be retired from special assessments is reported both by Marshall and Polk Counties. The long-term debt at December 31, 2016, is $1,695,000, of which Polk County's share is $1,335,000. Polk County contributed $81,482 in 2016.

The Marshall and Polk Rural Water System is governed by a seven-member Board, four of whom are appointed by Polk County. The County has no responsibility beyond appointing the Board members and guaranteeing the debt of the Water System.

Complete financial information can be obtained from:

Marshall and Polk Rural Water System
401 North Main Street
Warren, Minnesota 56762

Northwest Minnesota Household Hazardous Waste Management Group

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

8. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Northwest Minnesota Household Hazardous Waste Management Group (Continued)

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

Responsibility for budgeted expenditures is shared with the first 50 percent divided equally among the member counties, and the remaining 50 percent divided on a population-ration basis. Polk County contributed $11,223 in 2016.

In the event of dissolution, the net position shall be divided among the member counties in the same proportion as their respective financial responsibilities.

The Waste Management Group has no long-term debt. Financing is provided by appropriations from the member counties when needed so that no additional financial benefit or burden is realized by the members. Clearwater County, in an agent capacity, reports the cash transactions as an agency fund on its financial statements.

Complete financial information can be obtained from:

Waste Management Group
P. O. Box 186
Bagley, Minnesota 56621

Northwest Minnesota Regional Radio Board

The Northwest Minnesota Regional Radio Board's convening meeting was held February 6, 2008, pursuant to the authority conferred upon the member parties by Minn. Stat. §§ 471.59 and 403.39, and includes the City of Moorhead and the Counties of Becker, Beltrami, Clay, Clearwater, Hubbard, Kittson, Lake of the Woods, Mahnomen, Marshall, Norman, Pennington, Polk, Red Lake, and Roseau.

The purpose of the Northwest Minnesota Regional Radio Board is to provide for regional administration of enhancements to the Statewide Public Safety Radio and Communication System (ARMER) owned and operated by the State of Minnesota.

8. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Northwest Minnesota Regional Radio Board (Continued)

Control of the Northwest Minnesota Regional Radio Board is vested in the Northwest Minnesota Regional Radio Board, which is composed of one Commissioner from each county appointed by their respective County Board and one City Council member from the city appointed by the City Council, as provided in the Northwest Minnesota Regional Radio Board's bylaws.

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

The Northwest Minnesota Regional Radio Board has no long-term debt. Financing is provided by appropriations from member parties and by state and federal grants. Members do not experience an additional financial benefit or burden. Polk County did not make a contribution to the Northwest Minnesota Regional Radio Board in 2016.

Complete financial information can be obtained from:

Northwest Minnesota Regional Radio Board
c/o Greater Northwest EMS
2301 Johanneson Avenue N.W., Suite 103
Bemidji, Minnesota 56601

Northwest Minnesota Six County Joint Powers Board

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

8. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Northwest Minnesota Six County Joint Powers Board (Continued)

The Northwest Minnesota Six County Joint Powers Board is composed of one representative appointed by each county board from the six counties. Each county also has one alternate appointed to the Board, and the Board may choose to have non-voting advisory members on the Boards. Polk County's responsibility does not extend beyond making this appointment. In the event of dissolutions, the net assets shall be distributed to the respective member counties in proportion to the contribution of each.

Financing is provided by grants from the State of Minnesota or contributions and no member realizes an additional financial benefit or burden. In 2016, Polk County did not make a contribution to the Board.

Complete financial information can be obtained from:

Red Lake Watershed District
P. O. Box 803
Thief River Falls, Minnesota 56701

Northwest Service Cooperative

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

The NWSC is governed by a Board of Directors consisting of school board members elected at large by their peers, one city representative, with a maximum of three at-large appointees and three ex-officio superintendents. Adequate rates are charged so that member counties do not experience an additional financial benefit or burden. Polk County made no contribution to the Cooperative in 2016.

8. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Northwest Service Cooperative (Continued)

Complete financial information can be obtained from:

Northwest Service Cooperative
114 First Street West
Thief River Falls, Minnesota 56701

Northwestern Counties Data Processing Security Association

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

Control of the NCDPSA is vested in the NCDPSA Joint Powers Board, which is composed of one County Commissioner from each member county. In the event of dissolution, the net position of the NCDPSA at that time shall be distributed to the respective member counties in proportion to their contributions. In 2016, Polk County did not make a contribution to the Association.

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

Complete financial information can be obtained from:

Clearwater County Auditor
213 North Main Avenue
Bagley, Minnesota 56621

8. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

Polk County Collaborative

The Polk County Collaborative was formed in 2001 and operates under the authority of Minnesota Statute, §124D.23, subd. 1(a), and includes Polk County, Tri-County Community Corrections, and other community representation, including school districts and local service providers. The purpose of the Collaborative is to build communities in Polk County where children thrive by coordinating the integrated, seamless, effective, and efficient delivery of a range of social and human services to children and families.

Control of the Polk County Collaborative is vested in the Collaborative governing board, which is comprised of elected officials representing mental health, community action, Polk County, corrections, and a small school district and a larger school district.

Financing is provided by state and local grants and appropriations from the participating agencies. Adequate rates are charged so that members do not experience an additional benefit or burden. Polk County acts as fiscal agent for the Polk County Collaborative and reports the cash transactions of the Collaborative as an agency fund in its financial statements. During 2016, Polk County did not make a contribution to the Collaborative.

Complete financial information can be obtained from:

Polk County Social Services
612 North Broadway
Crookston, Minnesota 56716

Tri-County Community Corrections

Tri-County Community Corrections was formed in 1975 under the authority of the Joint Powers Acts, pursuant to Minnesota Statute, § 471.59, and includes Norman, Polk and Red Lake Counties. The purpose of Tri-County Community Corrections is to house, supervise, treat, counsel, and provide other correctional services to prisoners throughout the territorial area of the member counties.

Control of Tri-County Community Corrections is vested in the Tri-County Community Joint Powers Board, which is composed of two County Commissioners from each member county, as provided in the Tri-County Community Corrections' bylaws.

8. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Tri-County Community Corrections (Continued)

In the event of dissolution of the Tri-County Community Corrections Joint Powers Board, the net position of Tri-County Community Corrections at that time shall be divided among the member counties in the agreed-upon proportions of Norman County (10 percent), Polk County (85 percent), and Red Lake County (5 percent).

Tri-County Community Corrections has no long-term debt. Financing is provided by state, federal, and local grants; charges for services; appropriations from member counties; and adequate rates charged so that no member County receives an additional financial benefit or burden.

Receipts and disbursements are recorded in the Tri-County Community Corrections' operating fund by the Polk County Auditor-Treasurer. Polk County's participation for 2016 was $5,040,331.

Separate financial information can be obtained from:

Tri-County Community Corrections
600 Bruce Street
Crookston, Minnesota 56716

C. Jointly-Governed Organizations

Polk County, in conjunction with other governmental entities and various private organizations, has formed the jointly-governed organizations listed below:

Job Training Partnership Act Joint Powers Agreement

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

8. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations

Job Training Partnership Act Joint Powers Agreement (Continued)

In the event of dissolution of the Joint Powers Agreement, the net position of the Joint Powers Agreement at that time shall be disposed of in accordance with law. Financing is provided primarily from federal grants provided through the Job Training Partnership Act of 1982.

Separate financial information can be obtained from:

Northwest Regional Development Commission
115 South Main
Warren, Minnesota 56762

Lake Agassiz Regional Library

The Lake Agassiz Regional Library was formed pursuant to Minn. Stat. §§ 134.20 and 471.59, effective January 1, 1961, and includes Becker, Clay, Clearwater, Mahnomen, Norman, Polk, and Wilkin Counties. Control of the Library is vested in the Agassiz Regional Library Board, with 23 members with staggered terms made up of the following: one member appointed by each Board of County Commissioners who may be a member of the Board of Commissioners; one member appointed by each participating city; and one additional member appointed by each county and city for each 6,000 of population or major percentage (85 percent) thereof. In 2016, Polk County provided $252,495 in the form of an appropriation.

Middle River-Snake River-Tamarac Watershed District

The Middle River-Snake River-Tamarac Watershed District was formed pursuant to Minnesota Statute, § 103D.201, effective August 28, 1970, and included land within Kittson, Marshall, Pennington, Polk, and Roseau Counties. Control of the district is vested in the Middle River-Snake River-Tamarac Watershed District Board of Managers, which is composed of seven members having staggered terms of three years each, with one appointed by the Polk County Board and six appointed by the Marshall County Board. Polk County's responsibility does not extend beyond making the appointments.

8. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations (Continued)

Minnesota Rural Counties Caucus

The Minnesota Rural Counties Caucus was established in 1997 and includes Aitkin, Beltrami, Clay, Clearwater, Cook, Douglas, Grant, Itasca, Kittson, Koochiching, Lake of the Woods, Mahnomen, Marshall, McLeod, Mille Lacs, Norman, Otter Tail, Pennington, Polk, Pope, Red Lake, Roseau, Stevens, Todd, Traverse, and Wadena Counties. Control of the Caucus is vested in the Minnesota Rural Counties Caucus Executive Committee, which is composed of ten directors, each with an alternate, who are appointed annually by each respective County Board. Polk County's responsibility does not extend beyond making this appointment.

During 2016, Polk County did not make a contribution to this organization.

Northwest Minnesota Multi-County Housing and Redevelopment Authority

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

Northwest Workforce Service Area

The Northwest Workforce Service Area was formed in July 2000 under the authority of the Workforce Investment Act of 1998 (Public Law 105-220) and includes Kittson, Marshall, Norman, Pennington, Polk, Red Lake, and Roseau Counties. The purpose of the Service Area is to increase a participant's employment, retention, earnings, and occupational skill attainment and results in improved workforce quality, reduced welfare dependency, and enhanced productivity and competitiveness.

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

8. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations

Northwest Workforce Service Area (Continued)

The Northwest Workforce Service Area has no long-term debt. Financing is provided by state and local grants.

Complete financial information can be obtained from:

Northwest Regional Development Commission
115 South Main
Warren, Minnesota 56762

Red Lake River Corridor

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

The Red Lake River Corridor Joint Powers Board is composed of one member from each participating entity. Each participant may also have an alternate who, in the absence of the appointed member, may attend meetings and have all the duties and rights of the member. In the event of dissolution, the net position shall be distributed to the respective members in proportion to the contribution of each. Financing is provided by contributions from members. The County did not contribute to the Board in 2016.

Complete financial information can be obtained from:

Pembina Trail RC&D
2605 Wheat Drive
Red Lake Falls, Minnesota 56750

8. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations (Continued)

Wild Rice Watershed District

The Wild Rice Watershed District was established in 1969, pursuant to Minn. Stat. ch. 103D, and includes Becker, Clay, Clearwater, Mahnomen, Norman, and Polk Counties. The purpose of the Watershed District is to oversee watershed projects, conduct studies for future project planning, administration of legal drainage systems, issuance of applications and permits, public education on conservation issues, and dispute resolution.

Control of the Watershed District is vested in the Board of Managers, which is composed of seven members appointed by the County Commissioners of Becker, Clay, Mahnomen, and Norman Counties. Becker County appoints one member, Clay County appoints one member, Mahnomen County appoints two members, and Norman County appoints three members.

Complete financial information can be obtained from:

Wild Rice Watershed District Office
11 East 5th Avenue
Ada, Minnesota 56510

Minnesota Red River Basin of the North Joint Powers Agreement

The Minnesota Red River Basin of the North Joint Powers Board was established November 29, 1999, by an agreement between Polk County and 17 other counties. The agreement was made to serve as a focal point for land and water concerns for those counties surrounding the Minnesota Red River Basin. Each county is responsible for its proportionate share of the administrative budget.

Control is vested in a Joint Powers Board comprised of one Commissioner from each member county. Each member of the Board is appointed by the County Commissioners of the county he or she represents.

In the event of termination of the agreement, any unexpended funds and surplus property shall be disposed of equally among the member counties. During 2016, the County did not make a contribution to the Joint Powers Board.

8. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations

Minnesota Red River Basin of the North Joint Powers Agreement (Continued)

Complete financial statements can be obtained from:

The International Coalition for Land-Water
Stewardship in the Red River Basin
119 - 5th Street South
Moorhead, Minnesota 56560

Polk-Norman-Mahnomen-Community Health Board

The Polk-Norman-Mahnomen Community Health Board was established in 2012 under the authority of Minn. Stat. ch. 145A and Minn. Stat. § 471.59. The Community Health Board includes the Polk County Board of Health and the Norman-Mahnomen Board of Health. The purpose of the Community Health Board is to engage in activities designed to protect and promote the health of the general population within a community health service area by emphasizing the prevention of disease, injury, disability, and preventable death through the promotion of effective coordination and use of community resources, and by extending health services into the community.

Control of the Community Health Board is vested in a seven-member board with Polk, Norman, and Mahnomen Counties each appointing one member and the Polk County Board of Health and the Norman-Mahnomen Board of Health each appointing two members.

In the event of withdrawal from the Community Health Board, the withdrawing party shall give one-year notice. Should the Community Health Board cease to exist, all property, real and personal, held by the Community Health Board at the time of termination shall be distributed to each joint participant in proportion to its relative financial contributions.

Financing is provided by state and federal grants. Polk County is the fiscal agent for the Community Health Board. During 2016, Polk County did not contribute to the Community Health Board.

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

D. Related Organizations

Sand Hill River Watershed District

The Sand Hill River Watershed District was formed pursuant to Minn. Stat. § 103D.201, effective August 29, 1974, and includes land within Mahnomen, Norman, and Polk Counties. The purpose of the District is to conserve the natural resources of the state by land-use planning, flood control, the use of sound scientific principles for the protection of the public health and welfare, and the provident uses of natural resources. Control of the District is vested in the Sand Hill River Watershed District board of Managers that is composed of five members appointed by the Polk County Board of Commissioners for staggered terms of three years each. Polk County's responsibility does not extend beyond making the appointments.

Red Lake Watershed District

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

E. Subsequent Event

On August 1, 2017, the Board of County Commissioners authorized the issuance of $7,140,000 General Obligation Solid Waste Bonds.

REQUIRED SUPPLEMENTARY INFORMATION

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POLK COUNTY
CROOKSTON, MINNESOTA

EXHIBIT A-1

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

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 6,214,288	$ 6,214,288	$ 5,508,249	$ (706,039)
Licenses and permits	5,000	5,000	7,510	2,510
Intergovernmental	1,549,191	1,549,191	2,337,569	788,378
Charges for services	816,437	816,437	876,047	59,610
Fines and forfeits	5,500	5,500	12,291	6,791
Investment earnings	50,000	50,000	89,423	39,423
Miscellaneous	651,277	651,277	571,605	(79,672)
Total Revenues	**$ 9,291,693**	**$ 9,291,693**	**$ 9,402,694**	**$ 111,001**
Expenditures				
Current				
General government				
Commissioners	$ 293,577	$ 293,577	$ 268,911	$ 24,666
Courts services	126,000	126,000	223,130	(97,130)
Law library	-	-	38,192	(38,192)
County administration	284,483	284,483	298,812	(14,329)
Taxpayer service center	849,466	849,466	797,574	51,892
Motor vehicle	119,768	119,768	114,772	4,996
County assessor	522,085	522,085	465,487	56,598
Elections	137,303	137,303	146,771	(9,468)
Finance	386,770	386,770	397,648	(10,878)
Accounting and auditing	60,000	60,000	133,382	(73,382)
Data processing	742,305	742,305	655,907	86,398
Central services	295,250	295,250	413,357	(118,107)
Personnel	282,148	282,148	378,118	(95,970)
Attorney	1,026,851	1,026,851	916,181	110,670
Recorder	149,888	149,888	135,587	14,301
Surveyor	177,479	177,479	200,448	(22,969)
Buildings and grounds	4,613,753	4,613,753	4,212,373	401,380
Veterans service officer	150,599	150,599	153,896	(3,297)
Insurance	46,400	46,400	7,234	39,166
Other general government	392,568	392,568	589,122	(196,554)
Total general government	**$ 10,656,693**	**$ 10,656,693**	**$ 10,546,902**	**$ 109,791**

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

POLK COUNTY
CROOKSTON, MINNESOTA

EXHIBIT A-1
(Continued)

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

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Expenditures				
Current (Continued)				
Public safety				
Ambulance	$ 58,775	$ 58,775	$ 58,775	$ -
Coroner	77,840	77,840	72,446	5,394
Victim assistance	131,893	131,893	136,186	(4,293)
Total public safety	**$ 268,508**	**$ 268,508**	**$ 267,407**	**$ 1,101**
Health				
Occupational Development Center	$ 7,500	$ 7,500	$ 7,500	$ -
Committee on Aging	2,500	2,500	2,500	-
Total health	**$ 10,000**	**$ 10,000**	**$ 10,000**	**$ -**
Culture and recreation				
Historical society	$ 15,000	$ 15,000	$ 15,000	$ -
County fairs	20,000	20,000	20,000	-
Heritage Center	10,000	10,000	10,000	-
Parks	124,247	124,247	187,828	(63,581)
Celebrations	640	640	640	-
Snowmobile and ski trails	-	-	98,436	(98,436)
Total culture and recreation	**$ 169,887**	**$ 169,887**	**$ 331,904**	**$ (162,017)**
Conservation of natural resources				
Agricultural inspection	$ 40,107	$ 40,107	$ 1,063	$ 39,044
Cooperative extension	164,743	164,743	153,664	11,079
Soil and water conservation	110,330	110,330	155,712	(45,382)
Forfeited tax sale	-	-	30,079	(30,079)
Other conservation of natural resources	2,400	2,400	2,400	-
Total conservation of natural resources	**$ 317,580**	**$ 317,580**	**$ 342,918**	**$ (25,338)**
Economic development				
Red River Valley Development Assn. Association	$ 1,600	$ 1,600	$ 1,600	$ -
Tri-Valley Opportunity Council	6,750	6,750	6,750	-
Riverland Association	280	280	280	-
Total economic development	**$ 8,630**	**$ 8,630**	**$ 8,630**	**$ -**

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

POLK COUNTY
CROOKSTON, MINNESOTA

EXHIBIT A-1
(Continued)

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

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Expenditures (Continued)				
Debt service				
Principal	$ 850,000	$ 850,000	$ 850,000	$ -
Interest	303,358	303,358	284,278	19,080
Total debt service	**$ 1,153,358**	**$ 1,153,358**	**$ 1,134,278**	**$ 19,080**
Total Expenditures	**$ 12,584,656**	**$ 12,584,656**	**$ 12,642,039**	**$ (57,383)**
Excess of Revenues Over (Under) Expenditures	**$ (3,292,963)**	**$ (3,292,963)**	**$ (3,239,345)**	**$ 53,618**
Other Financing Sources (Uses)				
Transfers in	$ 7,500	$ 7,500	$ -	$ (7,500)
Transfers out	(7,500)	(7,500)	-	7,500
Bonds issued	2,996,231	2,996,231	-	(2,996,231)
Total Other Financing Sources (Uses)	**$ 2,996,231**	**$ 2,996,231**	**$ -**	**$ (2,996,231)**
Net Change in Fund Balance	**$ (296,732)**	**$ (296,732)**	**$ (3,239,345)**	**$ (2,942,613)**
Fund Balance - January 1	**15,410,066**	**15,410,066**	**15,410,066**	**-**
Fund Balance - December 31	**$ 15,113,334**	**$ 15,113,334**	**$ 12,170,721**	**$ (2,942,613)**

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

POLK COUNTY
CROOKSTON, MINNESOTA

EXHIBIT A-2

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

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 3,164,318	$ 3,164,318	$ 2,896,252	$ (268,066)
Licenses and permits	40,000	40,000	52,305	12,305
Intergovernmental	9,082,000	9,082,000	10,213,090	1,131,090
Charges for services	250,000	250,000	452,234	202,234
Miscellaneous	80,000	80,000	163,205	83,205
Total Revenues	**$ 12,616,318**	**$ 12,616,318**	**$ 13,777,086**	**$ 1,160,768**
Expenditures				
Current				
Highways and streets				
Administration	$ 337,064	$ 337,064	$ 638,268	$ (301,204)
Maintenance	3,735,831	3,735,831	3,616,086	119,745
Construction	4,658,350	4,658,350	5,100,691	(442,341)
Equipment maintenance and shop	1,415,053	1,415,053	1,181,952	233,101
Other highways and streets	35,100	35,100	104,482	(69,382)
Total highways and streets	**$ 10,181,398**	**$ 10,181,398**	**$ 10,641,479**	**$ (460,081)**
Intergovernmental				
Highways and streets	**$ 1,146,000**	**$ 1,146,000**	**$ 1,173,594**	**$ (27,594)**
Debt service				
Principal retirement	$ 1,215,000	$ 1,215,000	$ 1,215,000	$ -
Interest	73,920	73,920	60,750	13,170
Total debt service	**$ 1,288,920**	**$ 1,288,920**	**$ 1,275,750**	**$ 13,170**
Total Expenditures	**$ 12,616,318**	**$ 12,616,318**	**$ 13,090,823**	**$ (474,505)**
Net Change in Fund Balance	**$ -**	**$ -**	**$ 686,263**	**$ 686,263**
Fund Balance - January 1	**1,177,915**	**1,177,915**	**1,177,915**	**-**
Increase (decrease) for inventories	**-**	**-**	**45,728**	**45,728**
Fund Balance - December 31	**$ 1,177,915**	**$ 1,177,915**	**$ 1,909,906**	**$ 731,991**

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

POLK COUNTY
CROOKSTON, MINNESOTA

EXHIBIT A-3

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

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 4,211,908	$ 4,211,908	$ 4,236,829	$ 24,921
Intergovernmental	10,275,623	10,275,623	9,750,697	(524,926)
Charges for services	922,300	922,300	690,006	(232,294)
Gifts and contributions	18,000	18,000	18,450	450
Investment earnings	-	-	68	68
Miscellaneous	393,120	393,120	323,722	(69,398)
Total Revenues	**$ 15,820,951**	**$ 15,820,951**	**$ 15,019,772**	**$ (801,179)**
Expenditures				
Current				
Human services				
Income maintenance	$ 4,374,874	$ 4,374,874	$ 4,203,181	$ 171,693
Social services	11,696,077	11,696,077	11,584,987	111,090
Total Expenditures	**$ 16,070,951**	**$ 16,070,951**	**$ 15,788,168**	**$ 282,783**
Net Change in Fund Balance	**$ (250,000)**	**$ (250,000)**	**$ (768,396)**	**$ (518,396)**
Fund Balance - January 1	**5,173,628**	**5,173,628**	**5,173,628**	**-**
Fund Balance - December 31	**$ 4,923,628**	**$ 4,923,628**	**$ 4,405,232**	**$ (518,396)**

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

POLK COUNTY
CROOKSTON, MINNESOTA

EXHIBIT A-4

BUDGETARY COMPARISON SCHEDULE
PUBLIC SAFETY SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2016

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 7,551,132	$ 7,551,132	$ 7,551,132	$ -
Intergovernmental	331,441	331,441	438,206	106,765
Charges for services	243,458	243,458	329,975	86,517
Fines and forfeitures	1,800	1,800	5,691	3,891
Investment earnings	-	-	278	278
Miscellaneous	1,092,822	1,092,822	1,139,774	46,952
Total Revenues	**$ 9,220,653**	**$ 9,220,653**	**$ 9,465,056**	**$ 244,403**
Expenditures				
Current				
Public safety				
Sheriff	$ 4,113,235	$ 4,113,235	$ 3,859,250	$ 253,985
Sheriff contingent	20,000	20,000	18,728	1,272
Narcotics task force	91,674	91,674	72,671	19,003
Body armor	-	-	6,904	(6,904)
Safe and sober	5,883	5,883	6,957	(1,074)
DWI assessments	1,800	1,800	6,175	(4,375)
Boat and water safety	23,410	23,410	23,034	376
Snowmobile safety	-	-	4,332	(4,332)
Emergency services	93,508	93,508	94,793	(1,285)
Municipal police contract	173,458	173,458	170,340	3,118
Enhanced 911 system	109,000	109,000	102,753	6,247
Community corrections	4,712,669	4,712,669	4,712,669	-
DARE	500	500	-	500
Total Expenditures	**$ 9,345,137**	**$ 9,345,137**	**$ 9,078,606**	**$ 266,531**
Net Change in Fund Balance	**$ (124,484)**	**$ (124,484)**	**$ 386,450**	**$ 510,934**
Fund Balance - January 1	**2,656,947**	**2,656,947**	**2,656,947**	**-**
Fund Balance - December 31	**$ 2,532,463**	**$ 2,532,463**	**$ 3,043,397**	**$ 510,934**

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

POLK COUNTY
CROOKSTON, MINNESOTA

EXHIBIT A-5

SCHEDULE OF FUNDING PROGRESS-OTHER POSTEMPLOYMENT BENEFITS
FOR THE YEAR ENDED DECEMBER 31, 2016

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
January 1, 2012	$ -	$ 1,184,754	$ 1,184,754	0.00%	$ 12,155,673	9.75%
January 1, 2014	-	1,702,154	1,702,154	0.00	14,124,242	12.05
January 1, 2016	-	1,404,705	1,404,705	0.00	15,587,128	9.01

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

POLK COUNTY
CROOKSTON, MINNESOTA

EXHIBIT A-6

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

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	State's Proportionate Share of the Net Pension Liability Associated with Polk County (b)	Employer's Proportionate Share of the Net Pension Liability and the State's Related Share of the Net Pension Liability (Asset) (a + b)	Covered Payroll (c)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2016	0.2200%	$ 17,862,909	$ 233,324	$ 18,096,233	$ 13,652,766	130.84%	68.91%
2015	0.2262	11,722,858	N/A	11,722,858	13,291,603	88.20	78.19

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

POLK COUNTY
CROOKSTON, MINNESOTA

EXHIBIT A-7

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

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b - a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
2016	$ 1,102,765	$ 1,102,765	$ -	$ 14,703,539	7.50%
2015	1,029,642	1,029,642	-	13,728,560	7.50

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

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

POLK COUNTY
CROOKSTON, MINNESOTA

EXHIBIT A-8

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

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	Covered Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2016	0.191%	$ 7,665,162	$ 1,893,219	404.87%	63.88%
2015	0.198	2,249,743	1,807,508	124.47	86.61

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

POLK COUNTY
CROOKSTON, MINNESOTA

EXHIBIT A-9

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

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b - a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
2016	$ 320,367	$ 320,367	$ -	$ 1,977,572	16.20%
2015	305,142	305,142	-	1,883,593	16.20

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

POLK COUNTY
CROOKSTON, MINNESOTA

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

1. Budgetary Information

A. Budget Policy

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds, except the Ditch Special Revenue Fund, Ditch Debt Service Fund, Rhinehart Project Debt Service Fund, and Union Lake/Lake Sarah Debt Service Fund. All annual appropriations lapse at fiscal year-end.

On or before the last Tuesday in August of each year, all departments and agencies submit requests for appropriations to the County Auditor so that a budget can be prepared. Before October 31, the proposed budget is presented to the County Board for review. The Board holds public hearings, and a final budget must be prepared and adopted no later than December 31.

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

B. Excess of Expenditures Over Budget

The following major funds had expenditures in excess of budget for the year ended December, 31, 2016;

	Expenditures	Final Budget	Excess
General Fund	$ 12,642,039	$ 12,584,656	$ 57,383
Road and Bridge	13,090,823	12,616,318	474,505

2. Other Postemployment Benefits Funded Status

Polk County implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for the fiscal year ended December 31, 2008. See Note 4.C. to the financial statements for more information.

2. Other Postemployment Benefits Funded Status (Continued)

GASB Statement 45 requires a Schedule of Funding Progress - Other Postemployment Benefits for the three most recent valuations and accompanying notes to describe factors that significantly affect the trends in the amounts reported.

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

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

General Employees Retirement Plan

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

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

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

Public Employees Police and Fire Plan

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

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

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

SUPPLEMENTARY INFORMATION

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POLK COUNTY
CROOKSTON, MINNESOTA

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

Agassiz Regional Library - to account for the County's share of the operating costs of the Lake Agassiz Regional Library. Financing is provided by an annual property tax levy assigned to the library.

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

Environmental Services - to account for all funds to be used for environmental services. Activities covered under this fund include solid waste planning, recycling, household hazardous waste, transfer station, and hazard mitigation. Financing is provided by an annual property tax levy, special assessments, intergovernmental revenue, and charges for services.

Public Health - to account for the provision of health care to the elderly and other residents of the County. Financing is provided by health service grants and user service charges.

DEBT SERVICE FUNDS

Rhinehart Project - to account for the retirement of bonds issued for the Rhinehart road project.

Union Lake/Lake Sarah - to account for the retirement of bonds issued for the Union Lake/Lake Sarah project.

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POLK COUNTY
CROOKSTON, MINNESOTA

EXHIBIT B-1

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2016

	Special Revenue (Exhibit B-3)	Debt Service (Exhibit B-5)	Total (Exhibit 3)
Assets			
Cash and pooled investments	$ 3,798,267	$ 163,762	$ 3,962,029
Petty cash and change funds	770	-	770
Undistributed cash in agency funds	65,870	4,611	70,481
Investments	200,000	179,122	379,122
Taxes receivable delinquent	5,190	-	5,190
Special assessments receivable			
Delinquent	250,902	5,088	255,990
Noncurrent	136,488	-	136,488
Accounts receivable	47,121	-	47,121
Accrued interest receivable	868	-	868
Due from other funds	76,482	-	76,482
Due from other governments	460,765	-	460,765
Total Assets	**$ 5,042,723**	**$ 352,583**	**$ 5,395,306**
Liabilities, Deferred Inflows of Resources, and Fund Balances			
Liabilities			
Accounts payable	$ 138,757	$ -	$ 138,757
Salaries payable	49,312	-	49,312
Due to other funds	313,757	-	313,757
Due to other governments	8,414	-	8,414
Advance from other funds	295,397	-	295,397
Total Liabilities	**$ 805,637**	**$ -**	**$ 805,637**
Deferred Inflows of Resources			
Unavailable revenues	**$ 553,397**	**$ 3,663**	**$ 557,060**
Fund Balances			
Restricted			
Debt service	$ -	$ 348,920	$ 348,920
Ditch maintenance and construction	1,410,147	-	1,410,147
Assigned			
Public health	524,893	-	524,893
Sanitation	2,073,364	-	2,073,364
Culture and recreation	32,735	-	32,735
Unassigned	(357,450)	-	(357,450)
Total Fund Balances	**$ 3,683,689**	**$ 348,920**	**$ 4,032,609**
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	**$ 5,042,723**	**$ 352,583**	**$ 5,395,306**

POLK COUNTY
CROOKSTON, MINNESOTA

EXHIBIT B-2

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

	Special Revenue (Exhibit B-4)	Debt Service (Exhibit B-6)	Total (Exhibit 5)
Revenues			
Taxes	$ 1,464,425	$ 108,114	$ 1,572,539
Special assessments	1,755,220	-	1,755,220
Licenses and permits	56,285	-	56,285
Intergovernmental	1,338,704	-	1,338,704
Charges for services	691,052	-	691,052
Investment earnings	1,697	142	1,839
Miscellaneous	777,247	-	777,247
Total Revenues	**$ 6,084,630**	**$ 108,256**	**$ 6,192,886**
Expenditures			
Current			
General government	$ 338,255	$ -	$ 338,255
Sanitation	2,581,543	-	2,581,543
Health	2,641,258	-	2,641,258
Culture and recreation	252,495	-	252,495
Conservation of natural resources	308,426	-	308,426
Debt service			
Principal	-	112,728	112,728
Interest	-	11,937	11,937
Total Expenditures	**$ 6,121,977**	**$ 124,665**	**$ 6,246,642**
Net Change in Fund Balance	**$ (37,347)**	**$ (16,409)**	**$ (53,756)**
Fund Balance - January 1	**3,721,036**	**365,329**	**4,086,365**
Fund Balance - December 31	**$ 3,683,689**	**$ 348,920**	**$ 4,032,609**

POLK COUNTY
CROOKSTON, MINNESOTA

EXHIBIT B-3

COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
DECEMBER 31, 2016

	Agassiz Regional Library	Ditch	Environmental Services	Public Health	Total
Assets					
Cash and pooled investments	$ 27,254	$ 1,209,233	$ 2,290,318	$ 271,462	$ 3,798,267
Petty cash and change funds	-	-	620	150	770
Undistributed cash in agency funds	4,726	4,449	56,695	-	65,870
Investments	-	200,000	-	-	200,000
Taxes receivable delinquent	5,169	-	21	-	5,190
Special assessments receivable					
Delinquent	-	18,429	232,473	-	250,902
Noncurrent	-	136,488	-	-	136,488
Accounts receivable	-	-	8,076	39,045	47,121
Accrued interest receivable	-	868	-	-	868
Due from other funds	-	-	69,237	7,245	76,482
Due from other governments	-	-	1,796	458,969	460,765
Total Assets	**$ 37,149**	**$ 1,569,467**	**$ 2,659,236**	**$ 776,871**	**$ 5,042,723**
Liabilities, Deferred Inflows of Resources, and Fund Balances					
Liabilities					
Accounts payable	$ -	$ 64,824	$ 51,085	$ 22,848	$ 138,757
Salaries payable	-	-	10,491	38,821	49,312
Due to other funds	-	1,773	311,984	-	313,757
Due to other governments	-	-	8,414	-	8,414
Advance from other funds	-	295,397	-	-	295,397
Total Liabilities	**$ -**	**$ 361,994**	**$ 381,974**	**$ 61,669**	**$ 805,637**
Deferred Inflows of Resources					
Unavailable revenues	**$ 4,414**	**$ 154,776**	**$ 203,898**	**$ 190,309**	**$ 553,397**
Fund Balances					
Restricted					
Ditch maintenance and construction	$ -	$ 1,410,147	$ -	$ -	$ 1,410,147
Assigned					
Public health	-	-	-	524,893	524,893
Sanitation	-	-	2,073,364	-	2,073,364
Culture and recreation	32,735	-	-	-	32,735
Unassigned	-	(357,450)	-	-	(357,450)
Total Fund Balances	**$ 32,735**	**$ 1,052,697**	**$ 2,073,364**	**$ 524,893**	**$ 3,683,689**
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	**$ 37,149**	**$ 1,569,467**	**$ 2,659,236**	**$ 776,871**	**$ 5,042,723**

POLK COUNTY
CROOKSTON, MINNESOTA

EXHIBIT B-4

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

	Agassiz Regional Library	Ditch	Environmental Services	Public Health	Total
Revenues					
Taxes	$ 228,891	$ -	$ 373,434	$ 862,100	$ 1,464,425
Special assessments	-	141,981	1,613,239	-	1,755,220
Licenses and permits	-	-	56,285	-	56,285
Intergovernmental	4,489	-	176,819	1,157,396	1,338,704
Charges for services	-	45,773	187,912	457,367	691,052
Investment earnings	-	1,697	-	-	1,697
Miscellaneous	-	-	752,924	24,323	777,247
Total Revenues	**$ 233,380**	**$ 189,451**	**$ 3,160,613**	**$ 2,501,186**	**$ 6,084,630**
Expenditures					
Current					
General government	$ -	$ -	$ 338,255	$ -	$ 338,255
Sanitation	-	-	2,581,543	-	2,581,543
Health	-	-	-	2,641,258	2,641,258
Culture and recreation	252,495	-	-	-	252,495
Conservation of natural resources	-	215,192	93,234	-	308,426
Total Expenditures	**$ 252,495**	**$ 215,192**	**$ 3,013,032**	**$ 2,641,258**	**$ 6,121,977**
Net Change in Fund Balance	**$ (19,115)**	**$ (25,741)**	**$ 147,581**	**$ (140,072)**	**$ (37,347)**
Fund Balance - January 1	**51,850**	**1,078,438**	**1,925,783**	**664,965**	**3,721,036**
Fund Balance - December 31	**$ 32,735**	**$ 1,052,697**	**$ 2,073,364**	**$ 524,893**	**$ 3,683,689**

POLK COUNTY
CROOKSTON, MINNESOTA

EXHIBIT B-5

COMBINING BALANCE SHEET
NONMAJOR DEBT SERVICE FUNDS
DECEMBER 31, 2016

	Rhinehart Project	Union Lake/ Lake Sarah	Total
Assets			
Cash and pooled investments	$ 104,859	$ 58,903	$ 163,762
Undistributed cash in agency funds	2,481	2,130	4,611
Investments	-	179,122	179,122
Special assessments receivable - delinquent	325	4,763	5,088
Total Assets	**$ 107,665**	**$ 244,918**	**$ 352,583**
Deferred Inflows of Resources and Fund Balances			
Deferred Inflows of Resources			
Unavailable revenues	$ 325	$ 3,338	$ 3,663
Fund Balance			
Restricted for			
Debt service	107,340	241,580	348,920
Total Deferred Inflows of Resources and Fund Balances	**$ 107,665**	**$ 244,918**	**$ 352,583**

POLK COUNTY
CROOKSTON, MINNESOTA

EXHIBIT B-6

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

	Rhinehart Project	Union Lake/ Lake Sarah	Total
Revenues			
Taxes	$ 40,865	$ 67,249	$ 108,114
Investment earnings	-	142	142
Total Revenues	**$ 40,865**	**$ 67,391**	**$ 108,256**
Expenditures			
Debt service			
Principal	$ 40,000	$ 72,728	$ 112,728
Interest	732	11,205	11,937
Total Expenditures	**$ 40,732**	**$ 83,933**	**$ 124,665**
Net Change in Fund Balance	**$ 133**	**$ (16,542)**	**$ (16,409)**
Fund Balance - January 1	**107,207**	**258,122**	**365,329**
Fund Balance - December 31	**$ 107,340**	**$ 241,580**	**$ 348,920**

POLK COUNTY
CROOKSTON, MINNESOTA

EXHIBIT B-7

BUDGETARY COMPARISON SCHEDULE
AGASSIZ REGIONAL LIBRARY SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2016

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 232,495	$ 232,495	$ 228,891	$ (3,604)
Intergovernmental	-	-	4,489	4,489
Total Revenues	**$ 232,495**	**$ 232,495**	**$ 233,380**	**$ 885**
Expenditures				
Current				
Culture and recreation				
Regional library	252,495	252,495	252,495	-
Net Change in Fund Balance	**$ (20,000)**	**$ (20,000)**	**$ (19,115)**	**$ 885**
Fund Balance - January 1	**51,850**	**51,850**	**51,850**	**-**
Fund Balance - December 31	**$ 31,850**	**$ 31,850**	**$ 32,735**	**$ 885**

POLK COUNTY
CROOKSTON, MINNESOTA

EXHIBIT B-8

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

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 332,524	$ 332,524	$ 373,434	$ 40,910
Special assessments	1,590,000	1,590,000	1,613,239	23,239
License and permits	53,500	53,500	56,285	2,785
Intergovernmental	159,057	159,057	176,819	17,762
Charges for services	213,000	213,000	187,912	(25,088)
Miscellaneous	783,058	783,058	752,924	(30,134)
Total Revenues	**$ 3,131,139**	**$ 3,131,139**	**$ 3,160,613**	**$ 29,474**
Expenditures				
Current				
General government				
Planning and zoning	$ 429,981	$ 429,981	$ 338,255	$ 91,726
Sanitation				
Solid waste	1,628,834	1,628,834	1,680,391	(51,557)
Recycling	518,393	518,393	534,179	(15,786)
Hazardous waste	63,377	63,377	52,530	10,847
Transfer station	359,966	359,966	311,546	48,420
Asset replacement	140,000	140,000	2,897	137,103
Conservation of natural resources				
Aquatic invasive species program	-	-	93,234	(93,234)
Total Expenditures	**$ 3,140,551**	**$ 3,140,551**	**$ 3,013,032**	**$ 127,519**
Net Change in Fund Balance	**$ (9,412)**	**$ (9,412)**	**$ 147,581**	**$ 156,993**
Fund Balance - January 1	**1,925,783**	**1,925,783**	**1,925,783**	**-**
Fund Balance - December 31	**$ 1,916,371**	**$ 1,916,371**	**$ 2,073,364**	**$ 156,993**

POLK COUNTY
CROOKSTON, MINNESOTA

EXHIBIT B-9

BUDGETARY COMPARISON SCHEDULE
PUBLIC HEALTH SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2016

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 862,100	$ 862,100	$ 862,100	$ -
Intergovernmental	1,252,304	1,252,304	1,157,396	(94,908)
Charges for services	530,954	530,954	457,367	(73,587)
Miscellaneous	15,500	15,500	24,323	8,823
Total Revenues	**$ 2,660,858**	**$ 2,660,858**	**$ 2,501,186**	**$ (159,672)**
Expenditures				
Current				
Health				
Nursing service	2,660,858	2,660,858	2,641,258	19,600
Net Change in Fund Balance	**$ -**	**$ -**	**$ (140,072)**	**$ (140,072)**
Fund Balance - January 1	**664,965**	**664,965**	**664,965**	**-**
Fund Balance - December 31	**$ 664,965**	**$ 664,965**	**$ 524,893**	**$ (140,072)**

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FIDUCIARY FUNDS

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POLK COUNTY
CROOKSTON, MINNESOTA

EXHIBIT C-1

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

	Balance January 1	Additions	Deductions	Balance December 31
AGENCY FUND				
Assets				
Cash and pooled investments	$ 1,294,343	$ 69,046,785	$ 68,924,260	$ 1,416,868
Accounts receivable	56,230	48,936	56,230	48,936
Due from other governments	25,700	10,656	25,700	10,656
Total Assets	**$ 1,376,273**	**$ 69,106,377**	**$ 69,006,190**	**$ 1,476,460**
Liabilities				
Accounts payable	$ 1,109	$ 1,062	$ 1,109	$ 1,062
Due to other governments	1,375,164	69,105,315	69,005,081	1,475,398
Total Liabilities	**$ 1,376,273**	**$ 69,106,377**	**$ 69,006,190**	**$ 1,476,460**
POLK COUNTY COLLABORATIVE				
Assets				
Cash and pooled investments	**$ 116,445**	**$ 97,094**	**$ 100,415**	**$ 113,124**
Liabilities				
Due to other governments	**$ 116,445**	**$ 97,094**	**$ 100,415**	**$ 113,124**
POLK-NORMAN-MAHNOMEN COMMUNITY HEALTH SERVICE				
Assets				
Cash and pooled investments	$ 15,785	$ 1,538,773	$ 1,328,797	$ 225,761
Due from other governments	289,802	303,975	289,802	303,975
Total Assets	**$ 305,587**	**$ 1,842,748**	**$ 1,618,599**	**$ 529,736**
Liabilities				
Accounts payable	$ 255,562	$ 206,239	$ 255,562	$ 206,239
Due to other governments	50,025	1,636,509	1,363,037	323,497
Total Liabilities	**$ 305,587**	**$ 1,842,748**	**$ 1,618,599**	**$ 529,736**

POLK COUNTY
CROOKSTON, MINNESOTA

EXHIBIT C-1
(Continued)

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

	Balance January 1	Additions	Deductions	Balance December 31
WATERSHED DISTRICT FUND				
Assets				
Cash and pooled investments	$ -	$ 421,050	$ 419,793	$ 1,257
Liabilities				
Due to other governments	$ -	$ 421,050	$ 419,793	$ 1,257
TOTAL ALL AGENCY FUNDS				
Assets				
Cash and pooled investments	$ 1,426,573	$ 71,103,702	$ 70,773,265	$ 1,757,010
Accounts receivable	56,230	48,936	56,230	48,936
Due from other governments	315,502	314,631	315,502	314,631
Total Assets	$ 1,798,305	$ 71,467,269	$ 71,144,997	$ 2,120,577
Liabilities				
Accounts payable	$ 256,671	$ 207,301	$ 256,671	$ 207,301
Due to other governments	1,541,634	71,259,968	70,888,326	1,913,276
Total Liabilities	$ 1,798,305	$ 71,467,269	$ 71,144,997	$ 2,120,577

OTHER SCHEDULES

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POLK COUNTY
CROOKSTON, MINNESOTA

EXHIBIT D-1

SCHEDULE OF DEPOSITS AND INVESTMENTS
DECEMBER 31, 2016

	Number of Accounts	Interest Rate (%)	Maturity Dates	Fair Value
Cash and Pooled Investments				
Cash on hand	N/A	N/A	N/A	$ 4,820
Noninterest-bearing checking	Four	N/A	Continuous	398,292
Interest-bearing checking	Sixteen	0.01 to 0.16	Continuous	2,051,404
Certificates of deposit	Eight	Varies	April 22, 2017 to December 27, 2018	1,575,000
Money market savings	Five	0.03	Continuous	2,435
Brokerage certificates of deposit	Seven	Varies	April 28, 2017 to June 8, 2020	1,656,000
Minnesota Association of Governments Investing for Counties Fund	N/A	Variable	Continuous	17,046,626
Repurchase agreements - checking	Two	Variable	Continuous	10,778,920
Total Cash and Pooled Investments				$ **33,513,497**

POLK COUNTY
CROOKSTON, MINNESOTA

EXHIBIT D-2

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

	Governmental Funds	Enterprise Funds	Total
Appropriations and Shared Revenue			
State			
Highway users tax	$ 9,325,905	$ -	$ 9,325,905
County program aid	843,587	-	843,587
PERA rate reimbursement	43,810	12,004	55,814
Police aid	255,644	-	255,644
Market value credit	413,763	-	413,763
Disparity reduction aid	76,743	-	76,743
Disparity reduction credit	488,812	-	488,812
SCORE	92,149	-	92,149
E-911	109,024	-	109,024
Aquatic invasive species aid	27,594	-	27,594
Total appropriations and shared revenue	**$ 11,677,031**	**$ 12,004**	**$ 11,689,035**
Reimbursement for Services			
State			
Minnesota Department of Human Services	**$ 2,006,389**	**$ -**	**$ 2,006,389**
Payments			
Local			
Payments in lieu of taxes	**$ 2,800**	**$ -**	**$ 2,800**
Grants			
State			
Minnesota Department/Board of			
Public Safety	$ 59,581	$ -	$ 59,581
Transportation	63,545	-	63,545
Health	430,782	-	430,782
Veterans Affairs	10,000	-	10,000
Natural Resources	115,964	-	115,964
Human Services	4,383,440	-	4,383,440
Water and Soil Resources	92,184	-	92,184
Peace Officer Standards and Training Board	8,442	-	8,442
Minnesota Pollution Control Agency	9,662	-	9,662
Total state	**$ 5,173,600**	**$ -**	**$ 5,173,600**
Federal			
Department of			
Agriculture	$ 669,035	$ -	$ 669,035
Justice	60,679	-	60,679
Transportation	828,847	-	828,847
Education	1,450	-	1,450
Health and Human Services	3,624,301	-	3,624,301
Homeland Security	34,134	-	34,134
Total federal	**$ 5,218,446**	**$ -**	**$ 5,218,446**
Total state and federal grants	**$ 10,392,046**	**$ -**	**$ 10,392,046**
Total Intergovernmental Revenue	**$ 24,078,266**	**$ 12,004**	**$ 24,090,270**

POLK COUNTY
CROOKSTON, MINNESOTA

EXHIBIT D-3

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

Federal Grantor Pass-Through Agency Program or Cluster Title	Federal CFDA Number	Pass-Through Grant Numbers	Expenditures
U.S. Department of Agriculture			
Passed Through Polk-Norman-Mahnomen Community Health Services			
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	32573	$ 191,811
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	33312	22,576
(Total Special Supplemental Nutrition Program for Women, Infants, and Children 10.557 $214,387)			
Passed Through Minnesota Department of Human Services			
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	16162MN101S2514	373,075
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	16162MN127Q7503	71,000
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	16162MN101S2520	877
(Total State Administrative Matching Grants for the Supplemental Nutrition Assistance Program 10.561 $444,952)			
Total U.S. Department of Agriculture			**$ 659,339**
U.S. Department of Justice			
Passed Through Minnesota Department of Public Safety			
Crime Victim Assistance	16.575	A-CVS-2016-POLKAO-00116	**$ 60,679**
U.S. Department of Transportation			
Passed Through Minnesota Department of Transportation			
Highway Planning and Construction	20.205	00060	$ 794,000
Passed Through Minnesota Department of Public Safety			
Highway Safety Cluster			
State and Community Highway Safety	20.600	F-SAFE16-2016-POLKCOTZD-1543	2,386
State and Community Highway Safety	20.600	F-SAFE16-2016-POLKCOTZD-1661	2,211
State and Community Highway Safety	20.600	F-SAFE16-2016-POLKCOTZD-1895	2,535
State and Community Highway Safety	20.600	F-SAFE16-2016-POLKCOTZD-2087	2,648
(Total State and Community Highway Safety 20.600 $9,780)			
National Priority Safety Programs	20.616	A-CMPTR16-2016-POLKSO-00114	3,969
(Total expenditures for Highway Safety Cluster $13,749)			
Total U.S. Department of Transportation			**$ 807,749**
U.S. Department of Education			
Passed Through Polk-Norman-Mahnomen Community Health Services			
Special Education - Grants for Infants and Families	84.181	83869	**$ 1,933**

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

POLK COUNTY
CROOKSTON, MINNESOTA

EXHIBIT D-3
(Continued)

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

Federal Grantor Pass-Through Agency Program or Cluster Title	Federal CFDA Number	Pass-Through Grant Numbers	Expenditures
U.S. Department of Health and Human Services			
Passed Through Polk-Norman-Mahnomen Community Health Services			
Public Health Emergency Preparedness	93.069	65498	$ 20,469
Drug-Free Communities Support Program Grants	93.276	1H79SP020911-01	139,616
Early Hearing Detection and Intervention Information System (EDHI-IS) Surveillance Program	93.314	Not Provided	400
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	93.505	102306	53,233
Temporary Assistance for Needy Families	93.558	65190	43,831
(Total Temporary Assistance for Needy Families 93.558 $619,553)			
Maternal and Child Health Services Block Grant to the States	93.994	Not Provided	45,298
Passed Through Minnesota Department of Human Services			
Projects for Assistance in Transition from Homelessness (PATH)	93.150	SM016024-15	53,175
Promoting Safe and Stable Families	93.556	G-1601MNFPSS	12,923
Temporary Assistance for Needy Families	93.558	1601MNTANF	88,362
Temporary Assistance for Needy Families	93.558	1601MFTANF	487,360
(Total Temporary Assistance for Needy Families 93.558 $619,553)			
Child Support Enforcement	93.563	1604MNCSES	78,763
Child Support Enforcement	93.563	1604MNCEST	803,593
(Total Child Support Enforcement 93.563 $882,356)			
Refugee and Entrant Assistance - State-Administered Programs	93.566	1601MNRCMA	345
Child Care and Development Block Grant	93.575	G1601MNCCDF	6,760
Community-Based Child Abuse Prevention Grants	93.590	G-1502MNFRPG	16,425
Stephanie Tubbs Jones Child Welfare Services Program	93.645	G-1601MNCWSS	7,014
Foster Care - Title IV-E	93.658	1601MNFOST	236,984
Social Services Block Grant	93.667	16-01MNSOSR	296,967
Chafee Foster Care Independence Program	93.674	G-1601MNCILP	14,369
Medical Assistance Program	93.778	05-1605MN5ADM	1,375,591
Medical Assistance Program	93.778	05-1605MN5MAP	9,834
(Total Medical Assistance Program 97.778 $1,385,425)			
Block Grants for Community Mental Health Services	93.958	SM010027-16	26,416
Block Grants for Prevention and Treatment of Substance Abuse	93.959	TI010027-15	130,155
Total U.S. Department of Health and Human Services			**$ 3,947,883**
U.S. Department of Homeland Security			
Passed Through Minnesota Department of Public Safety			
Hazard Mitigation Grant	97.039	Not Provided	$ 8,942
Emergency Management Performance Grants	97.042	F-EMPG-2016-POLKCO-1688	25,192
Total U.S. Department of Homeland Security			**$ 34,134**
Total Federal Awards			**$ 5,511,717**

Polk County did not pass any federal awards to subrecipients in 2016.

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

POLK COUNTY
CROOKSTON, MINNESOTA

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

1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by Polk 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 Polk County under programs of the federal government for the year ended December 31, 2016. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of Polk County, it is not intended to and does not present the financial position, changes in net position, or cash flows of Polk County.

3. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Polk County has elected to not 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	$	5,218,446
Grants received more than 60 days after year-end, unavailable in 2016		
Projects for Assistance in Transition from Homelessness (PATH)		53,175
Special Education - Grants for Infants and Families		483
Drug-Free Communities Support Program Grants		152,679
Temporary Assistance for Needy Families		142,714
Promoting Safe and Stable Families		1,174
Stephanie Tubbs Jones Child Welfare Services Program		774
Chafee Foster Care Independence Program		4,706
Maternal and Child Health Services Block Grant to the States		7,823
Unavailable in 2015, recognized as revenue in 2016		
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program		(9,696)
Highway Planning and Construction		(21,098)
Drug-Free Communities Support Program Grants		(13,063)
Child Support Enforcement		(26,400)
Expenditures Per Schedule of Expenditures of Federal Awards	$	5,511,717

Management and Compliance Section

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

Independent Auditor's Report

Board of County Commissioners
Polk County
Crookston, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Polk County, Minnesota, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 26, 2017.

Internal Control Over Financial Reporting

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

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

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significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit the attention of those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as items 1996-006 and 2015-003, that we consider to be significant deficiencies.

Compliance and Other Matters

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

Minnesota Legal Compliance

The *Minnesota Legal Compliance Audit Guide for Counties*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven categories of compliance to be tested in connection with the audit of the County's financial statements: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for tax increment financing because Polk County does not have any tax increment financing districts.

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

Other Matters

Included in the Schedule of Findings and Questioned Costs are management practices comments. We believe these recommendations to be of benefit to the County, and they are reported for that purpose.

Polk County's Response to Findings

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

Purpose of This Report

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 26, 2017

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

Independent Auditor's Report

Board of County Commissioners
Polk County
Crookston, Minnesota

Report on Compliance for Each Major Federal Program

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

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

Auditor's Responsibility
Our responsibility is to express an opinion on compliance for each of Polk 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.

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An audit includes examining, on a test basis, evidence about Polk County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, Polk County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2016.

Report on Internal Control Over Compliance

Management of Polk County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of This Report

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 26, 2017

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POLK COUNTY
CROOKSTON, MINNESOTA

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

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Internal control over financial reporting:
- Material weaknesses identified? **No**
- Significant deficiencies identified? **Yes**

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

Federal Awards

Internal control over major programs:
- Material weaknesses identified? **No**
- Significant deficiencies identified? **None reported**

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? **No**

The major federal programs are:

State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	CFDA No. 10.561
Highway Planning and Construction	CFDA No. 20.205
Child Support Enforcement	CFDA No. 93.563
Social Services Block Grant	CFDA No. 93.667

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

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

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding Number 1996-006

Segregation of Duties

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

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

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

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

Cause: The County informed us that collecting fees for services at a department level provides a convenience for its customers. Fee services are provided in several locations, so having customers paying at a single point of collection would be very inconvenient. The staffing available in several of these smaller offices limits the potential for complete segregation of duties.

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

View of Responsible Official: Concur

Finding Number 2015-003

Documenting and Monitoring Internal Controls

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

Condition: Polk County does not maintain formal documentation of the controls in place over its significant transaction cycles; and there is no formal risk assessment process in place to determine if the internal controls that have been established by County management are still effective or if changes are needed to maintain a sound internal control structure.

Context: Local governments tend to establish controls but fail to periodically review those controls to ensure they are appropriate for all of the changes that take place over time.

Effect: The internal control environment is constantly changing with changes in staffing, information systems, processes, and the services provided. Changes may have taken place that reduce or negate the effectiveness of internal controls, which may go unnoticed without a formal and timely risk assessment process in place.

Cause: The County has not considered establishing a formal process for assessing risks, documenting the internal controls established to reduce those risks, and monitoring those controls.

Recommendation: Polk County management should document the significant internal controls in its accounting system, including an assessment of risk and the processes used to minimize the risks. A formal plan should be developed that calls for monitoring the internal control structure on a regular basis, no less than annually. The monitoring activity should also be documented to show the results of the review, any changes required, and who performed the work.

View of Responsible Official: Concur

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding Number 2001-005

Capital Assets Accounting System

Criteria: To ensure consistent and accurate reporting of the County's capital assets and depreciation of those assets the County should maintain a centralized accounting system that includes all of the County's capital assets.

Condition: The County currently maintains capital asset records in several departments including: Road and Bridge, Social Services, Resource Recovery, Landfill, Environmental Services, Public Health, and the Finance Office.

Context: Capital assets, including infrastructure assets, are reported on the statement of net position and depreciation expenses for those assets are on the statement of activities. The County established accounting policies for capital assets including capitalization thresholds, useful lives, and the designation of specific general ledger account codes to record the purchases and construction costs of capital assets. County personnel analyze capital outlay and maintenance expenditure accounts for additions and remove items known to be sold or discarded during the year.

Effect: Accounting for capital assets is decentralized and in turn results in a variety of methods for tracking of additions and removal of capital assets. The Finance Department has access to some, but not all of the detailed capital asset records.

Cause: No set policy on how capital assets should be tracked. Accounting for each department's capital assets is left to each individual department.

Recommendation: The County Board should take steps to centralize the accounting of capital assets from all County departments into one centralized capital asset system.

View of Responsible Official: Concur

Finding Number 2007-002

Ditch Fund Balance Deficits

Criteria: Assets should exceed liabilities and deferred inflows of resources in order for the County to meet its obligations and maintain a positive fund balance. Under Minn. Stat. § 103E.655, drainage project costs must be paid from the appropriate drainage system account. Through the levying of assessments, Minn. Stat. § 103E.735, subd. 1, permits the accumulation of a surplus balance for the repair costs of a ditch system not to exceed 20 percent of the assessed benefits of the ditch system or $100,000, whichever is greater.

Condition: As of December 31, 2016, the County had individual ditch systems where liabilities and deferred inflows of resources exceeded assets, resulting in individual deficit fund balance amounts.

Context: Twenty-one of the 159 individual Ditch Special Revenue Fund ditch systems had deficit fund balances at December 31, 2016. The deficit fund balances ranged from $10 to $158,553. Two of the 19 Ditch Debt Service Fund ditch systems had deficit fund balances at December 31, 2016. The deficit fund balances ranged from $2,240 to $5,615.

Effect: Ditch systems with deficit fund balances indicates that measures have not been taken to ensure that the ditch can meet financial obligations.

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

Recommendation: The County should levy assessments in sufficient amounts to maintain current expenditures and to cover expenditures already made in advance from other funds.

View of Responsible Official: Concur

V. PREVIOUSLY REPORTED ITEMS RESOLVED

2015-001 Prior Period Adjustments
2015-002 Audit Adjustments
2015-004 Davis-Bacon Act (CFDA No. 20.205)
2015-005 Forfeited Land Sale Distribution

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REPRESENTATION OF POLK COUNTY
CROOKSTON, MINNESOTA

CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED DECEMBER 31, 2016

Finding Number: 1996-006
Finding Title: Segregation of Duties

Name of Contact Person Responsible for Corrective Action:

Ron Denison, Finance Director

Corrective Action Planned:

Polk County Finance will monitor transactions and structure the duties of office personnel to help ensure as much segregation of duties as possible within the County's staffing limitations and funding constraints.

Anticipated Completion Date:

Expect to be ongoing

Finding Number: 2015-003
Finding Title: Documenting and Monitoring Internal Controls

Name of Contact Person Responsible for Corrective Action:

Ron Denison, Finance Director

Corrective Action Planned:

An Internal Control Committee has been established to take the needed actions.

Anticipated Completion Date:

February 2018

Finding Number: 2001-005
Finding Title: Capital Assets Accounting System

Name of Contact Person Responsible for Corrective Action:

Ron Denison, Finance Director

Corrective Action Planned:

The County intends to purchase a centralized capital assets accounting system.

Anticipated Completion Date:

March 2018

Finding Number: 2007-002
Finding Title: Ditch Fund Balance Deficits

Name of Contact Person Responsible for Corrective Action:

Ron Denison, Finance Director

Corrective Action Planned:

The County is working to establish zero to modest fund balances in all ditches, but deficit spending will likely continue, and the County will raise special assessments to restore positive balances as quickly as possible without being an undue hardship to the landowner.

Anticipated Completion Date:

Expect to be ongoing

REPRESENTATION OF POLK COUNTY
CROOKSTON, MINNESOTA

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

Finding Number: 1996-006
Finding Title: Segregation of Duties

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

Summary of Corrective Action Previously Reported: Polk County Finance will monitor transactions and structure the duties of office personnel to help ensure as much segregation of duties as possible within the County's staffing limitations and funding constraints. The County Board of Commissioners also recognizes the weakness in segregation of duties and has continually provided oversight to partially compensate for this deficiency. The County will continue to monitor fee collection centers to the extent that is efficient to do so. Additionally, the County has recently implemented a policy that change funds are balanced and signed off by the department heads.

Status: Not Corrected. The situation is recurring due the County's continued staffing and funding constraints. In addition to the previously described corrective actions, the County now requires petty cash and change funds to be balanced by the respective department accountant twice each year, in June and December, and signed off by the Department head. Additionally, the County has implemented a lock bag system wherein all funds and deposits in transit from the outlying departments to the central finance department are in a locked bag with strict key control to help keep the funds secure as well as limit and document the access to them. Also the County has added, and will continue to add, online and credit card payment such as e-recording of deeds and online park reservations at our fee collections center. Control is enhanced because those collections are simultaneously reported to both the department location and central finance.

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

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

Summary of Condition: Prior period adjustments were identified that were material to the Resource Recovery Enterprise Fund, the Landfill Enterprise Fund, and the governmental activities.

Summary of Corrective Action Previously Reported: The County will review financial statement closing procedures to ensure accuracy and completeness according to generally accepted accounting principles (GAAP).

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

Finding Number: 2015-002
Finding Title: Audit Adjustments

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

Summary of Corrective Action Previously Reported: The County will establish internal controls necessary to ensure the annual financial statements are reported in accordance with GAAP.

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

Finding Number: 2015-003
Finding Title: Documenting and Monitoring Internal Controls

Summary of Condition: Polk County does not maintain formal documentation of the controls in place over its significant transaction cycles; and there is no formal risk assessment process in place to determine if the internal controls that have been established by County management are still effective or if changes are needed to maintain a sound internal control structure.

Summary of Corrective Action Previously Reported: The County has begun the process of documenting significant internal controls and accounting processes. It is the County's intention to create all the controls and documentation necessary to resolve the issue within the next year.

Status: Not Corrected. The situation is recurring primarily due to staff time constraints as well as an ongoing process of change in the significant process cycles. To correct the situation, the Finance Director has now established a three-person Internal Control Committee to assess our process, oversee the completion of the needed documentation, and update the outdated. The committee for the first year will include the Finance Director, Accounting Officer and Disbursement Clerk. Quarterly meetings have been scheduled.

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

Finding Number: 2015-004
Finding Title: Davis-Bacon Act
Program: Highway Planning and Construction (CFDA No. 20.205)

Summary of Condition: Polk County received the certified payrolls from contractors and subcontractors for the one project that involved federal payroll-related expenditures in 2015, but there was no evidence that the certified payrolls were reviewed for compliance with the Davis-Bacon Act.

Summary of Corrective Action Previously Reported: Michelle Brekken, Clerk Typist, has set up a payroll spreadsheet for each project. As payrolls arrive in the mail she will document their arrival date. Darin will review the payrolls and fill out a Payroll review sheet showing the payroll he reviewed and what date he reviewed it on. All payrolls are placed in a Project payroll file and filed in a non-public/secure file cabinet.

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

Finding Number: 2015-005
Finding Title: Forfeited Land Sale Distribution

Summary of Condition: Polk County has not made a forfeited tax settlement for a number of years.

Summary of Corrective Action Previously Reported: Polk County is reviewing the statutes and requirements of Forfeited Sale Funds for the purpose of recovering any forfeited property expenses incurred by the County prior to undertaking a settlement payout.

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

Finding Number: 2001-005
Finding Title: Capital Assets Accounting System

Summary of Condition: The County currently maintains capital asset records in several departments including: Road and Bridge, Social Services, Resource Recovery, Landfill, Environmental Services, Public Health, and the Finance Office.

Summary of Corrective Action Previously Reported: Polk County Finance is exploring purchase options for a centralized capital assets accounting software program and expects to make a purchase and begin implementation with the next year.

Status: Not Corrected. The situation is recurring due to department time constraints. Several options have been researched and implementation is expected within a few months.

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

Finding Number: 2007-002
Finding Title: Ditch Fund Balance Deficits

Summary of Condition: The County had individual ditch systems where liabilities and deferred inflows of resources exceeded assets, resulting in individual deficit fund balance amounts.

Summary of Corrective Action Previously Reported: The County is working to establish zero to modest fund balances in all ditches, but deficit spending will likely continue, and the County will raise special assessments to restore positive balances as quickly as possible without being an undue hardship to the landowner.

Status: Not Corrected. The situation is recurring because the County policy to not carry large ditch balances remains the same. Ditch repair and maintenance is generally undertaken upon request of the benefited landowners and some of the costs are often raised by assessment in later years.

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